

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Strategic Risk and Assurance Committee will be held on:

Date: Friday 4 December 2020
Time: 9.30am
Meeting Room: Committee Room 1 and Audio-visual Link
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Strategic Risk and Assurance Committee

Komiti Whakamauru Tuuraru

OPEN AGENDA

Membership

Chairperson External appointee - Keiran Horne
Heamana

Deputy Chairperson External appointee - Bruce Robertson
Heamana Tuarua

Membership: Mayor Paula Southgate
Chairperson of the Finance Committee – Cr Rob Pascoe
Chairperson of the Strategic Growth Committee – Cr Dave Macpherson
Chairperson of the Infrastructure Operations Committee – Cr Angela O’Leary
Chairperson of the Community Committee – Cr Mark Bunting
Maangai Maaori Representative on the Finance Committee – Hemi Rau

Meeting frequency: As required – no less than four times a year

Quorum: Four members (including one external appointee)

Becca Brooke
Governance Manager
Menetia Mana Whakahaere

26 November 2020

Telephone: 07 838 6727
Becca.Brooke@hcc.govt.nz
www.hamilton.govt.nz

Purpose:

The Strategic Risk and Assurance Committee is responsible for providing objective advice and recommendations to the governing body on the adequacy and functioning of the Council's risk management and assurance framework and external reporting.

In addition to the common delegations, the Strategic Risk and Assurance Committee is delegated the following Terms of Reference and powers:

Terms of Reference:*Risk*

1. Review the effectiveness of the risk control environment established by management to safeguard Council's financial and non-financial assets, including the adequacy and appropriateness of insurance policies in place and management's actions to mitigate risks and report 6 monthly to Council.
2. To review the Risk Management Policy and recommend to Council revisions to the policy for adoption.
3. To review the Fraud and Corruption, Protected Disclosure, Conflict of Interest, and Sensitive Expenditure management policies to ensure appropriate guidance and processes are in place.
4. Review Council's strategic risk register and monitor existing and proposed controls
5. Periodic in-depth reviews of specific, significant risks
6. Monitor emerging risks
7. Review and monitor business continuity planning.
8. Oversight of risk management and assurance across Council's CCO's and CCTOs with respect to risks that may have a significant impact on Council

Internal Audit

9. In conjunction with the Chief Executive, agree the scope of the annual internal audit work programme, having regard to Council's significant risks.
10. Monitor the delivery of the internal audit work programme to ensure the effectiveness of the Council's internal control framework.
11. Assess whether Internal Audit's recommendations have been properly implemented by management.
12. Review the annual Internal Audit Plans to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

External Audit

13. Engage with Council's external auditors regarding the external audit work programme and agree the proposed terms and arrangements of the external audit.
14. Recommend to Council the terms and arrangements for the external audit programme.
15. Review the effectiveness of the Annual Plan audit and 10 Year Plan audit.
16. Assess management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

Statutory Reporting

17. Review and monitor the integrity of the interim and annual report, focusing particularly on:
- a. compliance with, and the appropriate application of, relevant accounting policies, practices and accounting standards
 - b. compliance with applicable legal requirements relevant to statutory reporting
 - c. The consistency of application of accounting policies as well as changes to accounting policies and practices that may affect the way that accounts are presented
 - d. Any decisions involving significant judgment, estimation or uncertainty
 - e. The extent to which financial statements are affected by any unusual transactions and the manner in which these are disclosed
 - f. the disclosure of contingent liabilities and contingent assets
 - g. the clarity of disclosures generally
 - h. The basis for the adoption of the going concern assumption
 - i. Significant adjustments resulting from the audit

Other Matters

18. Review the effectiveness of the systems for monitoring the Council's compliance legislation, regulation, policy and guidelines.
19. Review the adequacy and effectiveness of Council's health and safety programme and cybersecurity programme.
20. Engage with internal and external auditors on any specific one-off audit assignments.
21. Conduct and monitor special investigations in accordance with Council policy and approved budget or in response to material matters raised by staff or committee members, including engaging expert assistance, on matters within its Terms of Reference.
22. The Chairperson shall review the travel and other reimbursed expenses of the Chief Executive and confirm compliance with Council policies. This information will be provided to the Chairperson on a six-monthly basis.
23. Such other Matters referred to it by Council.

The Committee is delegated the following recommendatory powers:

- The Committee has no decision-making powers.
- The Committee may make recommendations to the Council and/or the Chief Executive, as appropriate.
- The Committee may request expert external advice through the Chief Executive where necessary.

Special Notes:

- In fulfilling their role on the committee, members shall be impartial and independent at all times.
- Members are appointed for an initial term of no more than three years that aligns with the triennial elections, after which they may be eligible for extension or reappointment.

- Council appoints two external members of the committee, one of whom shall be Chairperson. External members shall have a broad range of skills and experience including accounting or audit experience; the terms of the appointment to be recorded in a contract. External member contracts are to be reviewed and assessed six (6) months after each triennial election with no external members staying on Committee for longer than three (3) trienniums.
- The Chief Executive and Internal Auditor are required to attend all meetings but are not members and have no voting rights. Other Council officers may attend the committee meetings, as required.
- The Chief Executive and the Principal Advisor shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of Council, any material breakdown in internal controls, and any material event of fraud, corruption or malpractice.
- The chairperson shall present an annual Audit and Risk Self Review to Council summarising the committee's activities during the year and any related significant results and findings.

Recommendatory Oversight of Policies and Bylaws:

- *Risk Management Policy*

ITEM	TABLE OF CONTENTS	PAGE
1	Apologies – <i>Tono aroha</i>	6
2	Confirmation of Agenda – <i>Whakatau raarangi take</i>	6
3	Conflict of Interest – <i>Tauaakii whaipaaanga</i>	6
4	Public Forum– <i>Aatea koorero</i>	6
5	Confirmation of the Strategic Risk and Assurance Committee Open Minutes - 13 October 2020	7
6	Chief Executive Report - Verbal Update	10
7	Safety and Wellness Report - 1 August 2020 to 31 October 2020	11
8	Risk Management Report	38
9	2021 Internal Audit Update PwC	77
10	2020/21 Internal Audit Update	118
11	Standard and Poor Credit Rating	129
12	Audit NZ Final Management Report June 2020	152
13	Organisational Improvement Register as at 30 November 2020	176
14	Annual Insurance Report	179
15	Waikato Regional Theatre - Risk Assessment Report (<i>Recommendation to the Council</i>)	183
16	Recommendations from Open Committee meetings	193
17	Resolution to Exclude the Public	194

1 Apologies – *Tono aroha*

2 Confirmation of Agenda – *Whakatau raarangi take*

The Committee to confirm the agenda.

3 Declaration of Interest – *Tauaakii whaipaaanga*

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 representative and any private or other external interest they might have.

4 Public Forum – *Aatea koorero*

As per Hamilton City Council's Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for five minutes or longer at the discretion of the Chair.

Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

Speakers will be put on a Public Forum speaking list on a first come first served basis in the Committee Room prior to the start of the Meeting. A member of the Council Governance Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

If you have any questions regarding Public Forum please contact Governance by telephoning 07 838 6727.

Council Report

Item 5

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Narelle Waite
Authoriser: Becca Brooke
Position: Governance Advisor
Position: Governance Manager
Report Name: Confirmation of the Strategic Risk and Assurance Committee Open Minutes - 13 October 2020

Report Status	<i>Open</i>
----------------------	-------------

Staff Recommendation - *Tuutohu-aa-kaimahi*

That the Strategic Risk and Assurance Committee confirm the Open Minutes of the Strategic Risk and Assurance Committee Meeting held on 13 October 2020 as a true and correct record.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Strategic Risk and Assurance Committee Open Minutes - 13 October 2020

Strategic Risk and Assurance Committee

OPEN MINUTES

Minutes of a meeting of the Strategic Risk and Assurance Committee held by Audio-visual Link, on Tuesday 13 October 2020 at 12.31pm.

PRESENT

Chairperson Keiran Horne
Heamana

Deputy Chairperson Bruce Robertson
Heamana Tuarua

Membership: Mayor Paula Southgate
Cr Rob Pascoe
Cr Dave Macpherson
Cr Angela O'Leary
Cr Mark Bunting
Maangai Hemi Rau

Attendance: Cr Martin Gallagher
Cr Maxine van Oosten
Cr Ewan Wilson
Richard Briggs – Chief Executive
David Bryant – General Manager Business Services
Eeva-Liisa Wright – General Manager Infrastructure Operations
Sean Murray – General Manager Venues and Major Events
Louise Lukin – Director, Chief Executives Office
Nikita Hanright – Financial Accounting Team Leader
Robyn Denton – Operations Team Leader
Tracey Musty – Financial Controller
James Clarke – Director of Mayor's Office
Tania Hermann – Group Business Manager Infrastructure Operations
Dan Silvertown – Communication and Engagement Advisor
Matt White – PricewaterhouseCoopers
Naude Kotze – Audit NZ
Clarence Susan – Audit NZ

Governance Staff: Amy Viggers – Governance Team Leader
Narelle Waite – Governance Advisor

1. **Apologies – *Tono aroha***
There were no apologies.
2. **Confirmation of Agenda – *Whakatau raarangi take***
Resolved: (Ms Horne/Cr Bunting)
That the agenda is confirmed.
3. **Declarations of Interest – *Tauaakii whaipaaanga***
No members of the Committee declared a Conflict of Interest.
4. **Public Forum – *Aatea koorero***
No members of public wished to speak.
5. **Confirmation of Strategic Risk and Assurance Committee Open Minutes - 3 September 2020**
Resolved: (Ms Horne/Cr Pascoe)
That the Strategic Risk and Assurance Committee confirm the Open Minutes of the Strategic Risk and Assurance Committee Meeting held on 3 September 2020 as a true and correct record.
6. **Annual Report 2019/20 and Audit NZ Clearance – *Recommendation to the Council***
The Finance Controller and the Audit NZ representative spoke to the report noting minor updates to the Annual Report and responded to questions from Members regarding the Letters of Representation and the qualified audit opinion.
Staff Action: *Staff undertook to ensure draft Letters of Representation are brought to the Strategic Risk and Assurance Committee next year with the draft Annual Report.*
Resolved: (Ms Horne/Mr Robertson)
That the Strategic Risk and Assurance Committee:
 - a) receives the report;
 - b) recommends the Council adopts the 2019/20 Annual Report; and
 - c) delegates the Chair of the Strategic Risk and Assurance Committee:
 - i. to review the Letters of Representation, and
 - ii. to recommend to the Council that the Mayor and Chief Executive are delegated authorisation to sign the Letters of Recommendation.
7. **Audit Engagement Letter: Audit of the consultation document and long term plan for the period commencing 1 July 2021 – *Recommendation to the Council***
The Finance Controller and Audit NZ representative spoke to the report noting the audit fees and responded to questions from Members concerning the letter of self-assessment, forecasting assumptions, climate change assumption and impact guidance, cost-saving assumption, and the audit key dates.
Resolved: (Mrs Horne/Cr Pascoe)
That the Strategic Risk and Assurance Committee recommends to the Council that:
 - a) the Audit Engagement letter is approved; and
 - b) the Mayor is delegated authorisation to sign the Audit Engagement letter on Council's behalf.

The meeting was declared closed at 1.05pm.

Council Report

Item 6

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: David Bryant
Authoriser: David Bryant
Position: General Manager Corporate
Position: General Manager Corporate
Report Name: Chief Executive Report - Verbal Update

Report Status
Open

1. The Chief Executive will provide a verbal update to the Strategic Risk and Assurance Committee on the key risks faced by Hamilton City Council.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Strategic Risk and Assurance Committee receives the verbal report.

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.

Council Report

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Heather Burden
Authoriser: David Bryant
Position: Risk Manager
Position: General Manager Corporate
Report Name: Risk Management Report

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee on the status of Hamilton City Council's eight strategic risks, three key organisational risks and two key emerging risks.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Strategic Risk and Assurance Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. The Strategic Risk and Assurance Committee meeting of 16 May 2019 approved, for monitoring purposes, eight strategic risks and three key organisational risks (as set out below). At subsequent meetings, staff reported on the status of each risk and associated improvement plans.
4. Staff will continue to provide a report on these matters at each meeting of the Committee. The purpose of the report is to highlight only those risks where there has been significant activity. The appended register sets out more detail on all risks.
5. Staff consider the matters in this report have medium significance and that the recommendations comply with the Council's legal requirements.

Background - *Koorero whaimaarama*

6. Continuing from last quarter's risk management report, only risks that have had significant changes or activity since the September 2020 Committee are discussed below. All other risks not mentioned below can still be found in more detail in the appended Strategic and Organisational Risk Register.
7. Further discussions about Climate Change have taken place and the need to appropriately report on this as a risk to the Strategic Risk and Assurance Committee. A report will be taken to the December Environment Committee which will highlight the need for both Committees to report on the risk of Climate Change to Hamilton City Council.

Discussion – *Matapaki*

Strategic Risk 1 - A disaster event

8. This risk relates to a natural or human-induced disaster event. The Council's emergency management framework is supported by local emergency services, National Emergency Management Agency (NEMA), the Civil Defence Group, Regional Hazards Group and the local Emergency Operations Centre structure (capable of responding to a variety of disasters).
9. Post this year's Covid-19 lockdowns, a considerable amount of time has been devoted to planning responses at the local and regional level should there be a further community outbreak of Covid-19 within the Waikato Region. The current national approach would be to initiate a regional lockdown and time has been spent reviewing a range of alternative response structures for another emergency response at both a strategic and operational level.
10. Aligned with the resurgence planning has been a renewed emphasis on working with Maaori and Iwi at the local and group levels to continue building effective relationships and to identify appropriate representation within the Emergency Operation Centres and the Group Emergency Coordination Centre and as part of the Coordinating Executive Group, the Welfare Coordination Group and the Local Welfare Committees. This was one of the recommendations that arose from the Regional Covid-19 Response Debrief Report.
11. Staff have continued to contribute to the work to embed the Regional Civil Defence Emergency Management (CDEM) – Maaori Framework into our various levels of response. Under a Tiriti o Waitangi foundation, this framework places a kaupapa Maaori lens and key Maaori concepts over the existing Coordinated Incident Management System (CIMS) based approach to Civil Defence. The focus is placed on key Maaori values that drive and support delivery for the collective good rather than one's own wellbeing. The Regional Covid-19 Response Debrief Report suggests that this is a best practice approach nationally.
12. Hamilton City Council's Emergency Management officers have been working closely with Council Community Development staff to initiate the Fairfield Enderley Resilience Network (FERN). This is focused on developing community response plans for neighbourhoods which align with existing community profiles and build capability to reduce risk and to prepare for and respond to an emergency within the community. This is a pilot aligning community response plans with our community profiles.
13. While the residual rating for this risk remains very high, the rating is due to the unknown impact any disaster event could have on the city and the community.

Strategic Risk 2 - Major economic or financial shock

14. This risk identifies external factors that could significantly negatively impact Council and Hamilton city, and identifies the relevant controls and mitigations in place.
15. As part of operating in the Covid-19 virus environment, the Council did have to reassess the economic and financial landscape that it was operating in. The Council actively engaged in activities to provide a boost to the local economy, such as support to local communities and applying for central Government funding for 'shovel ready' projects. It also delayed the adoption of the Annual Plan, so the Council could adapt to the changing environment and put together a plan that enabled Hamilton City Council to continue to invest in the city while targeting help to those people who were the most vulnerable.
16. Council has some short-term financial resilience. This is a combination of lending facilities with the bank and with LGFA. A significant shock would require Council to urgently review its capital and operating spending, depending on the circumstances.

17. The recent crisis of Covid-19 and the financial impacts it had to enable Hamilton City Council to recover and navigate through the pandemic, reinforced that the levers that Council currently have in place were able to help control the risk in this area. Council continues to monitor other external threats and trends. Council also continues to review the environment of this risk and where necessary may review its rating based on the economic context of each quarter.

Strategic Risk 3 – Increasing Compliance Standards

18. Strategic Risk 3 seeks to understand how Increasing Compliance Standards may impact on Council's Strategic Direction.
19. On 1 December 2020 the new Privacy Act (2020) comes into effect. The Act introduces some new obligations to businesses, including the requirement to report serious privacy breaches to the Privacy Commissioner and to affected people. There are also increased fines for organisations that do not comply.
20. Some Business Units have reviewed their current privacy statements to ensure they are compliant with the new Privacy Act. Part of this legal review includes what new obligations they have under the new legislation.
21. An Improvement Plan has been added to this risk to better understand the Privacy environment for Hamilton City Council under the new legislation. The changes in the Act mean that Council should use this as an opportunity to renew its focus on Privacy. This piece of work is expected to be completed end of March 2021 and an update will be provided to the Committee then.

Strategic Risk 4 – Cyber Attack

22. This risk continues to be managed "to ensure the organisation is secure from credible cyber threats".
23. A number of initiatives are being implemented to business-wide systems, policies and procedures to improve the security posture of the Council to protect services and data and reduce the likelihood and impact of any potential cyber event.
24. Hamilton City Council continues to experience increased activity in cyber-attacks through email phishing events and external scanning of the Council's environment continues from threat actors seeking to learn about and exploit known vulnerabilities. Key Threat Actors remain as State based, Criminal, Organised Crime and Trusted insiders.
25. Attacks on critical infrastructure and government departments mean that Hamilton City Council continues to be at risk of being targeted. Work is underway to identify and eliminate externally facing vulnerabilities and improve anomaly detection capabilities.
26. Funding for the next financial year is for the continued understanding of the threat landscape and management of critical vulnerabilities and the continued improvement of the Council's identify, protect, detect, response, recovery and reporting capabilities.
27. The Council has recently improved its cyber detection and monitoring capabilities for adverse attacks. Staff will provide a verbal report in the public excluded section of this committee meeting.
28. The Council has finalised its Cyber Security Strategy.

Strategic Risk 5 – Growth

29. A wider economic downturn has occurred due to a global Covid-19 pandemic. The pandemic has been well managed from a public health perspective in NZ which in turn has meant New Zealand's economy has been resilient when compared to other nations. Nevertheless, NZ is in a recession with higher unemployment and increasing inequality. Globalisation also means that if NZ's trading partners hurt so does NZ's economy. Consenting is important for Council as revenue is dependent on growth.
30. Covid-19 has had some impact on consenting, however activity is above what Council expected when it developed initial forecasts during the early stages of Covid-19 and the lockdown period. Between January 2020 and September 2020, the number of residential subdivision lots lodged was 1,029, down 640 lots on 2019. Staff estimate that there will be about 1,400 lots lodged by the end of the year. The pattern around infill and greenfield consents has remained consistent with 52% of consents being for infill developments in 2020. In the 9 months to September 2020, consents for 1,014 new dwellings were lodged. The Council anticipates a 2020 full year figure of around 1,350 dwellings to be lodged. While this is a drop from the 1,659 consents lodged in 2019, it reflects that 2019 was a record year for consenting in Hamilton city. The current consenting levels are slightly higher than the levels seen throughout most of 2018. During lockdown, building sites were shut down and building inspections were unable to take place. This led to a backlog of work for both Council staff and builders which has resulted in an increased lag time between the time a dwelling is consented to the issuing of a Code Compliance Certificate to 10 months. Despite this, we are on track to achieve 1,300 Code Compliance Certificates this year, a new record for Hamilton city.

Strategic Risk 6 – Political

31. Strategic Risk 6 looks to understand and manage how Political Changes or Decisions Impact Hamilton City Council's Strategic Direction.
32. With both the New Zealand and United States elections taking place between the last Committee meeting and this one, it would be pertinent to update Council on how these political changes may impact Hamilton City Council. It is currently predicted that the changes at both a national and international level will have no major impacts on Council's strategic direction. While there are currently no known changes via central government, this could change over time and Council needs to be prepared for any potential changes in the strategic direction of Government.
33. Staff will continue to monitor the political market to ensure that Hamilton City Council is able to be agile and flexible as change evolves and is not adversely impacted by any new developments. This resilience to significant political change is testimony to the effective controls that are in place to manage this risk.

Strategic Risk 7 - Significant shortage of key external resources

34. This risk focuses on the strain on resources and materials across New Zealand and the impact this will have on current or pending development across Hamilton city.
35. Regarding the capital programme delivery, Hamilton City Council has a budgeted works programme of over \$300M this financial year, which is a significant step increase from \$150M delivered in 2018/19 and \$190M in 2019/20.

36. The current capacity of the construction industry regionally and nationally to deliver is under pressure, noting particularly planned central government investment programmes including:
 - the \$6.8B NZ upgrade transportation programme as announced in early 2020
 - stimulus investment in the water sector in accordance with funding incentives as part of the national water reform workstream
 - stimulus investment to 'shovel ready' projects and programmes nationally
37. Covid-19 has had an impact particularly on the availability of construction personnel, due to border restrictions impacting on the ability to employ migrant workers, who are a key component of the construction supply chain. International material supply chains have also been affected by the pandemic.
38. In the short to medium term there is an opportunity to secure appropriate capacity and capability of delivery resources before committed elsewhere to known upcoming regional or national delivery programmes.
39. Insights from the construction industry indicate that Contractors' commercial risk appetite and financial resilience is currently low, which requires careful consideration of work packages to ensure the Council's contracts remain attractive.
40. Regarding delivery of potential regional economic stimulus projects and programmes, it is noted that successful delivery of large and complex infrastructure and construction projects at pace will require a considered approach to bundling, contract delivery models and procurement.
41. The Development Group is currently leading pipeline visibility and supply chain engagement for the sub-region, as well as integrating with the Infrastructure Commission and the national infrastructure pipeline.

Strategic Risk 8 – Security

42. This risk relates to a major security threat which would impact Council's strategic direction.
43. Security risk assessments have been completed for public-facing community facilities – Animal Care Centre, Hamilton Park Cemetery and Crematorium, Hamilton Gardens, Hamilton Community Libraries, Hamilton Aquatic Facilities (Waterworld and Gallagher), Hamilton Zoo, Gallagher Park and Park Groundsman Sheds. The findings and draft recommendations are currently being reviewed by Business Units and will be presented at the Strategic Risk & Assurance Committee workshop in December.
44. Risk assessments for The Transport Centre, Council Chamber and the Municipal Public Counter are also expected to be complete by the end of November.
45. A cost analysis on all agreed recommendations will be presented in a full report for Council elected members at the next Strategic Risk and Assurance Committee in March 2021.

Organisational Risks

46. Three key organisational risk reports have been included in **Attachment 1** to this report to provide visibility and assurance to the Committee that safety risks, and risks associated to Hamilton city's critical assets, have mitigations in place and are being monitored by staff.
47. The matter relating to the **Health and Safety risk to staff, contractors and volunteers** will be presented in more detail to the Strategic Risk and Assurance Committee in a separate report in this agenda. Note: there is no change to the residual risk for this quarter, it remains at high due to COVID-19, notifiable events and improvement notices.

48. The **Safety and Wellbeing of the Community** risk was identified as an area that required more analysis to identify key risk exposures to the Council, relating to facilities and services provided to the community. The improvement programme slowed due to the impacts of COVID-19; however, workstreams have recommenced with actions relating to parks being closed off and monitoring framework and security assessments currently in development.
49. In terms of the **Failure of Critical Assets** risk, monitoring of the condition of critical assets will continue to be undertaken by way of asset management plans (which are ongoing). A work programme, which is regularly reviewed, is in place for maintenance and renewal of these assets. This risk has been expanded to include non-infrastructure critical assets. This approach provides a more holistic view of the risk.
50. There is a current review and update of all Infrastructure Operations Asset Management Plans. Staff have engaged with the Three Water Review Reform processes, which has a key objective to achieve an overall improvement in water asset management practices across New Zealand.

Emerging Risks

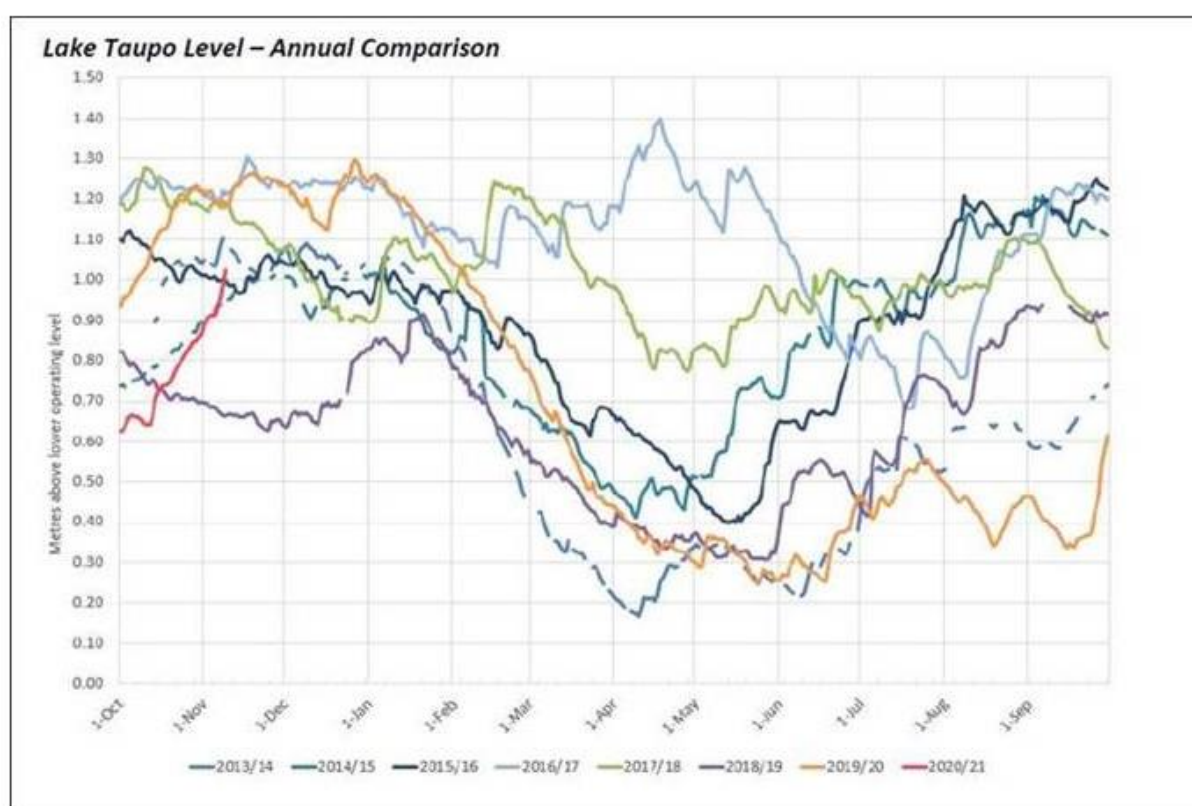
51. Emerging risks are those that may develop, or which already exist and are difficult to quantify but may have a high consequence or high impact if they materialise.
52. Senior Leadership have identified two high level emerging risks for regular reporting to the Committee – ‘Climate Change’ and ‘City Water Supply – quality and quantity of intake from the Waikato River.’

Climate Change

53. In October 2020, central government released the Our Atmosphere and Climate 2020 Report. Evidence is provided in this report that climate change is already impacting New Zealand, and that there is increasing awareness that it will impact on community wellbeing as well as financial implications for Council.
54. In September 2020, staff received the first request from the Ministry for the Environment under section 5ZW of the Climate Change Response Act 2002. The purpose of the initial request was to gather information to inform the development of the first National Adaptation Plan. The questions focused on the Council’s level of understanding of impacts and risks and the current level of response. Details of the request are outlined on the Ministry for the Environment website - <https://www.mfe.govt.nz/climate-change/guidance/climate-change-reporting>.
55. On 15 September 2020, the Minister for Climate Change announced that mandatory climate-related financial disclosures would be introduced for about 200 financial entities in New Zealand. At this stage this excludes local government.
56. The Task Force for Climate-related Financial Disclosure has developed a best practice model on how climate-related financial risk should be managed and disclosed. Staff commissioned work by KPMG to assess how Council is preparing to address climate change related risks and opportunities, the TCFD model underpins the assessment by KPMG.
57. A three-year action plan is being developed by staff to address the findings of the KPMG assessment. One of the first actions is to reassess how climate change risk is categorised. At the 1 December 2020 Environment Committee, staff will recommend that climate change is reassessed and becomes a strategic risk for Council. If approved by the Environment Committee, this recommendation will come to the Strategic Risk and Assurance Committee in March 2021.

City Water Supply – quality and quantity of intake from the Waikato River

58. Lake Taupo water levels remained at low levels over the 2019/20 winter period and did not recover as quickly as anticipated following the drought like conditions the Waikato catchment area experienced during the 2019/20 summer. Increased rainfall during late spring has seen a steady increase in lake levels and the water level is now approaching the historical average level normally seen heading into the summer period.
59. The graph below shows the historical water level trends for Lake Taupo since 2013. The 2019/20 lake level trend is indicated in yellow and the current 2020/21 lake level trend is indicated in red. The measurement on the left-hand axis of the graph shows the meters above the minimum operating level for Lake Taupo. If the minimum operating level is reached, the river system is operated so the outflows from the Karapiro Dam match the inflows to Lake Taupo. This can result in the Waikato River level downstream of the Karapiro Dam dropping significantly.



60. The Waiora Water Treatment Plant's water inlet pipe is set at a fixed level in the Waikato River. If river levels drop below the level of this pipe, the treatment plant is unable to physically pump water from the river to the treatment plant. In 2016, a dedicated floating platform with pumps was built to enable the pumping of water from the deeper part of the Waikato River into the water treatment plant during exceptionally low river levels. This contingency plan, if required, will ensure that the treatment plant can continue to treat and supply Hamilton city with up to 70 million litres of treated water per day.
61. The National Institute of Water and Atmospheric Research Ltd (NIWA) are predicting a hot and humid summer so it is expected that Taupo lake levels will reduce over the coming months. Generally, the risk period for low water levels of Lake Taupo occurs during the April – June period of the year. Staff are in regular contact with Mercury and Waikato Regional Council to monitor both Lake Taupo and Waikato River levels.

62. As part of the Three Waters Reform Stimulus funding programme of works, the Council will be undertaking a trial deployment of the Low River Contingency plan in the first quarter of 2021 and increasing the pumping capacity of the floating platform from 70 million litres to approximately 90 million litres of treated water per day.

Financial Considerations - *Whaiwhakaaro Puutea*

63. There are no financial implications in relation to receiving this report.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

64. Staff confirm that the Strategic Risk Management Report complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

65. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
66. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.
67. The recommendations set out in this report are consistent with that purpose.

Social

68. The risks highlighted in this report have the capacity to affect social wellbeing should they materialise. Council's effective management of the risks outlined in this report (as well as management of opportunities arising from these risks) will ensure social wellbeing continues to be prioritised.

Economic

69. The risks highlighted in this report have the capacity to affect economic wellbeing should they materialise. Again, this is still evident in respect of COVID-19, which continues to impact on economic wellbeing locally, regionally, nationally and globally for the mid- to long-term, with effects on jobs and earnings, income and consumption, growth, and other aspects of economic wellbeing. Council's effective management of the risks outlined in this report (as well as management of opportunities arising from these risks) will ensure economic wellbeing continues to be prioritised.

Environmental

70. Council continues to manage its response to the COVID-19 risk with a positive impact on environmental wellbeing, including the Council's 'shovel ready' projects pitched to central government. Finding opportunities in risks such as this means that environmental wellbeing continues to be prioritised.

Cultural

71. Staff consider the matters set out in this report do not have a direct impact on cultural wellbeing.

Risks - *Tuuraru*

72. The Risk Register (**Attachment 1**) identifies the risks relating to this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Item 8

Significance

73. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have low significance.

Engagement

74. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*




Attachment 1 - Strategic Risk and Assurance Committee - Risk Register - December 2020

Council Strategic Risk Register – December 2020

Risk Number	Strategic Risk Description	Risk Owner	Residual Risk Rating
1	A Disaster Event <i>A natural or human-induced disaster event (excluding act of terrorism)</i>	Jen Baird	Very High 
2	Major Economic or Financial Shock <i>An external financial event impacts Council's financial strategy, fiscal and monetary position.</i>	David Bryant	Medium 
3	Increasing Compliance Standards due to Stakeholder Expectations <i>The risk of central government and regional council increasing compliance standards or changes in community expectations.</i>	David Bryant	High 
4	Cyber Attack <i>Unauthorised access to Council's IT infrastructure results in loss of service continuity that may lead to safety risks to Hamiltonians and relatable consequences of reputational, legal, and financial losses.</i>	David Bryant	High 
5	Growth <i>Significant change to/in growth demand and/or the consequences growth does not deliver positive outcomes for the community.</i>	Jen Baird	High 
6	Political changes impact Council's strategic direction <i>Political stakeholders make unpredictable decisions or take actions that significantly impact or contradict Council's strategic imperatives.</i>	Blair Bowcott	Very High 
7	Significant Shortages of Key External Resources <i>The market is unable to deliver necessary resources to achieve our strategy; including but not limited to people and material for projects</i>	Chris Allen	Very High 
8	High-Level security threat or major emergency <i>A safety, security or environmental attack materialises and impacts Council's strategic direction.</i>	David Bryant	High 

Item 8

Attachment 1

Risk Number	Organisational Risk Description	Risk Owner	Residual Risk Rating
1	H&S – Workers (incl. contracted workers & volunteer workers) <i>Failure to ensure the health and safety of council staff or workers whose activities are influenced or directed by council, while the workers are carrying out work.</i>	David Bryant	High  High
2	Safety and Wellbeing of the Community <i>Failure to create, provide and maintain a safe environment for the community leading to a serious injury incident or fatality.</i>	Lance Vervoort	High  Medium
3	Failure of critical assets <i>Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of levels of service).</i>	Eeva-Liisa Wright	High 

* There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death. (refer pp 20-25)

** Council takes the safety of our people and the community seriously and are working hard to reduce the likelihood of a serious harm incident. Due to the focus and definition of this risk relating to death or a serious injury, the risk rating (and by extension the target risk rating) can never reduce below 'High' because we consider the consequence to be 'catastrophic'. (refer pp 20-25)





Emerging Risks – verbal discussion topics

Emerging risks are risks which may develop or which already exist and are difficult to quantify but may have a high consequence or high impact if they materialise. The following identified risks are not ranked but monitored informally across Council and reported when appropriate. Analysis and mitigation identification have been conducted as operational and business as usual applications.

- *Climate Change*
- *City Water Supply – quality and quantity of intake from the Waikato River.*

Risk Type	Definition
Strategic	The risk of an event or impact that is external to Council and could impact the organisation's strategies, including Council's Financial Strategy, Long Term Plan and 30 Year Infrastructure Strategy.
Organisational	The risk of an event or impact that is internal or external to Council and could impact the whole organisation.
Operational	The risk of an event or impact that is internal or external to Council and could impact one or more Operational activity.
Emerging	Emerging risks are risks which may develop or which already exist and are difficult to quantify but may have a high consequence, high impact if they materialise.

Residual rating legend

Indicator	Description	Indicator	Description
	No change – managed		Adverse change since previous
	New risk		Improved change since previous

Strategic Risk 1

A Disaster Event

A natural or human-induced disaster event (excluding an act of terrorism)

Risk Owner – (GM Level)	Jen Baird	Category	Strategic Preparation and Disaster Recovery
-----------------------------------	-----------	-----------------	---

Risk Triggers

- Natural disaster event without warning or build up
- Severe weather events that increase in intensity, including those events that are a result of climate change
- Critical asset failure that impacts the safety of Hamiltonians – water, energy, telecommunications, financial, transportation
- Civil unrest – political or social unrest resulting in a security or safety threat to people or assets (excluding an act of terrorism)
- Disaster caused by failure of human-made structures
- Pandemic

Inherent Likelihood	Possible	Inherent Consequence Driver Strategic Safety & Wellbeing,	Catastrophic	Inherent Risk Rating	Rating Very High
----------------------------	----------	---	--------------	---------------------------------	----------------------------

Existing Controls and Mitigations

Emergency management

- Annual external (NEMA) capability assessment – completed September 2019 (Council achieved a 71% rating)
- Collaboration on emergency management response approach across agencies and the region.
- Co-located EOC in a dedicated leading-edge centre (Group Emergency Management Office – GEMO) with built in redundancy (including water and power supplies)
- Early warning processes are in place at a national and regional level
- Emergency Management Framework – National Emergency Management Agency (NEMA), Group, Local Emergency Operations Centre (EOC) structure
- Emergency management training program TAKATU implemented for Council staff
- HCC Crisis Management Plan (see Improvement Plan)
- Ministry of Health and Waikato DHB lead management of any pandemic with HCC support. HCC has developed an internal pandemic plan.
- Robust emergency exercise schedule in place to test preparedness and response functionality
- Use opportunities nationally to build experience in real events where ever possible

Infrastructure resilience

- Asset and service monitoring capability
- Criticality assessments and asset identification ratings
- Engineering standards identified and managed
- Activity Management Plan (AMP) renewals, maintenance plans and operational strategies are funded in the 2018-28 10-Year Plan Budget and critical assets are given a higher priority for renewal
- Availability of technical expertise to manage, monitor, operate and maintain critical assets and identify situations when early intervention is required to maintain asset condition and level of service.
- Infrastructure Strategy is in place to identify significant infrastructure challenges over the next 30 years, and to identify the principal options for managing those challenges and the implications of those options

Item 8

Attachment 1

Further controls and mitigations relating to critical assets can be found in Organisational Risk #3.

Residual Likelihood	Possible	Residual Consequence Driver Strategic Safety & Wellbeing,	Major	Residual Risk Rating	Rating Very High
Action Owner			Mitigation		
Elvin Powell, Heather Burden			Mitigate		

Improvement Plan	Previous updates	Update – December 2020
<ul style="list-style-type: none"> Implementation of CDEM workplan deliverables ahead of next external Capability Assessment April 2021 	<ul style="list-style-type: none"> (March 20) Assessed score of 71% achieved (Advancing category). 15% improvement from 2018. (June 20) – Work plan identified and in operation (September 20) - work programme is in place and progress is reported quarterly to the Community committee. Last update was 13 August. 	<ul style="list-style-type: none"> On Track and also being reported to the Community Committee quarterly
<ul style="list-style-type: none"> Complete review of Covid-19 Post Action report to identify work programme and lessons learnt by April 2021 	<ul style="list-style-type: none"> (September 20) - Covid-19 debriefs completed, Post Activation report completed 	<ul style="list-style-type: none"> Under action.
<ul style="list-style-type: none"> Review the HCC Crisis Management Plan to extend an HCC-wide response approach to include crisis management capability by June 2021 	<ul style="list-style-type: none"> (September 20) - GM Corporate leading review and is work in progress. Plan update will capture learnings from Council's Covid-19 Incident Management Team activities. This review will also extend to testing, and improving where required, the Organisation's operational readiness to execute on the updated plan. 	<ul style="list-style-type: none"> Currently sourcing external expert to support the review of plans as well as extend review to broader emergency management and HCC civil defence planning to ensure alignment. Review to include ensuring operational capability and preparedness of staff (education requirements are in place) to ensure plans can be activated easily and quickly.

Strategic Risk 2

Major Economic or Financial Shock

An external financial event impacts Council's financial strategy, fiscal and monetary position.

Risk Owner (GM Level)	David Bryant	Category	Financial
--------------------------	--------------	----------	-----------

Risk Triggers

- Global financial crisis
- Rapid increases in inflation, interest rates, oil prices, or a rapid decline in NZD – leading to significantly higher construction input costs, debt costs, and significant pressure on household rates affordability
- Critical infrastructure failure
- Major construction industry failure
- Major government policy changes negatively impact Council's income streams or cost base
- Natural or manmade disaster (including deliberate attacks on critical infrastructure or pandemic) has an impact on the economy (e.g. affects national imports/exports which has a flow on effect)

Inherent Likelihood	Unlikely	Inherent Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Major	Inherent Risk Rating	Rating High
---------------------	----------	---	-------	----------------------	--------------------

Existing Controls and Mitigations

- PwC, as Council's treasury partner, provides a report and meets with Council (both on a monthly basis) to discuss national and international economic and financial trends relevant to treasury matters
- Six weekly financial forecasting and planning cycles through reporting to the Finance Committee, including a separate Financial Strategy report
- Monitoring of macro trends (Finance, Treasury, Economic Growth team)
- Financial Strategy resilience - excess Local Government Funding Agency (LGFA) borrowing headroom (up to 300% debt to revenue ratio),
- Additional \$60M bank facility
- Financial scenario modelling
- Council's ability to urgently reprioritise and reduce capital spending
- Council's ability to urgently reprioritise and reduce community levels of service spending
- Availability for options to respond to a shock, depending on the type of shock

Residual Likelihood	Unlikely	Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Serious	Residual Risk Rating	Rating Medium
---------------------	----------	---	---------	----------------------	----------------------

Action Owner

Tracey Musty and Greg Carstens

Mitigation

Mitigate

Item 8

Attachment 1

Further Action	Previous updates	Update – December 2020
<ul style="list-style-type: none"> Provide a 10-year plan (2021-2031) by June 2021 to update and assure Council on resilience of debt from the impacts of Covid-19 on Hamilton and the implementation of initiatives to support the wellbeing of Hamiltonians. 	<ul style="list-style-type: none"> (September 20) - 2020/21 Annual Plan approved 10 August 2020 by Council. The Plan includes several initiatives to support Hamiltonians and the local economy through this time. 2021-31 10 Year Plan process underway. A key theme will be understanding the likely continuing impact of Covid-19 on Hamilton and ensuring, as best as possible, assumptions and support relief initiatives are captured and planned for. 	<ul style="list-style-type: none"> 2021-31 LTP underway. Clear indication that the impacts of Covid-19 will impact our city and the wellbeing of Hamiltonians well past 20/21. We have rolled out a 12-point recovery plan to provide short-term financial relief and support to Hamiltonians as well as plan for the support and rebuild of our city in the long term via our capital & job creation programmes as well as economic stimulus and development forum. We continue to incorporate the principles & learnings to date into our LTP. Moreover, we continue to explore a range of options (rate increases, targeted rates, Insurance, fixed/variable debt, Government Funding of infrastructure assets, financial assets, etc.) to ensure our debt remain within our debt limits while providing maximum flexibility and cost efficiency.

Strategic Risk 3

Increasing Compliance Standards

The risk of central government and regional council increasing compliance standards, or changes in community expectations resulting in increased compliance standards.

Risk Owner – (GM Level)	David Bryant	Category	Environment Strategic
--------------------------------	--------------	-----------------	--------------------------

Risk Triggers

- Central government changes the regulatory standards for compliance: including resource management, environmental (including climate change and pollutant management), corporate (including health and safety, human resources and financial), growth, consultation requirements, health and infrastructural (including traffic and transport) compliance. This might also include changes to the required frequency of Council actions (such as the 10 Year Plan). This also includes wide-ranging regulatory changes in response to an incident such as a pandemic or natural disaster
- Continued or serious breaches leading to increased compliance requirements and regulation
- Community service-level expectations in management of water quality, recycling, climate change and other services not being met
- Failure to plan long term for consenting requirements (both as a regulator and a regulated entity)
- Regional Council changes its policies to ensure legislative compliance (e.g. Healthy Rivers policy)
- External audit identifying major non-compliance within HCC operations (e.g. by International Accreditation New Zealand)
- Legal challenge to HCC policy or practice resulting in findings of non-compliant practices
- Change in stakeholder partner expectations for environmental performance
- Changes to our own District Plan impacting other parts of the business (e.g. changes to resource consents affect consented Three Waters activities)

Inherent Likelihood	Possible	Inherent Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance	Major	Inherent Risk Rating	Rating Very High
----------------------------	----------	--	-------	-----------------------------	--------------------------------

Existing Controls and Mitigations

- Community consultation and understanding community needs
- Engagement with our iwi partner and maataawaka to understand expectations, including in terms of iwi through the Joint Management Agreement
- Maintaining relationships with neighbouring councils and working together to inform relevant policies
- Council's Compliance Policy
- External monitoring services and advice from external legal service providers on an ad hoc basis, as well as regular quarterly updates
- In-house legal advisor provides updates to staff on key legislative changes and advises staff on matters of legislative compliance
- Council subscribes to legal update emails to keep up-to-date with changes, and these are distributed to key staff
- Internal resources that analyse the impacts of compliance changes (decentralised and role-specific)
- SLT and Elected Members – assurance requests
- Key stakeholder engagement, including making submissions to central government on proposed changes affecting compliance requirements

Item 8

Attachment 1

- Infrastructure Strategy (2018-2048) and 10 Year Plan ensure projects and resources are in place to deal with increasing compliance requirements
- HCC bylaws and policies ensure community expectations and regulatory standards are met in a consistent manner
- Independent audits of HCC practice, including by the New Zealand Transport Authority and International Accreditation New Zealand, to ensure ongoing compliance
- Independent accreditation of HCC facilities (e.g. drinking water laboratory is accredited by International Accreditation New Zealand)
- Competency assessments for staff, including building officers
- Establishment of new quality control roles (including two recently established in the Building Control Unit)
- HCC's Chief Executive is involved with the Construction Sector Accord which allows HCC to keep up to date with and influence changes in the sector
- Internal and external reporting (e.g. drinking water test results) ensures ongoing monitoring and compliance
- Notification protocols are in place in respect of various incidents, including wastewater overflow and drinking water concerns, which mitigate risk in the event of an incident
- Incident Management Team is stood up to respond to incidents such as a natural disaster or pandemic and liaises with internal/external parties as necessary and distributes key information to staff to ensure compliance

Residual Likelihood	Possible	Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance	Serious	Residual Risk Rating	Rating High
Action Owner			Mitigation		
Michelle Hawthorne			Mitigate		

Improvement Plan	Previous updates	Update – December 2020
<ul style="list-style-type: none"> • Council to consider WLASS Joint Procurement Project to invest in the compliance program. Next milestone: Early October 	<ul style="list-style-type: none"> • (March 20) Scoping of options (including non-technology solutions) continues • (June 20) Scoping of options continues (both software and manual solutions) • (September 20) - WLASS currently considering a joint approach to compliance monitoring and assurance. Discussions are ongoing. 	<ul style="list-style-type: none"> • A procurement lead has been contracted by WLASS for a 1- year fixed term period to ensure a joint approach to compliance monitoring.
<ul style="list-style-type: none"> • Regular workshops on compliance topics are developed and offered to staff 	<ul style="list-style-type: none"> • (March 20) A number of workshops have been held on privacy and waters compliance in recent months. Regular workshops on official information ("LGOIMA") will also be rolled out for staff in the coming months • (June 20) Privacy workshops 	<ul style="list-style-type: none"> • This action has been completed and will become BAU (remove from IP March 2021)

	<p>were paused during lockdown but will be adapted to webinars</p> <ul style="list-style-type: none"> • (September 20)- In-person workshops to recommence in Alert Level 1 	
<ul style="list-style-type: none"> • Review the impacts of The Privacy Act 2020 on council's businesses and develop an action plan by end of March 2021 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • New IP (Dec 2020)

Item 8

Attachment 1

Strategic Risk 4

Cyber Attack

Unauthorised access to Council's IT infrastructure results in loss of service continuity that may lead to safety risks to Hamiltonians and relatable consequences of reputational, legal, and financial losses.

Risk Owner (GM Level)	David Bryant	Category	Disaster Recovery/ Business Continuity
---------------------------------	--------------	-----------------	--

Risk Triggers

- IT/OT technology advances – positive and negative
- Inadequate identification of IT security trends, themes, detection and responses
- Poor IT/OT Security awareness / culture / behaviours
- Poor IT/OT security operational practices
- Release and change management lacking a security focus – not “secure by design”
- Privacy Breach
- Outdated hardware and inadequate architecture
- Inadequate competency at organisational level
- Specific targeting and malicious exploitation of security vulnerabilities across Council IT asset infrastructure, or Operational Technology
- International trends and attacks not being considered in NZ
- Malicious activity targeting central and local government entities.
- Underinvestment in Information Services (infrastructure, technology, resource)
- Lack of maintenance in information technology
- Inadequate access control to key systems

Inherent Likelihood	Possible	Inherent Consequence Driver Service Delivery	Catastrophic	Inherent Risk Rating	Rating Very High
----------------------------	----------	--	--------------	-----------------------------	----------------------------

Existing Controls and Mitigations

Identify

- Risk based approach - Three lines of defence (management control, risk management, independent assurance)
- National Cyber Security Centre (NCSC) monitoring and trend analysis reporting of local and international IT security challenges – internal and external
- National and international cyber-attack trends are monitored and assessed by the CIO and CTO to guide system capability investments.
- Security Governance and Risk Management practices implemented
- Policies, Standards and Enablers are documented and communicated regularly
- Risk management frameworks, methods and tools are fit for purpose
- Ongoing Cyber awareness education for staff, contractors, customers and Elected Members

Protect

- Systems and information are secured by design
- Tools, systems and resources are now available to protect against, monitor and resolve potential malicious activity.
- Contractual service level agreements are monitored and maintained
- Compliance of desktop system with Department of Internal Affairs and All of Government (DIAAOG) standards
- Access to Hamilton City Council services are managed effectively
- Information and assets have implemented processes and controls

Detect

- Reviews on Council's IT technology environment are conducted to improve detection and response capabilities.
- External and internal security audit and reviews
- Networks, systems and operations security will be assured through vulnerability and anomaly detection tools
- Physical environments will have appropriate physical and technology safeguards
- Timely and accurate reporting

Respond

- Response plans processes are in place and tested
- Council is supported by the NZ National Cyber Security Centre (NCSC) for response to attacks and receives quarterly trend updates for consideration.
- Technical support from key vendors - Microsoft and Fujitsu
- Subscription to Cisco Security Incident Response Service (CSIRS)

Recover

- BCDR processes in place and tested
- Cyber recovery planning processes known, understood, and practiced
- Insuring data survivability, data will be backed up and available
- Cyber Insurance

Residual Likelihood	Unlikely	Residual Consequence Driver Service Delivery	Major	Overall Residual Risk Rating	Rating High
Action Owner			Mitigation		
Murray Heke			Mitigate		

Improvement Plan	Previous Updates	Update – December 2020
<ul style="list-style-type: none"> • Develop Organisational Cyber awareness programme by June 2021 	<ul style="list-style-type: none"> • (June 20) Work to commence July 2020 • (September 20) - Initial discussions held with potential vendors 	<ul style="list-style-type: none"> • (Dec 20) Discussions ongoing with potential vendors
<ul style="list-style-type: none"> • Develop a Cyber Security strategic plan to guide Council's future Cyber security direction and investment by December 2020 	<ul style="list-style-type: none"> • (June 20) Commenced and to be completed 30 June 2020 • In progress, but not yet completed. Expected completion December 2020 	<ul style="list-style-type: none"> • (Dec 20) Security "Strategy on a page" completed and we are currently documenting the associated strategy document (due for completion Jan 2021).
<ul style="list-style-type: none"> • Develop a Cyber Security Governance framework by March 2021 	<ul style="list-style-type: none"> • (June 20) Work to commence August 2020 • (September 20) - Not yet initiated 	<ul style="list-style-type: none"> • (Dec 20) – The draft framework will be defined in the strategy document (due Jan 2021)
<ul style="list-style-type: none"> • Complete an initial assessment of threats, vulnerabilities against critical asset and assess risk profile by March 2021 	<ul style="list-style-type: none"> • (June 20) Work to commence August 2020 • (September 20) - Initial discussions held with specialist vendors who could be engaged 	<ul style="list-style-type: none"> • (Dec 20) Assessments of threats and vulnerabilities are occurring on a daily basis as part of normal operations (e.g.

Attachment 1

Item 8

	to assist	evaluation of critical software patches). This improvement action is to embed these activities in our strategic framework to improve our maturity in this area. This will be progressed now that the Security and Risk specialist position has been filled.
<ul style="list-style-type: none"> Establish Cyber Security investment roadmap for 2020-2023 by March 2021 	<ul style="list-style-type: none"> (June 20) Work to commence on completion of threat assessment (September 20) - Draft roadmap completed including required funding for LTP budgeting 	<ul style="list-style-type: none"> (Dec 20) Complete - List of strategic initiatives compiled and included in the IS LTP budget submission
<ul style="list-style-type: none"> OT Improvement Plan – coordinated and aligned OT and IT environment by June 2021 	<ul style="list-style-type: none"> (September 20) – Not yet initiated 	<ul style="list-style-type: none"> (Dec 20) – Not yet initiated
<ul style="list-style-type: none"> (NEW) Recruitment of a Security and Risk specialist by March 2021 	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> (Dec 20) New role has been confirmed in the IS department restructure and has just been filled via a secondment.
<ul style="list-style-type: none"> (NEW) Establishment of a Security Operations (SecOps) function by June 2021 	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> (Dec 20) To be initiated now that the Security and Risk specialist position has been filled.

Strategic Risk 5

Growth

Significant change in growth demand, and/or the consequences of growth do not deliver positive outcomes for the community.

Risk Owner (GM Level)	Jen Baird	Category	Strategic, Service Delivery
---------------------------------	-----------	-----------------	-----------------------------

Risk Triggers

Understanding growth

- Wider economic down turn
- Population growth rates change (either natural change or through internal or international migration rates).
- Significant change in the market – either demand or supply side, due to e.g. construction cost inflation and restrictions on credit.
- Significant change in public perception of growth or growth outcomes
- Inadequate skills, data or modelling and scenario planning
- Changes in growth projections as a result of climate change impacts on population spread in New Zealand and overseas

Growth decisions

- Council's decisions that impact desired growth outcomes e.g. growth opened on too many fronts, lack of funding for desired levels of outcome etc
- Inadequate provisions in of application of the District Plan to deliver positive outcomes for people / environment
- Neighbouring councils make growth decisions around Hamilton's border that are not aligned with Hamilton's desired growth strategy
- Changes in Government Policy impact on desired growth outcomes or our ability to effectively respond to growth

Growth consequences

- Groups within Council planning and budgeting for growth separately versus in a joined-up way

Inherent Likelihood	Possible	Inherent Consequence Driver Service Delivery	Major	Inherent Risk Rating	Rating Very High
----------------------------	----------	--	-------	-----------------------------	----------------------------

Existing Controls and Mitigations

Understanding growth

- Growth Funding & Analytics Unit established in 2017 to function as Council's growth funding, growth projection and economics specialists
- HCC Growth and Development Contributions model providing data analysis, forecasting and scenario management (revised 2019). Inputs and modelling externally peer reviewed.
- Hamilton Housing Market & Economy Growth Indicator Report provides quarterly, regional analysis of growth, housing and market/economic drivers
- National Policy Statement Urban Development - a sub-regional review of land use, demand and supply completed in 2017 and being updated in 2020 for finalisation early 2021.
- Analytics Strategy – adopted in 2019 to support evidence-based decision making and provide insights, principally about growth
- Monitoring the broader environment and how it could impact growth rates and including this in modelling, including monitoring migration forecasts

Growth decisions

- Scenario modelling report completed in September 2019 to illustrate modelled effects of higher or lower growth in Hamilton, and to articulate Council's decision-making levers and timelines if growth projections change markedly.
- Engagement with neighbouring Councils on strategic growth planning (Metro Spatial Plan, Growth discussions at CE and Governance level, good officer level relationships).
- Engagement with Central Government to explore and implement new tools for funding and delivering growth related projects
- Business Cases for investment into growth cells that have a wellbeing case (vs just economic) and include the full costs of the growth cell including community and network infrastructure, consequential Opex, commercial considerations and how we will deliver.
- Consideration and investigation into strategic and consequential infrastructure costs as part of zoning decisions process (high level business case recommended)
- Management of Resource Consent applications on a consent by consent basis using existing District Plan Controls.
- Changes to District Plan (plan changes) where required to support better community wellbeing outcomes.
- Provision of infrastructure through negotiation of Private Developer Agreements.
- Submit on any neighbouring councils plan changes.

Growth consequences

- Numerous strategies and plans in place to manage the outcomes of a growing city including Regional Policy Statement, Hamilton Urban Growth Strategy, District Plan. The Hamilton Waikato Metro Spatial Plan will also support this once completed.
- Whole of Council Programme/spatial approach to planning for and delivering new growth areas.

Residual Likelihood	Possible	Residual Consequence Driver Service Delivery	Serious	Overall Residual Risk Rating	Rating High
Action Owner				Mitigation	
Karen Saunders, Greg Carstens (Stafford Hodgson)				Mitigate	
Improvement Plan	Previous updates			Update December 2020	
<ul style="list-style-type: none"> • Continue to build Developer relationships and understanding their drivers to ensure a quality 2021 DC Policy, by February 2020 	<ul style="list-style-type: none"> • (Dec 20) Developer DC engagement group to have better and earlier engagement before DC Policy review in 2021. • (June 20) - In the process of being established through Waikato Property Council • (September 20) - Several meetings in June/July held with Waikato Property Council and major developer representative 			<ul style="list-style-type: none"> • Engaged with development community. Meaningful engagement will happen once we have a completed capital programme. Delays mean this will occur later than in previous LTPs. 	
<ul style="list-style-type: none"> • Develop and embed a programme management approach to new cells to ensure joined up 	<ul style="list-style-type: none"> • (June 20) Tested in Peacocke and delivering value. Being used as base for Rotokauri (DBC being completed) and set up ready for potential Ruakura via Shovel Ready Funding. • (September 20) – No update 			<ul style="list-style-type: none"> • Recruitment is under way for a Programme Manager for Ruakura and Rotokauri. • Central City Programme Management now in place and embedded with cross 	

delivery of wellbeing outcomes, by June 2021		<p>organisational teams in place</p> <ul style="list-style-type: none"> • Peacocke Programme Management approach has proven valuable as a framework for managing recent risks regarding media and protest groups.
<ul style="list-style-type: none"> • Complete Detailed business case supplementary case for Rotokauri Stage 1 Growth Area, to support quality decision making for the Long Term Plan, by February 2021. 	<ul style="list-style-type: none"> • (New Plan – December 2020) 	<ul style="list-style-type: none"> • Draft Business Case presented to Elected Members on 1 October 2020 Strategic Growth Meeting. • Continuing work on options as part of LTP planning

Item 8

Attachment 1

Strategic Risk 6					
Political Changes or Decisions Impact Council’s Strategic Direction <i>Political stakeholders make decisions or take actions that significantly impact or contradict Council’s strategic direction.</i>					
Risk Owner (GM Level)	Blair Bowcott	Category	Executive Director of Special Projects		
Risk Triggers					
<ul style="list-style-type: none">• Political changes including central government strategic direction creating risk or opportunities• Local political changes, including potential misunderstanding of Council’s intent• Political personalities, trust and relationships and change of key personnel – positive & negative• Failure to manage stakeholder relationships, communication and engagement tactics, including due to a lack of resource or need to balance priorities• Short term focus overshadows long term cost benefit outcomes• Political sovereignty/patch protection, lack of alignment or willingness to compromise ie boundaryless approach vs localism• Financial strategy misaligned with wider context• International events, trends or decisions influence NZ• Major projects or initiatives for the benefit of Hamilton accelerating or slowing down <p>Note* Political risk is essentially the probability that a political action/decision will significantly affect Council’s strategic direction —whether positively or negatively.</p>					
Inherent Likelihood	Possible	Inherent Consequence Driver Strategic Political Service Delivery	Major	Inherent Risk Rating	Rating Very High
Existing Controls and Mitigations					
<ul style="list-style-type: none">• Regular engagement with stakeholders at political and executive level – shared responsibility to manage key relationships• Regular meetings with Government Ministers and MPs (both government and opposition, Government• Collaborative governance group meetings to progress alignment of strategic direction - Mayoral Forum, Future Proof, Waikato Plan, CEO Forum, Waikato Local Authority Shared Services (WLASS), Regional Transport Committee, neighbouring Councils and other strategic discussions externally• Regular Council briefings for sharing of information and alignment of thinking• Monthly SLT discussion to ensure awareness of strategic initiatives• Culture, expectation and policies of HCC organisation regarding behaviours of political, executive and staff and Council Controlled Organisations.• Participation in national and regional advisory groups on strategic topics• Proactive steps are taken at the start of each local government triennium to re-establish relationships with counterparts and stakeholders, so that we can develop a common understanding of strategic direction• Council takes an apolitical approach to working with central government, to maximise readiness to continue momentum on projects should there be a change in central government					
Residual Likelihood	Possible	Residual Consequence Driver Strategic Political Service Delivery	Major	Overall Residual Risk Rating	Rating Very High

Action Owner	Mitigation
Senior Leadership Team – (Blair Bowcott)	Accept

Currently there are currently no identified Improvement Plans for this risk. There is currently an ongoing relationship building strategy as captured under the current controls.

Item 8

Attachment 1

Strategic Risk 7

Attachment 1

Item 6

Significant Shortage of Key External Resources

The market is unable to deliver necessary resources to achieve our strategy; including but not limited to people and material for projects.

Risk Owner – (GM Level)	Chris Allen	Category	Development		
Risk Triggers					
<ul style="list-style-type: none">Major construction sector skills/labour shortage - capacity and capabilityPolitical changes in the labour market (e.g. immigration policy changes)Regional or national investment decisions leading to increased demand for construction resources and market congestion – i.e. significant increase in capital portfolios nationallyClients competing for the same resourcesSupply chain company failuresSupply chain investment confidence - i.e. forward work confidence to invest in people, plant and technologyCompetitive market changes – including the cost of resourcesCOVID-19 Alert LevelsInternational supply chain breakdownChanges in external fundingInternational political instability (resulting in, for example, oil price changes)Growth taking place at a faster rate, or in a different way, than forecastClimate change impact on price and accessibility of key resources (e.g. oil, concrete and steel)					
Inherent Likelihood	Possible	Inherent Consequence Driver Social, Cultural and Environment	Major	Inherent Risk Rating	Rating Very High
Existing Controls and Mitigations					
<ul style="list-style-type: none">Forward works pipeline visibility and supply chain engagement - communication of the HCC capital portfolio regionally via regular presentations/updates and nationally via contributing to the NZ Infrastructure Commission national pipeline.Working with other councils and NZTA to coordinate the workload to the market including taking a leading role in the Waikato LASS coordinated infrastructure initiative.Established procurement planning frameworks – including procurement policy and procedures in accordance with NZ Government procurement requirements and principles of the Construction AccordEstablished portfolio, programme and project delivery frameworks – including business cases, project planning and assurance of skilled individuals in key rolesProcurement optimisation – including recent workshop review of NZS3910 contract special conditions to ensure commercial terms are not making our contracts unattractive to industryUtilising panel arrangement for procurement and engagement of professional services, ensuring greater speed in procuring key resources and increased forward workload confidence for suppliers.					
Residual Likelihood	Possible	Residual Consequence Driver Social, Cultural and Environment	Major	Overall Residual Risk Rating	Rating Very High

Action Owner	Mitigation
Chris Barton	Mitigate

Improvement Plan	Previous Updates	Update – December 2020
<ul style="list-style-type: none"> Ensure Hamilton City Council is recognised as a construction industry client of choice 	<ul style="list-style-type: none"> (September 20) - Recent review of standard form of contract and templates to ensure industry alignment. Continued focus on robust procurement planning through business case development and project planning. 	<ul style="list-style-type: none"> This will be realised through optimised contract packages and delivery models, forward works pipeline visibility and appropriate procurement timing to attract appropriate supply chain resources Reviews of standard form of contract and templates have been completed to ensure industry alignment. Subject to further clarity of the 2021-31 LTP forward works programme, a strategic review of capital portfolio procurement is planned in early 2021 to identify optimum delivery bundles and models.
<ul style="list-style-type: none"> Opportunities to coordinate procurement and delivery of 2021-31 LTP regional forward works programmes are realised and incorporated into delivery planning by June 2021. 	<ul style="list-style-type: none"> (June 20) A Council staff member has been seconded to WLASS in a strategic procurement role to ensure councils have greater leverage in common areas of procurement (September 20) - Opportunity to collaboratively review regional forward works programme throughout 2021-31 10YP development to identify potential works staging conflicts or opportunities. Anticipate review complete by March 2021. 	<ul style="list-style-type: none"> Council have been supporting WLASS to fulfil a regional strategic procurement role, ensuring councils have greater leverage in common areas of procurement. This includes seconding a council staff member in early 2020 to develop a regional forward works pipeline. Leveraging this previous work, there is an opportunity to collaboratively review the regional forward works programme (co-ordinated by WLASS) throughout 2021-31 10YP development to identify potential works staging conflicts or opportunities.
<ul style="list-style-type: none"> Ensure internal resourcing to effectively deliver planned controls and mitigations 	<ul style="list-style-type: none"> (September 20) - Continued learning and development focus for key staff regarding procurement strategy and planning. 	<ul style="list-style-type: none"> Continued learning and development focus for key staff regarding procurement strategy and planning.
<ul style="list-style-type: none"> Enhanced supply chain insights and information 	<ul style="list-style-type: none"> (September 20) - Initiated a construction industry survey in collaboration with the Waikato branch of Civil Contractors NZ – currently awaiting results. 	<ul style="list-style-type: none"> Continuing to align with the NZ Infrastructure Commission, Construction Accord and the Waikato branch of Civil Contractors NZ, including reviewing industry feedback surveys.

Item 8

Attachment 1

Strategic Risk 8

High-Level security threat or major emergency

A safety, security or environmental attack materialises and impacts Council's strategic direction.

Risk Owner (GM Level)	David Bryant	Category	Strategy Safety and Security		
Risk Triggers					
<ul style="list-style-type: none">Large Scale Physical attack on people in public placesPhysical attack on city critical infrastructure – e.g. Waste Water Treatment Plant, Water Treatment Plant, reservoirs designed to compromise integrity of service.Civil unrest – redirection of resources to protect vulnerable people and assetsChemical or biochemical attack					
Inherent Likelihood	Possible	Inherent Consequence Driver Social, Cultural and Environment	Catastrophic	Inherent Risk Rating	Rating Very High
Existing Controls and Mitigations					
<ul style="list-style-type: none">Regional and National Emergency Service Relationship Management – made up of Elected Members and officials.Security risk assessments have been completed for key identified HCC facilities,Business continuity plans have been completed for some business units. Some emergency response plans are in place at different levels of HCC’s business.					
Residual Likelihood	Unlikely	Residual Consequence Driver Social, Cultural and Environment	Major	Overall Residual Risk Rating	Rating High
Action Owner			Mitigation		
Heather Burden			Mitigate		

Improvement Plan	Previous Updates	Update – December 2020
Physical Security <ul style="list-style-type: none"> Perform a Security Risk Assessment Programme/ Security Gap Analysis (Feb-Dec 2020) of identified assets to ascertain what security vulnerabilities exist. 	<ul style="list-style-type: none"> Some Security Risk Assessments had been completed across the business in silos. Security consultant hired to consolidate and manage the Security portfolio Covid-19 Lockdown delayed aspects of this gap analysis (September 20) - Phase one of implementing the PSR security framework which involves security risk assessments on key community facing facilities is almost complete and should be finalized by end of August 2020 	<ul style="list-style-type: none"> Security Risk Assessments and findings now completed for 12 community facing facilities and reviewed by the businesses to inform a gap analysis. Will be presented at December SRAC Workshop

<p>Governance</p> <p>Next step: Outline the implementation of the national PSR Governance Framework to guide the scope of best practice in physical security (to commence in 2021)</p>	<ul style="list-style-type: none"> • Covid-19 delayed the establishment of the PSR Governance Model. • (September 20) – Physical Security Workshop postponed to December Committee 	<ul style="list-style-type: none"> • Implementation to be developed further in 2021
---	---	--

Item 8

Attachment 1

Organisational Risk

H&S – Workers (incl. contracted workers & volunteer workers)

Failure to ensure the health and safety and wellbeing of council staff or workers whose activities are influenced or directed by council, while the workers are carrying out work.

1

Risk Owner

David Bryant
(GM Corporate)

Category

Health & Safety

Risk Triggers

- Poor safety culture and/or behaviours across organisation
- Failing to understand duties and accountability relating to Health and Safety at Work Act and associated Regulations
- Critical health and safety risks not identified, assessed and mitigated adequately
- Safety Management System (SMS) ineffective or inefficient or implementation failures
- Inadequate contractor management frameworks, including procurement and assurance practices
- Not sharing or acting on information and lessons learnt – internal and external to Council
- Complacency leading to greater risks being taken
- Failure to fully engage with staff regarding risk assessments and assurance activities
- Under resourcing of staff leading to greater work volumes and fatigue
- Production and time pressures leading to acceptance of high levels of risk without appropriate levels of risk mitigation.
- The existing safety software solution will be decommissioned in December with a project plan in place for the new solution to be implemented in March 2021
- Failure of Officers to discharge their due diligence requirements

Inherent Risk

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H		VH		E
	Likely	M	H	VH	VH	
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	H	VH
	Rare	L	L	L	M	H

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

- (A) Risk of serious injury, illness or death
- (B) Risk of other significant incidents as defined in the Health and Safety at Work Act).

Existing Controls and Mitigations

- Prequalification is in place but not always being used appropriately or consistently across Council
- We currently undertake engagement, wellness and safety culture surveys to assess the level of organisational maturity with regard to safety
- We are re-engaging with Health and Safety representatives to reset Committee structures and purpose, after benchmarking and learning from other high performing organisations

- We are leading projects for Waikato Local Authority Shared Services and increasing engagement with similarly diverse organisations
- We are currently at design phase on the new safety software solution. This solution will provide extended applications to help modernise and improve user experience
- The framework documents in the SMS are currently being written and will provide direction for the business units
- A Health and Safety reset is currently underway, this will include an independent audit and workstreams that lift our safety performance

Residual Risk

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H	H	VH	E	E
	Likely	M	H	VH	VH	E
	Possible	L	M	M	VH	VH
	Unlikely	L	M	M	M	VH
	Rare	L	L	L	M	H

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.



Risk of serious injury, illness or death



Risk of other significant incidents (as defined in the Health and Safety at Work Act).

Action Owner	Mitigation
Dan Finn	Mitigate

Improvement Plan	Previous updates	Update - December 2020
<ul style="list-style-type: none"> • Conduct a Health and Safety Review (Commenced 15th July 2020) <p>PURPOSE: To drive an impactful review, and reset where needed, of Council's Health & Safety ecosystem to ensure enduring world class performance outcomes are achieved.</p>	New	<p>This review includes the following workstreams:</p> <ul style="list-style-type: none"> • Safety Management System (SMS) and associated frameworks • Critical Risks • Independent Health and Safety Review <ul style="list-style-type: none"> - Safe + • Wellbeing of Staff <ul style="list-style-type: none"> - Engagement Survey - WorkWell initiatives • Organisational structure review • Technology <ul style="list-style-type: none"> - Safety Software Solution • Contractor Management <ul style="list-style-type: none"> - Facilitated workshops - Procurement review

Organisational Risk

Safety and Wellbeing of the Community

Failure to create, provide and maintain a safe environment for the community leading to a serious injury incident or fatality.

2

Risk Owner Lance Vervoort (Deputy CE / GM Community)

Category People

Risk Triggers

- Poor HCC understanding of the health and safety risks within the facilities and services provided and managed by Council
- Failures in safety-in-design planning for our amenities and services provided to the community
- Failures in asset maintenance
- Failure in due diligence on assets purchased for use by the community or staff
- Failure in due diligence on maintenance
- Human error / inappropriate behaviours / criminal behaviour or damage at Council assets
- Complacency leading to greater risks being taken by the community of public safety issues
- Failure to properly engage with and listen to the community
- Failure to act on staff and public information or lessons learned from near misses and incidents (including lessons from other industry experiences)
- BCP and Pandemic Plans are not adhered to
- Failure to consider climate change impacts on the community safety and wellbeing

Inherent Risk

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H		VH	E	E
	Likely	M	H	VH	VH	
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	H	VH
	Rare	L	L	L	M	H

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

(A) Risk of serious injury or death

(B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Existing Controls and Mitigations

- Emergency response and Pandemic plans
- Emergency and safety response training drills
- Specific training programmes for staff within facilities and service management
- Subject matter expert support – internal and external
- Incorporated risk assessments and safety in design planning
- Traffic management plan adoption per requirements
- Maintenance and monitoring plans – buildings
- Operational asset maintenance (trees and operational infrastructure)
- Condition assessments for assets
- Communication plans for new projects around safety requirements
- Community education support for ongoing Community safety
- Management drop-ins and Unit Audits

Residual Risk (expected rating)

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost certain	H	H	VH	E	E
	Likely	M	H	VH	VH	E
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	M	VH
	Rare	L	L	L	M	M

There is a very strong relationship between the likelihood and severity (consequence) of H&S incidents. The likelihood of minor injuries is much higher than an incident which could result in a death.

- (A) Risk of serious injury or death
- (B) Risk of other serious harm incidents (as defined in the Health and Safety at Work Act).

Item 8

Action Owner	Mitigation	
3LT – (Rebecca Whitehead)	Mitigate	
Improvement Plan	Previous updates	Update- December 2020
<ul style="list-style-type: none"> Enhance understanding of key risk scenarios and commonality of critical controls. First phase of improvement programme to be completed December 2020 	<ul style="list-style-type: none"> (March 20) - Workshop identified focus areas workstreams; Security, Safety in Parks, Tree Maintenance. Security issues in public spaces is being planned for H3 with integration into the wider business (Linked to Strategic Risk 8) (June 20) - improvement programme has been on hold due to alert Level 4 and 3 restrictions. Work on the programme will recommence this month utilising new insights from the impacts of COVID to address new gaps and ensure adequate response capabilities. In response to incident at water world review, update and programme works to ensure compliance and monitoring of controls around hazardous substances. (September 20) Completed: Review of Parks SOPs. Underway: Security assessments for or community facilities – draft findings and recommendations reports in development. Underway: Review of SOP's, Plans, compliance, engineered controls around hazardous substances 	<ul style="list-style-type: none"> Specific resource has been hired to support the Community Group to achieve IP due to conflicting priorities across the business This work will be completed pre-Christmas and will be reported on at the first SRAC workshop in 2021
<ul style="list-style-type: none"> Design and implement an appropriate monitoring and reporting framework for Critical Risks relevant to Organisational Risk 2 	<ul style="list-style-type: none"> (Dec 20) - Assurance reporting levels will be identified as part of the works identified within the workshop, and will be discussed with the internal audit function and GM Corporate as to preferred reporting requirements (March 20) – No Update (June 20) – No Update (September 20) - Framework in development and due for completion August 2020. Reporting to community group leadership commence September 2020. 	<ul style="list-style-type: none"> Same as above

Attachment

Organisational Risk

Failure of critical assets

Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of levels of service).

3

Risk Owner

Eeva-Liisa Wright
(GM City Infrastructure
Operations)

Category

Financial

Risk Triggers

- Assets being operated outside of design scope as a result of regulation change or change in demand or that the operation of the asset exceeds design assumptions.
- Critical manufacture service agents unavailable to resolve major failure of critical assets
- Failure to accurately forecast capacity limits or inaccurate demand forecasting on critical assets
- Failure to accurately forecast useful life on critical assets Failure to future proof asset to allow for pending changes in requirements
- Failure to carry out and prioritise planned maintenance and renewal of critical asset
- Failure to deliver renewal of the asset within scheduled timeframe
- Failure to identify all critical assets
- Failure to install asset correctly (including poor procurement processes to begin with)
- Failure to procure/renew the asset with an appropriate replacement
- Inadequate budget allocated for maintenance and renewal of critical assets
- Incorrect analysis in development of maintenance and renewal requirements
- Insufficient resources to deliver renewal of assets on time and within allocated budgets
- Insufficient skilled, knowledgeable and experienced staff and low investment in the ongoing building of staff capability to ensure critical assets remain functional, resilient and levels of service remain.
- Misalignment in the timing of investment with the required levels of service or that key deliverable dates not identified appropriately
- Poor or incomplete asset data
- Stakeholder specifications and expectation of asset increase making the asset no-longer fit for purpose
- Utility service and third-party critical impacts (stakeholder relationships)
- Failure to consider climate change in critical asset investment
- Limited anomaly detection capability and poor identification of vulnerabilities
- Failure to identify threat actors who wish to exploit technology vulnerabilities

Inherent Likelihood		Inherent Consequence Drivers		Inherent Risk Rating	Rating
	Possible	Safety & Wellbeing, Financial, Service Delivery, Compliance	Major		Very High

Existing Controls and Mitigations

- Actively monitor and submit on regulatory or industry change that impacts on our activities
- Activity Management Plan (AMP) renewals, maintenance plans and operational strategies are funded in the 2018-28 10-Year Plan Budget and critical assets are given a higher priority for renewal
- Activity Management Plans are internally and externally reviewed following their 3 yearly review

<p>to ensure robust planning processes and systems</p> <ul style="list-style-type: none"> • Annual review CAPEX programme with Facilities Unit to ensure forward planning of projects • Asset Management Plan policy in place to set standards • Asset Strategy Team is in place to drive organisational consistency of asset management overseen by the GM Development • Availability of technical expertise to manage, monitor, operate and maintain critical assets and identify situations when early intervention is required to maintain asset condition and level of service • Business Continuity and Crisis Management Plans for some critical asset failure • Engagement of experienced project managers • Implement robust procurement process to correctly identify/scope and procure appropriate asset • Implement robust project planning processes • Independent asset management maturity assessments are undertaken 3 yearly • Infrastructure Strategy is in place to identify significant infrastructure challenges over the next 30 years, and to identify the principal options for managing those challenges and the implications of those options • Maintenance and service agreements in place with the supplier, where appropriate • Modelling and master planning of strategic assets undertaken to forecast and respond to the impact of changing demand and growth • Processes for the supervision, design and testing during build or vesting of the asset • Redundancy is built into some of our critical assets (e.g. two cremators with short term cover available in a fail event) • Robust project management and procurement processes in place and followed • Speciality contracts are in place to maintain the condition of critical assets and minimise the risk of failure occurring • Staff have appropriate project management skills and experience • Stakeholder engagement prior to procurement/replacement of asset to ensure appropriate replacement • Training and development plans in place for staff to identify competency and skill requirements • Zoo Masterplan • Zoo: Annual MPI audit provides government oversight in maintaining animal enclosure assets. • Anomaly detection and vulnerability scanning capability • Quarterly Threat and Risk assessments 					
Residual Likelihood	Unlikely	Residual Consequence Drivers Safety & Wellbeing, Financial, Service Delivery, Compliance Social and Cultural	Major	Residual Risk Rating	Rating High
Action Owners				Mitigation	
Paul Gower (Assets Strategy Manager), Maire Porter (City Waters Manager), Jason Harrison (Transportation Manager), Tania Hermann (Infrastructure Group Business Manager), Simon Young (Delivery Manager), Maria Barrie (Parks and Recreation Manager), Michelle Rivers (Cemeteries and Crematorium Manager), Emily Botje (Facilities Manager), Baird Fleming (Zoo Director); Chad Hooker (H3 Group)				Mitigate	

Attachment 1

Item 8

Improvement Plan	Previous updates	Update – December 2020
<ul style="list-style-type: none"> Identification of critical asset groups and documentation of management strategies for assets 	<ul style="list-style-type: none"> Water, Wastewater, Stormwater, Solid Waste and Transportation Activity Management Plans, which includes management strategies for assets, are currently under review. Initial review due to be completed by end of July 2020. (September 20) - Asset Management Plans are in the final stages of review as part of the 2021-31 LTP process. 	<ul style="list-style-type: none"> Asset Management Plans are in the final stages of review as part of the 2021-31 LTP process. Zoo & Facilities teams investigating electrical infrastructure grid.
<ul style="list-style-type: none"> Identify key speciality services and skillsets for the operation and maintenance of critical assets that need to be employed or engaged under contract, including developing competency and training programmes. 	<ul style="list-style-type: none"> (September 20) – New IP 	<ul style="list-style-type: none"> This is at an initial stage and will be further developed within essential service resilience plans including competency and training requirements. To be completed in early 2021
<ul style="list-style-type: none"> Identify list of Civil Defence trained staff within activity units who are business critical (depending on event type). 	<ul style="list-style-type: none"> (September 20) – New IP 	<ul style="list-style-type: none"> This is at an initial stage and will be further developed within business continuity plans in early 2021
<ul style="list-style-type: none"> Identify other critical assets across the organisation that need to be included in this risk. 	<ul style="list-style-type: none"> (September 20) – New IP 	<ul style="list-style-type: none"> Completed

APPENDIX A – RISK RATING AND REPORTING

The following tables provide the limits within Hamilton City Council's overall risk threshold which the organisation is expected to operate within and expected responses for each level of risk.

		CONSEQUENCE				
		Minor	Moderate	Serious	Major	Catastrophic
LIKELIHOOD	Almost Certain	H	H	VH	E	E
	Likely	M	H	VH	VH	E
	Possible	L	M	H	VH	VH
	Unlikely	L	M	M	H	VH
	Rare	L	L	L	M	H

This matrix is used to map the likelihood and consequence levels of a risk and provide a pictorial representation of the relativity of that risk to other risks within an Activity Group or Project and can also be used for mapping key risks across Hamilton City Council.

Action Required Table

The table details the required actions for each risk

ACTION REQUIRED FOR RISK	
E	Extreme Risk – Immediate action required: risk escalated as appropriate. Action Plans and management responsibility specified with scrutiny required. Only the Chief Executive and/or Council can accept this level of risk.
VH	Very High Risk – Senior Leadership Team attention advised. Action Plans and management responsibility specified with periodic scrutiny required. The relevant GM, Unit Manager and Risk Owner / Programme Manager can accept this level of risk.
H	High Risk – Senior Leadership Team attention advised. Action Plans and management responsibility specified with periodic scrutiny required. The relevant General Manager (GM), Risk Owner, Unit Manager or action owner can accept this level of risk.
M	Medium Risk – Management responsibility specified. Managed by specific monitoring and procedures. The relevant Risk Owner, Unit Manager or action owner can accept this level of risk.
L	Low Risk – Manage by routine procedures. Unlikely to require specific application of resources. The relevant activity manager can accept this level of risk.

APPENDIX B – RISK REVIEW AND REPORTING TABLE

The following table details the required level to which the different risk levels must be reviewed and reported.

RISK LEVEL	STRATEGIC/ ORGANISATIONAL RISKS	REVIEW PERIOD (Minimum)	REPORTING PERIOD (Minimum)
Extreme	Council	Quarterly	Strategic Risk & Assurance Quarterly
	Senior Leadership Team	Monthly	Monthly
Very High	Council	Quarterly	Strategic Risk & Assurance Quarterly
	Senior Leadership Team	Monthly	Monthly
High	Senior Leadership Team	Quarterly	Monthly
Medium	Wider Leadership Group*	Six-monthly	Bi-Monthly / as required
Low	Wider Leadership Group*	Six-monthly	Bi-Monthly / as required

**Wider Leadership Group is to be interpreted as any staff member with specific business responsibilities, including but not limited to, General Managers, Unit Managers, Team Leaders and Project Managers.*

By using this matrix, a decision can be made as to the level of escalation for management acceptance that is required and the frequencies with which accepted risks are to be reviewed and reported.

Council Report

Item 9

Committee: Strategic Risk and Assurance Committee

Date: 04 December 2020

Author: Morva Kaye

Authoriser: David Bryant

Position: Internal Auditor

Position: General Manager Corporate

Report Name: 2021 Internal Audit Update PwC

Report Status

Open

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee on PwC Internal Audit progress to 18 November 2020




Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Strategic Risk and Assurance Committee:
 - a) receives the report; and
 - b) notes the Hamilton City Council PwC Internal Audit work undertaken.

Discussion - *Matapaki*




3. Hamilton City Council's (HCCs) internal audit function incorporates engagements delivered by PwC and internal Council staff. This report provides an update on progress by PwC.

KEY

	Completed or on track
	Currently behind, expect to get back on track
	Permanently delayed

PwC Internal Audit Plan – progress summary

4. The following progress has been made on the internal audit engagements included in the 2019/20 and 2020/21 Internal Audit Plans:

Engagements in Progress – 2019/20	Status
Data Governance – Q2 This engagement has been completed and the final report is attached.	
Forecasting & Modelling – Q3 This engagement has been completed and the final report is attached.	
Business Case Preparation and Benefits Realisation – Q4 The fieldwork for this engagement has been completed and a draft report is with management.	

IBIS Project Assessment

PwC are assessing the controls over the new financial strategy model being implemented through the IBIS project. This work is on-going and will be completed in February 2021.

Engagements in Progress – 2020/21	Status
Cyber Security PwC have agreed a scope of work with management.	
Authority Property Management Processes The fieldwork for this work has commenced.	

5. Health & Safety and the Connected programme were on the initial list of work to be performed this year, but due to other work being undertaken by management it was decided that now is not the appropriate time for an internal audit to occur in these areas.
6. PwC have assisted the HCC internal auditor with the payroll engagement by performing data analytics over the payroll data to enable the identification of anomalies for further investigation.
7. HCC are considering the implementation of a new payroll system next year and internal audit will provide an Independent Quality Assurance over this project.
8. Staff consider the decision in this report to have low significance and that the recommendations comply with the Council's legal requirements.

Financial Considerations - *Whaiwhakaaro Puutea*

9. The cost of the PwC annual internal audit programme is \$150,000 (GST excl.) and is budgeted in the Annual Plan.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

10. Staff confirm that the matters in this report comply with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

11. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
12. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
13. There are no known social, economic, environmental or cultural considerations associated with this matter.

Risks - *Tuuraru*

14. Any known risks have been identified relevant to the matters in this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui***Significance**

15. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have low significance.

Engagement

16. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Hamilton City Council Growth Model FINAL report November 2020

Attachment 2 - HCC Data Governance Final report November 2020


Hamilton City Council


Growth Model Internal Audit

Internal audit report – Final
18 November 2020



Contents

Executive summary & Observations Snapshot	Page 4
1	

Detailed Findings & Recommendations	Page 8
2	

Appendices	Page 14
I. Model operation	
II. Risk Matrix	
III. Terms of Reference	
3	

For Action:

- Nathan Dalgety (Programme Manager – Analytics)
- Greg Carstens (Growth Funding & Analytics Manager)
- Jen Baird (General Manager Growth)

For Information:

- Strategic Risk and Assurance Committee

Inherent limitations: This assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

Confidential: This report is provided solely for Hamilton City Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure contained within the report.



Jen Baird
General Manager Growth
Hamilton City Council
Private Bag 3010
Hamilton 3240
New Zealand

18 November 2020

Dear Jen,

In accordance with our Contract dated 1 July 2017 and the Terms of Reference dated 10 July 2020, we are delighted to report on our findings arising from the assessment of the Growth Model for Hamilton City Council ('HCC').

We would like to extend our appreciation for the assistance provided by HCC staff towards the completion of this internal audit.

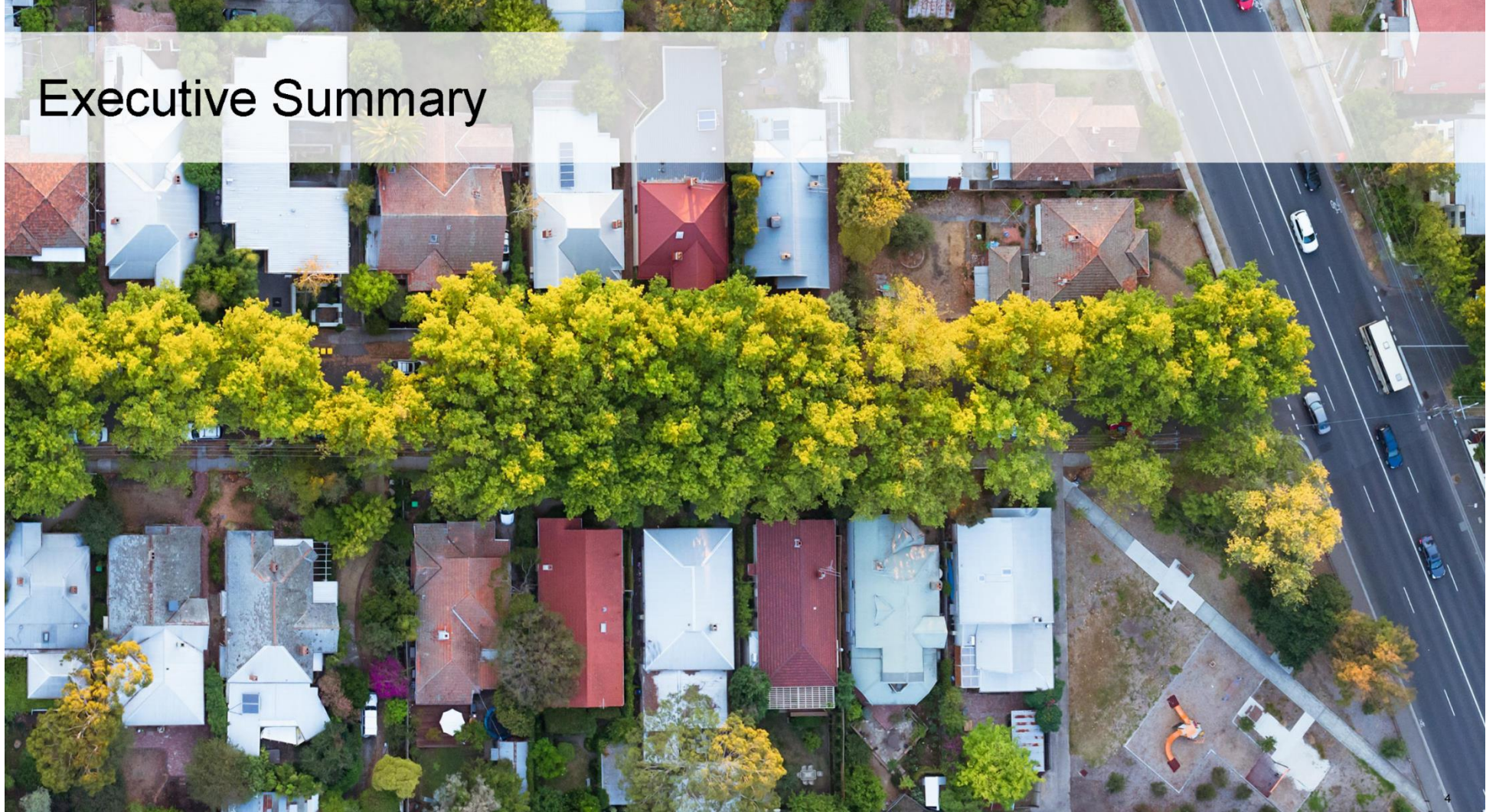
Yours faithfully

A handwritten signature in blue ink, appearing to read 'Matthew White'.

Matthew White
PwC New Zealand | Partner

*PricewaterhouseCoopers, Corner Anglesea and Ward Streets, PO Box 191, Hamilton 3420, New Zealand
T: +64 (7) 838 3838, F: +64 (7) 839 4178, www.pwc.com/nz*

Executive Summary



Item 9

Attachment 1

1.0 Executive Summary

Introduction

The Growth Model is a key foundational tool that underpins the development of Council's Long Term Plan.

It is driven from external information on growth projections from external parties which predicts how much growth the region will experience. The model uses various internal inputs to allocate the growth across the region. Numerous models and processes are dependent on the growth model, including developer contributions, rates, capital expenditure and asset management planning.

The council relies on external parties to project the expected growth rate for the city. These projections are fed into the growth model to allocate them based on spatial data and assumptions derived from various district plans and infrastructure plans. The external parties determine **how much** growth to expect, the growth model determines **where** the growth will occur.

Objective & Scope

The objective of this engagement on the Growth Model is to assess whether the Model has been developed appropriately to provide Council with robust growth information. We will check that the:

- calculations in the Model appear in all material respects logical, internally consistent and arithmetically correct;
- Model appears to allow changes in source data, sensitivities and assumptions to correctly flow through to the results;
- assumptions within the Model are consistently applied;
- inputs are sourced correctly;
- internal checks and balances (controls) are operating effectively;
- Model outputs are appropriately reviewed;
- Model has version control and how it operates;
- Model has been developed in a manner that provides transparency of process.

Scope limitations

We are not:

- providing any comment on the commercial rationale or long term assumptions
- validating the inputs for completeness, accuracy or reasonableness
- ensuring that the Model meets any relevant legislative requirements
- providing any comment on the validity or reasonableness of the assumptions, and express no opinion as to how closely the results actually achieved will compare with the projections in the Model
- reviewing the projections produced by the Model, or any comment in any form on the outputs produced by the Model, other than to confirm that the outputs generated by the Model appear to be consistent with the input assumptions for the input assumptions considered.

Background

Legacy versions of the Model reflected a set of complex spreadsheet models which were not easy to operate and exposed the HCC to undesirable levels of risk.

A project was undertaken to replace the spreadsheets with a solution which would make it easier to amend, update or change the underlying model methodology in a rapid and agile manner. However, the resulting solution was more complicated than initially intended and therefore was exposed to risks around reliability, resilience and time taken to return to operation in the event of a failure.

Last year with the support of an external software solutions provider, HCC sought to extend the model framework to:

- Handle wider growth modelling scenario management
- Improve user interface including the validation of user settings to ensure invalid options cannot be selected
- Convert to a single technology platform to reduce complexity and the inherent associated risks.

The Model in its current form is the culmination of this work.

An overview of the operation of the Model is included in Appendix I.

1.0 Executive Summary

Key findings

Hamilton City Council (HCC) has a growth model (the Model) which determines where growth is expected to occur in Hamilton City. Numerous models and processes are dependent on the outcomes of Model, including developer contributions, rates, capital expenditure and asset management planning.

You have requested we assess whether the Model has been developed appropriately to provide Council with robust growth information.

The model has been validated through workshops with key internal stakeholders and model outputs are peer reviewed before being published if being used for formal planning processes. The Model has version control in place.

We have identified the following improvement areas that will assist the organisation to strengthen the model:

Model Inputs

The Model has three source files, one being growth projections and the other two are extracts from Council's Geographical Information System (GIS) related to development capacity and location. A key parameter is the year in which development is expected to occur. It is common for this parameter to be manually updated in the current extract file when running what-if scenarios rather than utilising a new GIS extract file. It is not clear to the user of the scenario output what has been changed between different scenarios. We would recommend that the following improvements be made so that the user of each scenario better understands the inputs utilised:

- the source of the inputs for each scenario are clear (reused extracts or from original source)
- changes relating to the "year online" parameter is a function controlled by the Model rather than a manual manipulation of the input file
- final outputs to be used by other models are only performed using input files derived from the source systems.

There is reliance placed on the Model identifying an error in the format of a source file as being sufficient to identify any errors in input data. There is no data checking of the input files for irregularities prior to importing them into the Model or within the Model itself. There is the risk that data errors could be introduced into the Model undetected. We have recommended that input files are checked for errors before being used and that the Model has error handling functionality built in.

Growth Model Script

Our five-point code review of the Growth Model Script identified that the developers had made good use of cross validation to train the Model and we have noted five primary areas for improvement:

- Comments within the script are not detailed enough for a new user to pick up the script quickly.
- The model doesn't allow changes in source data and there is not enough model metadata inside the script for reviewers and users to understand the model assumptions.
- The naming convention is confusing, making it harder than necessary for a new user to understand the script. Multiple names are very similar and the use of more distinct names would be clearer for a new user of the script.
- There is no data checking, result checking or error raising within the script.
- Data processing is mixed within the functions, whereas best practise would see data processing and functions separated within the script. An example of this is the use of the Trained Model to predict dwelling data for the intervening years of the dwelling forecast input data (which is for every 3 years). An error check after any instance of data processing, such as this, would also be expected.

We have recommended that documentation and functionality of the script is improved to address the above observations.

Management Response

Management comments and remedial action plans will be obtained and included in Section 2 (detailed findings).

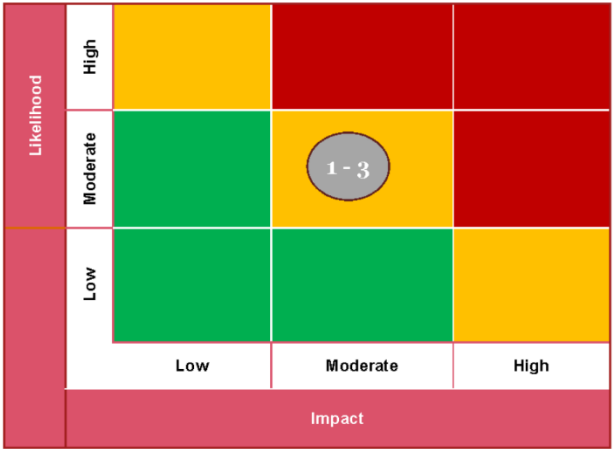
1.1 Observation Snapshot

Summary of findings

We set out below a mapping of our findings against the risk assessment methodology, which is attached in Appendix II. The details of each finding are provided in section 2 of this report.

Ref	Observation	Page #
2.1	Input file and parameter control improvements	9
2.2	Internal Checks and Balances improvements	10
2.3	Growth Script code development improvements	11

Findings mapped to Risk assessment framework



Detailed Findings and Recommendations



Item 9

Attachment 1

2.0 Detailed Findings and actions

Observation Rating:

Consequence: Moderate

Likelihood: Moderate

Overall: Moderate

Observation, Risk & Recommendation

2.1. Input file assumptions and parameter control improvements

The Dwelling Demand Projections input file is a very simple spreadsheet comprising Council's forecast growth projections for attached and detached dwellings through to 2063. It is currently based on National Institute of Demographic and Economic Analysis (NIDEA) forecasts and does not change without Council policy change.

The Capacity Neighbourhood Data file is an output of the Graphical Information Systems model (the GIS Model), a separate standalone model. The information within does not frequently change, and therefore this input is commonly the same for sequentially run scenarios.

The Capacity Distance Matrix file is also an output of the GIS Model. It includes a column for "year online", which represents the year a parcel of land is expected to be available for development and is typically the only information which varies between scenarios. Changes to the "year online" are made by the user consulting with project engineers and using GIS shape files to change the year online of the appropriate land parcels. Manual changes direct into the csv file are occasionally made too. Documentation supporting changes to the "year online" is not saved down as a part of the process. We recommend a change to procedure to include support being documented for changes between scenarios.

It is common for the user to take the three input files run in the last scenario as the inputs for the next run scenario (albeit with the user then making changes to the "year online" of the Capacity Distance Matrix file) rather than re-source the files from the GIS model. We recommend a change in procedure for the provision of documentation regarding the source of each output (i.e. run from the GIS model, or taken from a specified previous scenario), as well as the provision of supporting documentation for any changes to the "year online" column of the Capacity Distance Matrix file.

The Growth Model Script and Trained Model files are typically also taken from the previous scenario run, given there are seldom changes to these files.

Risk

Input data is manipulated and then relied upon without going through proper change control procedures.

Recommendation

- 1.1 It needs to be clear to users if the model data is direct from the source systems or if it is based upon changes made subsequently.
- 1.2 Consider making "year online" a parameter in the model that can be adjusted with appropriate audit trail of changes.
- 1.3 For final outputs for formal Council planning documents and inputs into other models any information that needs to change should be changed in the source system and subject to appropriate change control procedures.

Agreed Action Plan

Comments:

Generally agree with the recommendations. There is a bit of a balance between keeping the model agile to the various modelling requirements and keeping it robust from an auditing sense.

It is suggested that additional fields are added to the Capacity Distance Matrix file that are directly attributable to the "Year Online" field. These fields should log (for each row) where the "Year Online" value was sourced from, when it was last changed, who changed it and a notes field to provide further detail if needed.

The addition of these fields should add an appropriate level of audit trail while still keeping the agility of the model. The appropriate change control procedures as per the recommendation can be managed through a combination of the above fields plus the existing version controls in the modelling tool.

Action Owner/Responsible: Nathan Dalgety

Action Due Date: Next major modelling enhancements and scenarios are due to be started in March 2021 and completed in July 2021.

2.0 Detailed Findings and actions

Observation Rating:

Consequence: Moderate

Likelihood: Moderate

Overall: Moderate

Observation, Risk & Recommendation

2.2. Internal Checks and Balances improvements

The three .csv input files are required to be a template format in order for the Model to correctly read the data. This format requires that data is provided under the correct field names and is the correct data type. In the event that data not meeting this criteria is input into the model, the .R script stops running and publishes an error message noting the user of incorrect information. Our script review did not identify any error messages, nor did we observe any error handling functionalities within the script.

We understand this is relied on by the users to inform if there is an issue with the input data, rather than the user checking the source information prior to running the Model. This error checking procedure appears to provide for an ability for incorrect information (in the prescribed data format and under one of the prescribed field names) to be processed by the Model without the user being aware.

We recommend error checks are added to the process to limit the ability for incorrect information to be processed. An example internal check that might be relevant include number of land parcels in the input data (represented by number of rows) being equivalent to expectations. There is no error handling of model processing within the script.

It would also be beneficial to have at least basic error checking/condition handling within the script to ensure that outputs are within expected tolerances and allow for faster identification of unanticipated problems. The amount of error checking needs to be considered against the fact that it will slow down the code execution.

Risk

Inaccurate input data may be provided to the model. Unanticipated errors may cause abnormal termination of the code. Outputs are not sense checked to ensure that they are within expected parameters.

Recommendations

2.1 Input files have error checking performed before being used by the Model.

2.2 Error handling functionality is built into the script for the Model.

Agreed Action Plan

Comments:

Generally agree with the recommendations. Will include recommendations at the next major model enhancement.

Action Owner/Responsible: Nathan Dalgety

Action Due Date: Next major modelling enhancements and scenarios are due to be started in March 2021 and completed in July 2021.

2.0 Detailed Findings and actions

Observation Rating:

Consequence: Moderate

Likelihood: Moderate

Overall: **Moderate**

Observation, Risk & Recommendation

2.3. Growth Script code development improvements

The primary observations noted by our review of the Growth Model Script are as follows:

- Comments within the script are not detailed enough for a new user to pick up the script quickly.
- The naming convention is confusing, making it harder than necessary for a new user to understand the script. Multiple names are very similar, and the use of more distinct names would be clearer for a new user of the script. Please see below for examples.

Example 1: [model1] is not a good naming practice in model development, it would be good to name them with some contextual around the model, e.g., pre_trained_logitModel, same with [model_data].

```
development_allocation <- function(neighbourhood_data,new_parcel_developed,year,model1, model_data,demand) {
```

Example 2: Rename [model_data] as [model_data] after several processing.

```
model_data <- model_data %>%
  filter(year_online != 0) %>%
  select(-contains('developed')) %>%
  left_join(neighbourhood_data, by=c('Parcel_ID' = 'Base_ID')) %>%
  mutate(neighbourhood_count = ifelse(InflGr == 'GField', developed, neighbourhood_count))
```

- There is no data checking, result checking or error raising within the script.
- Data processing is mixed within the functions, whereas best practise would see data processing and functions separated within the script. An example of this is the use of the Trained Model to predict dwelling data for the intervening years of the dwelling forecast input data (which is for every 3 years). An error check after any instance of data processing, such as this, would also be expected.

Our five-point review summary for the Growth Model Script is presented in the table on the following page.

Risk

Script is not developed in a manner that provides good resilience and useability.

Recommendation

3.1 Improve the documentation and functionality of the script.

Agreed Action Plan

Comments:

Generally agree with the recommendations. Will include recommendations at the next major model enhancement.

Action Owner/Responsible: Nathan Dalgety

Action Due Date: Next major modelling enhancements and scenarios are due to be started in March 2021 and completed in July 2021.

2.0 Detailed Findings and actions

Observation, Risk & Recommendation

2.3. continued

A summary of our five point script review is shown below:

Dimensions	Check Points	Description	Score	Review Comments
Model Architecture	a) Data exploration	The initial step in modelling/data analysis, where users explore a large data set in an unstructured way to uncover initial patterns, characteristics, and points of interest.	N/A	No data exploration has been captured in the model script.
	b) Model assumption checking	It is important to check model assumptions. Statistical models come with a set of assumptions, and violations of these assumptions can render irrelevant or even invalid the inferences drawn from these models.	N/A	There is no enough model metadata and code comments inside the scripts to describe the model assumptions.
	c) Model selection	Model selection is the process of choosing one of the models as the final model that addresses the problem. To evaluate or assess candidate models in order to choose the best one.	N/A	We cannot assess the appropriateness of fit of this model because there is no model selection and model comparison process within the script.
	d) Model training	To training Model with training data set, i.e. historical data	4	The model builders have used cross validation to train the model by using the Train function in the Caret package.
	e) Model testing	To test Model with testing data set, and iterate the model based on the testing results.	N/A	There no model testing step or documentation within the Model script.
	f) Model evaluation	To evaluate model performance by using a test data set.	N/A	We cannot evaluate the model performance because there is no training data results within the files to support the task.
Code Formatting	a) Use alignment, proper white space		5	Good at use of alignment and proper white space
	b) Proper naming conventions		3	Improvement required for proper naming conventions in both data process steps and functions. For example, the main model is called 'ml_model' in this script, it would be better to name as 'Allocation_lb_Model'
	c) Proper comments		2	There are only a few comments provided in this script, and those comments that are provided are not very informative and instructive. The addition of informative comments (or having a separate document outlining the script) would be beneficial to a new user.

2.0 Detailed Findings and actions

Observation, Risk & Recommendation

2.3. continued

A summary of our five point script review is shown below.

Dimensions	Check Points	Description	Score	Review Comments
Maintainability	a) Readability	Code should be self-explanatory	3	It is ok for another user to read and understand this script.
	b) Testability	The code should be easy to test	2	It is difficult to test because data processing is mixed within the functions, whereas best practise would see data processing and functions separated within the script.
	c) Debuggability	Provide support to log the flow of control, parameter data and exception details to find the root cause easily	2	Same reason as above, and also because the lack of comments
	d) Configurability	Keep the configurable values in place	3	Parameter configuration is mixing together with the data processing
Reusability	Reusability	Consider generic functions, variables	1	The reusability is very low. For example, If change a new set of data, or planning to use this model on Auckland council data, it requires to make huge changes on this script.
Reliability	Reliability	Exception and error handling and clean-up (dispose) resources	1	No error handling and clean-up setting.

Appendices



Item 9

Attachment 1

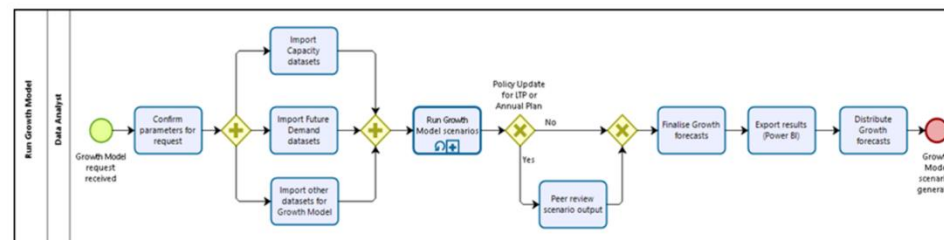
Appendix I – Overview of Model Operation

Model Operation

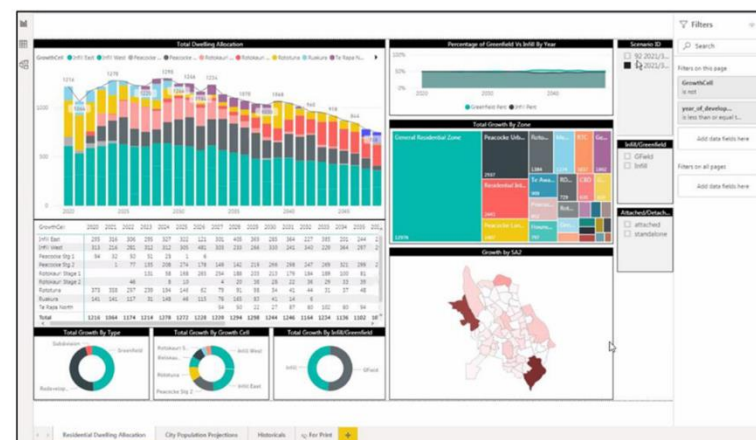
The Model is operated by the HCC Growth & Analytics team, which comprises four members. The user interface allows for straightforward operation. To run a new scenario, a user is prompted to provide a scenario name and attach five files, being the Growth Model Script, Trained Model, and the three csv inputs. In the case of the three inputs, the interface employs data validation for selection of which of the three inputs the user is importing, and then the file is selected and imported via the windows browse portal. Descriptions of each of files are provided below.

- 1) Growth Model Script – A series of commands in R script which steps through the model process, from calling the Trained Model and the three inputs through to receiving the predictive growth output.
- 2) Trained Model – A machine learning algorithm which predicts growth based on the information provided by the three inputs. The Trained Model predicts how growth in dwellings will be spread across Hamilton's undeveloped land parcels based on input information such as the proximity of the land parcel to other already-developed land parcels, the land parcel's assessed desirability and the year for which the land parcel is available for development.
- 3) Dwelling Demand Projections – An input comprising Council's forecast growth projections for attached and detached dwellings for every three years through to 2063.
- 4) Capacity Neighbourhood Data – An input providing situational data for all greenfield land parcels within the Hamilton City boundaries, including the land parcel's size, dimensions, and its situation relative to the surrounding land parcels. This also includes whether the land parcel is developed or not.
- 5) Capacity Distance Matrix – An input providing information about each land parcel available for development within the Hamilton City boundary, whether greenfill or infill. For context, there are approximately 82,000 of these land parcels. The information provided includes:
 - Distances from the land parcel to locations of interest which influence the desirability of that land parcel including bridges, suburban shopping centres, key roading intersections, the University of Waikato and Waikato hospital
 - Identifying geographic characteristics of the land parcel such as the growth cell it lies in, stormwater and wastewater catchments
 - Maximum dwelling yield of the land parcel
 - The year the land parcel is expected to be available for development ("year online"). This is the key input which is flexed between scenarios. It is updated by a member of the Team after discussions with relevant project engineers.

The diagram below summarises the process of operating the Model from receiving a request through to generating the output.



The output from the Model is a .csv file, which is then viewed and interpreted via the GIS platform, through pivot tables and through a series of pre-set PowerBI dashboards.



Appendix II – Risk assessment framework

Risk Prioritisation Matrix

Impact

Level	Description
High	A significant weakness which could compromise Management's internal control.
Moderate	An issue which can undermine Management's internal control and should be addressed but with a lower priority than High.
Low	A weakness which does not seriously detract from the system of internal control but which should nevertheless be considered by Management.

Likelihood

Level	Description
High	Risk is likely or almost certain to happen (66-100%)
Moderate	Risk is possible to happen (36- 65%)
Low	Risk is unlikely or rarely will happen (0-35%)

Risk Matrix

Likelihood	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate
		Low	Moderate	High
Impact				

Priority Rating

Level	Risk	Consequences of Risk Ratings
H	High	Requires immediate attention
M	Moderate	Requires attention/action underway within 3 months
L	Low	Requires attention/action underway within 6 months

Appendix III – Terms of Reference

Terms of Reference - extract

In accordance with our contract 16265 dated 1 July 2017, including all terms, we set out below the terms of reference for our assessment of the Growth Model at Hamilton City Council (HCC).

Background

The Growth Model is a key foundational tool that underpins the development of Council's Long Term Plan.

It is driven from external information on growth projections from external parties which predicts how much growth the region will experience. The model uses various internal inputs to allocate the growth across the region. Numerous models and processes are dependent on the growth model, including developer contributions, rates, capital expenditure and asset management planning.

The council relies on external parties to project the expected growth rate for the city. These projections are fed into the growth model to allocate them based on spatial data and assumptions derived from various district plans and infrastructure plans. The external parties determine **how much** growth to expect, the growth model determines **where** the growth will occur.

Sponsor

The Hamilton City Council (HCC) Executive Sponsor for this engagement will be Jen Baird, General Manager City Growth.

Objective and scope

The objective of this engagement on the Growth Model is to assess whether the Model has been developed appropriately to provide Council with robust growth information. We will check that the:

- calculations in the Model appear in all material respects logical, internally consistent and arithmetically correct;
- Model appears to allow changes in source data, sensitivities and assumptions to correctly flow through to the results;
- assumptions within the Model are consistently applied;
- inputs are sourced correctly;
- internal checks and balances (controls) are operating effectively;
- Model outputs are appropriately reviewed;
- Model has version control and how it operates;
- Model has been developed in a manner that provides transparency of process.

Scope limitations

We are not:

- providing any comment on the commercial rationale or long term assumptions
 - validating the inputs for completeness, accuracy or reasonableness
 - ensuring that the Model meets any relevant legislative requirements
 - providing any comment on the validity or reasonableness of the assumptions, and express no opinion as to how closely the results actually achieved will compare with the projections in the Model
 - reviewing the projections produced by the Model, or any comment in any form on the outputs produced by the Model, other than to confirm that the outputs generated by the Model appear to be consistent with the input assumptions for the input assumptions considered.
- Our assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

Approach

Our approach to assessing the Growth Model will be to evaluate the design effectiveness through inquiry, inspection and walkthrough of the:

- calculations within the Model
- how changes in source data, sensitivities and assumptions flow through to the results
- consistency of application of the assumptions within the Model (if there are numerous assumptions, then only the key assumptions will be assessed)
- source of the inputs by checking how they are input into the Model (for example, are they hard-coded, or are they sourced from files in a shared drive, who has access to change the source files)
- controls built into the Model to check for errors
- Model output review procedures
- Model version control processes
- Documentation within the coding of the Model and the logic with which it was developed. (i.e. Can someone who knows 'R' understand and follow the development of the Model, would they be able to understand and maintain it?).

Deliverable

At the conclusion of the fieldwork, we will workshop the findings with management and prepare a written report of our findings identified during the assessment (both strengths and weaknesses) along with recommendations for improvement where weaknesses are identified.

The report will be issued in draft to the engagement sponsor for comment, followed by a final report once all comments have been received, agreed, and incorporated within the report.

© 2020 PricewaterhouseCoopers New Zealand. All rights reserved. PwC refers to the New Zealand member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details

Hamilton City Council

Data Governance Internal Audit

Internal audit report – Final
23 November 2020




Contents

Executive summary
& Observations Snapshot

Page 4


1



Detailed Findings and
Recommendations

Page 8

2



Appendices

Page 13

3

I. Summary Data Schemas

II. Risk Framework

III. Terms of Reference

For Action:

- David Bryant (General Manager Corporate)

For Information:

- Strategic Risk and Assurance Committee

Inherent limitations: This assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

Confidential: This report is provided solely for Hamilton City Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure contained within the report.



David Bryant
General Manager Corporate
Hamilton City Council
Private Bag 3010
Hamilton 3240
New Zealand

23 November 2020

Dear David,

In accordance with our Contract dated 1 July 2017 and the Terms of Reference dated 24 October 2019, we are delighted to report on our findings arising from the assessment of Data Governance.

We would like to extend our appreciation for the assistance provided by HCC staff towards the completion of this internal audit.


Yours faithfully

A handwritten signature in blue ink, appearing to read 'M White', written in a cursive style.

Matthew White | PwC New Zealand | Partner

PricewaterhouseCoopers, Corner Anglesea and Ward Streets, PO Box 191, Hamilton 3420, New Zealand
T: +64 (7) 838 3838, F: +64 (7) 839 4178, www.pwc.com/nz

Executive Summary



1.0 Executive Summary

Introduction

The 10 year plan (10YP), annual planning and reporting to the finance committee are all reliant on the same financial data sources and involve similar processes to put them together. They pull together data from a wide variety of sources across the entire Council and from external sources. It is vital that the underlying data that supports the information used in the preparation and ultimately the final output is timely, complete, accurate and valid in order for decision-makers to be able to place reliance on it.

HCC wants to bring together in one place a visual understanding of the flow of financial data that applies to the 10YP, annual plan and the finance committee papers.

This engagement will enable management to leverage the knowledge and insights from the visualisation of the source and flow of financial information for the 10YP and related financial documents. This will lead to the ability to improve processes through the identification of inefficiencies, bottlenecks and potential lack of controls. It will also assist in determining the impact of a change in the data input(s).

We performed the internal audit in accordance with our contract dated 1 July 2017, and our subsequent terms of reference dated 24 October 2019 and attached within Appendix III.

This report should be read in the context of the terms and conditions of our contract and the limitations referred to in this report.

Objective & Scope

The objective of this engagement is to provide HCC with a visualisation (data schema) that will be used to identify improvements to key financial planning/reporting processes and aid in improving data governance through increased understanding and knowledge of key data and how it flows through the organisation.

Scope limitations

The scope encompasses the financial (numbers) data input flow from source to final outputs (being the long term plan/annual plan/finance committee reporting).

Scope limitations continued

We are not assessing the:

- sensitivity analysis
- strategic data (strategies, plans, policies)
- non- financial performance measures (separate internal audit engagement)
- quality of the models (separate internal audit engagement)
- testing the operational effectiveness of any controls identified.

Approach

1. Creating an overall high level data schema visualisation (data lineage map) using the 2018-28 LTP as the base document.

Data lineage mapping can be performed on different levels of detail. We propose to describe on conceptual level, which is the highest level of detail (as shown below). On this level, you usually map such components as:

- business processes
- applications, including reports and sources
- data sets.

To this we will add:

- timeline information
- system integration controls
- dependencies.



2. Data governance elements

For each major data component create an inventory of:

- data stewardship – data owner, data stewards, risks
Note: the expectation is that this is focused on the stewards of the individual components (as it currently is), rather than a steward with end-to-end responsibility
- data lineage – add data complexity etc.
- data security – access, (change management, version control – of the outputs only)
- data quality – completeness, accuracy, validity, timeliness, external review.

1.0 Executive Summary

Key findings

Our findings are split between the update to the 10 year planning data schema and our assessment of data governance based upon our work.

10 year planning process data schema

We provided an interim report dated 22 May 2020 which contained the data schema for the 2018-2028 10 year planning process. We reported that we were updating the data schema to incorporate subsequent changes made to the systems and processes. These findings represent our assessment based upon discussions with HCC staff primarily in relation to the implementation of the IBIS breeze planning software and the changes that will make to the 10 year planning process.

The notable changes include automation of the budget holder spreadsheets, the replacement of the separate interest and depreciation models (incorporated into IBIS Breeze) and the speed of scenario modelling.

Attached in Appendix I is a summary of the LTP processes for the 2018 10YP and a summary showing the process with IBIS Breeze implemented.

We support the direction that HCC is taking in reducing the number of spreadsheet models that were being used in the 10YP process.

Data Governance

Our work on the data lineage mapping for the LTP processes highlighted that HCC has no data governance framework in place, therefore staff do what they think is best. An enterprise data governance framework lays the foundations to:

- optimise your investment in systems and processes
- become a data-driven organisation
- provide trust and confidence in your data while managing risk.

Currently, with no clear or adopted framework, it is left to individual groups to manage data in the best way they know how. Their responses are shaped by legacy processes ("we have always done it this way"), misinformation, workarounds (spreadsheets) and impulsive reactions.

Data drives and informs decision-making and therefore trust is a fundamental requirement. In order to have trust, the data foundations need to be right.

Data governance is becoming increasingly important for all organisations, but maturity in this area is usually low. With the arrival of 5G and the Internet of Things (IoT) which will drive the smart cities of the future, HCC needs to ensure that it has the foundations in place to properly manage data.

We have provided within this report:

- an outline of a data governance framework (page 9)
- a data governance maturity chart (page 11)
- an implementation model (page 12)
- a case study of what is happening in regard to smart cities (page 12).

Recommendation

We recommend that HCC provide a mandate and authority to an experienced individual who will be responsible to lead and drive the implementation of data governance across the organisation.

Management Response

Management comments and remedial action plans will be obtained and included in Section 2 (detailed findings).

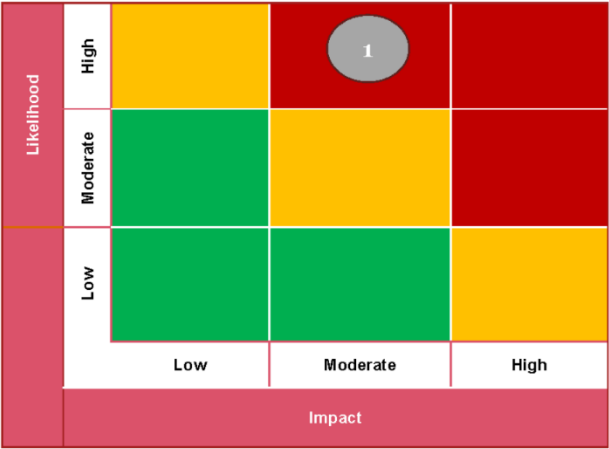
1.1 Observation Snapshot

Summary of findings

We set out below a mapping of our findings against the risk assessment methodology, which is attached in Appendix II. The details of each finding are provided in section 2 of this report.

Ref	Observation	Page #
2.1	There is no data governance framework in place.	9

Findings mapped to Risk assessment framework



Detailed Findings and Recommendations



2.0 Detailed Findings and actions

Observation Rating:
Consequence: Moderate
Likelihood: High
Overall: High

Observation, Risk & Recommendation

2.1. There is no data governance framework in place

Our work on the data lineage mapping for the LTP processes highlighted that HCC has no data governance framework in place, therefore staff do what they think is best. An enterprise data governance framework lays the foundations to optimise your investment in systems and processes, to become a data-driven organisation and provide trust and confidence in your data while managing risk.

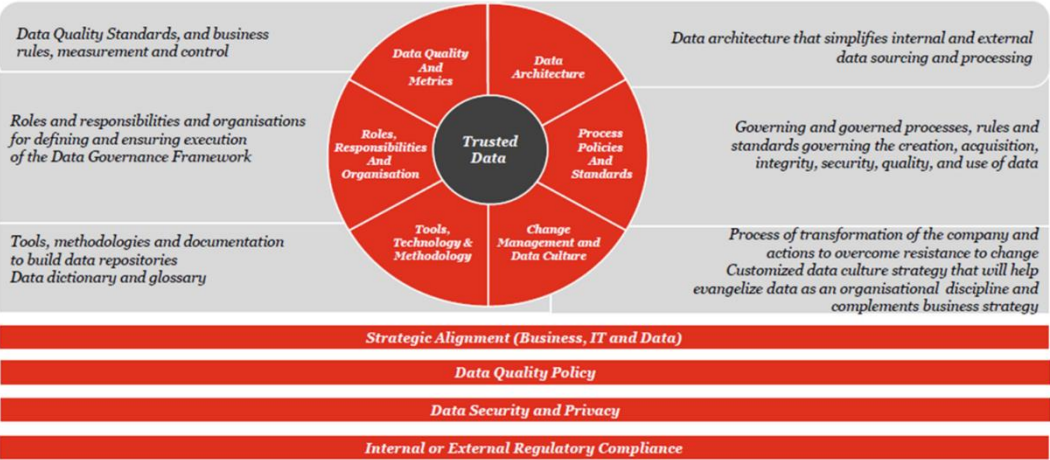
Currently, with no clear or adopted framework, it is left to individual groups to manage data in the best way they know how. Their responses are shaped by legacy processes ("we have always done it this way"), misinformation, workarounds (spreadsheets) and impulsive reactions.

Data drives and informs decision-making and therefore trust is a fundamental requirement. In order to have trust, the data foundations need to be right.

Agreed Action Plan

Refer to page 10.

Data Governance Framework



2.0 Detailed Findings and actions

Observation Rating:

Consequence: Moderate

Likelihood: High

Overall: High

Observation, Risk & Recommendation

2.1. There is no data governance framework in place

Data governance is becoming imperative for local government, especially those who want to become "smart cities" where data governance and management are the key foundation for success. The city of the future will ingest data from GPS systems, traffic and parking sensors, mobile devices, environmental and climate monitoring, individuals social activity, industrial IoT sensors, vehicles, plumbing systems, waste receptacles, the electrical grid and many more sources, forming multiple categories of data. Smart cities are the future, but how smart a city becomes, how fast, and at what ratio of costs to benefits depend on how well the city governs and manages the data on which the smart city is built.

Today, most smart city projects are point solutions: isolated initiatives for services such as LED street lights, pothole reporting, parking, digital bill pay for civic services. These initiatives are valuable, but when a city can integrate initiatives, with ever more granular data from ever more sources, the value grows exponentially.

A smart strategy for data collection must also prepare to verify data's quality and cleanse it to make it actionable. 5G networks, for example, may have as many as one million devices per square kilometre. To correct errors in this coming tidal wave of data, and to pinpoint which data the system needs to retain, will demand a sophisticated, powerful data architecture. A good example of such a system is in Cape Town, which has deployed a pilot to make better use of fixed asset data that the city collects. The project traces asset data back to source systems, assesses factors that impact data quality, cleanses the data, and applies algorithms to support better investment and maintenance decisions.

Data should be seen as a strategic asset, as it is key to the future innovation and success of an organisation. Organisations are increasingly appointing Chief Data Officers to drive an organisation's digital maturity through addressing legacy data issues, establishing data governance and execution of digital strategy.

Risk

Poor data quality, insufficient data leading to increased costs (e.g. rework, workarounds, manual processing, use of spreadsheets), missed opportunities and poor decision-making.

Recommendation

1.1 Provide a mandate and authority to an experienced individual who will be responsible to lead and drive the implementation of data governance across the organisation.

Agreed Action Plan

Management Response and Action Plan

Noted. Management accepts the recommendation identified in the report and will develop and implement a Data Governance Framework.

Action Owner

Murray Heke - Chief Information Officer.

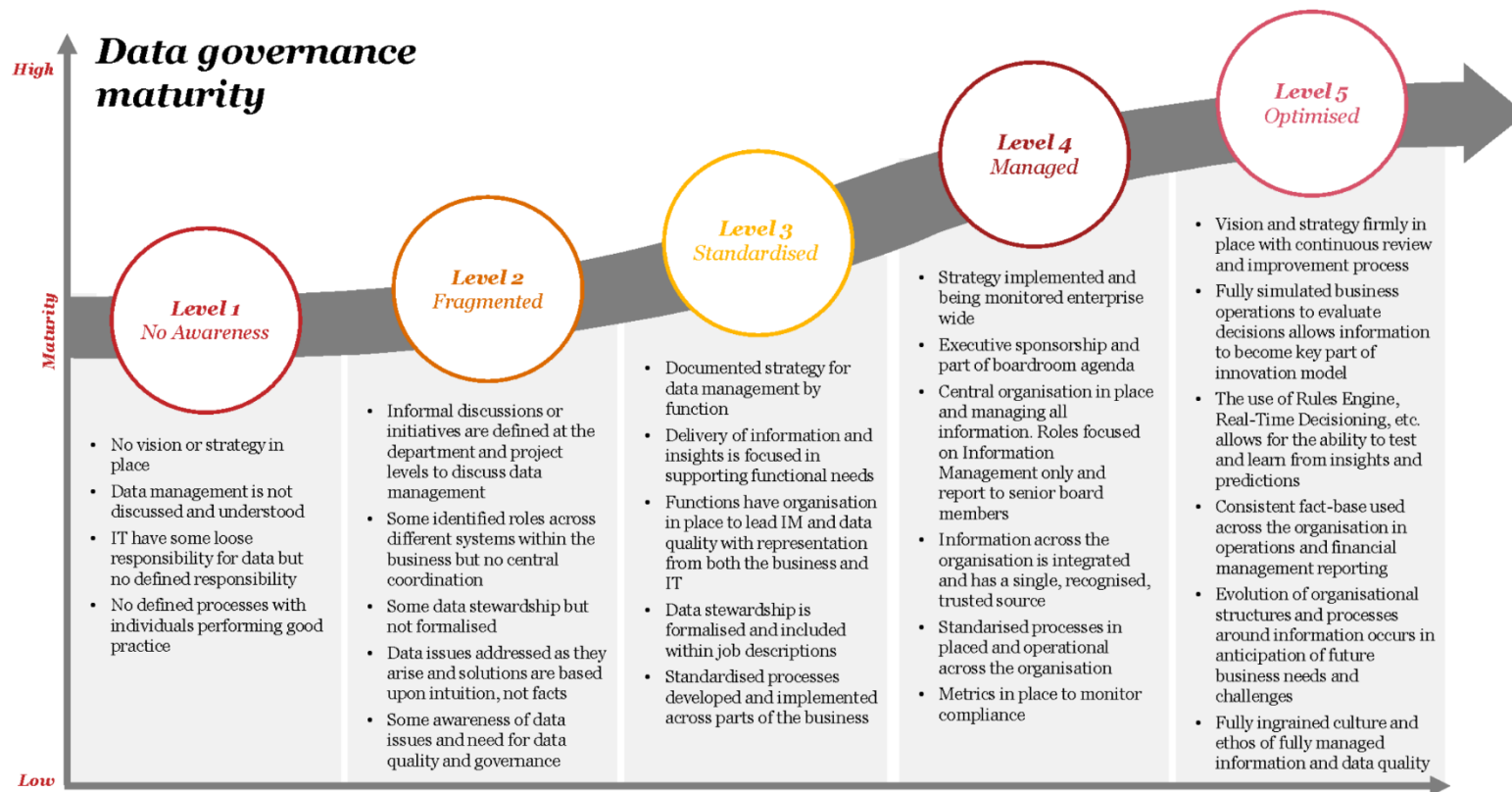
Target date

30 June 2021.

3.0 Data Governance

Assessing your maturity

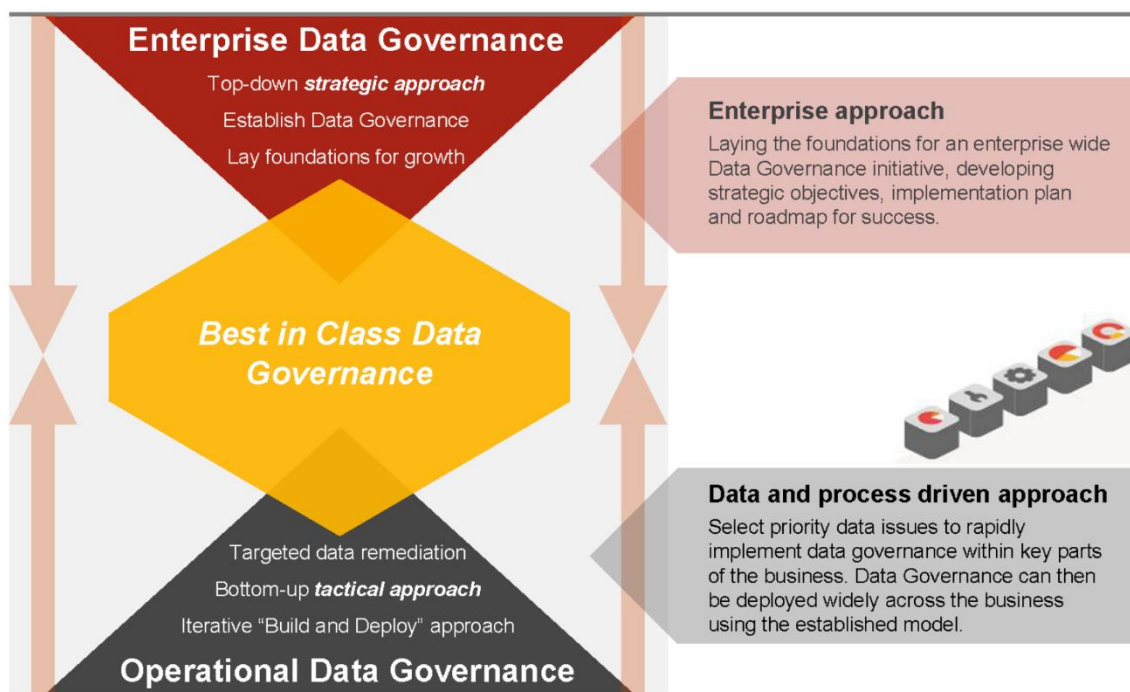
Below is a data governance maturity chart so you can assess your level of maturity and provide some focus. Most organization's would sit somewhere between Level 1 and 2. Based upon our work on the 10YP processes, HCC would also sit between Level 1 and 2.



3.0 Data Governance

Good practice implementation of data governance

The below model is seen as a good approach to successfully implementing data governance within an organisation. It structures the approach to data governance from both the top-down and bottom-up perspective to maximise the implementation of fundamental foundations across the organisation and allowing for 'quick wins' to be made on key data issues within business operations.



Smart Cities - Best in class data governance

Copenhagen: Collecting data with an eye to monetisation

Copenhagen's City Data Exchange (CDE) pilot deployed data collection that integrated preparations for the later layers of smart city data management – including monetisation.

To better understand how pedestrians and vehicles move through the city, the city collected multiple categories of data from multiple sources, including cell phones, wireless connections, camera images, traffic sensors, visual surveys and public transport ticket purchases. To encourage public support, the initiative only accepted data that had been fully anonymised by the data supplier, and it imposed strict and well-publicised limits on how this data will be used.

The initiative then provided tools to visualise the data in ways that support use cases for residents, businesses and the city government: personalised marketing, better located and planned stores, customised product and service offerings, reduced traffic congestion, more efficient use of public spaces, improved air quality and a better tourist experience.

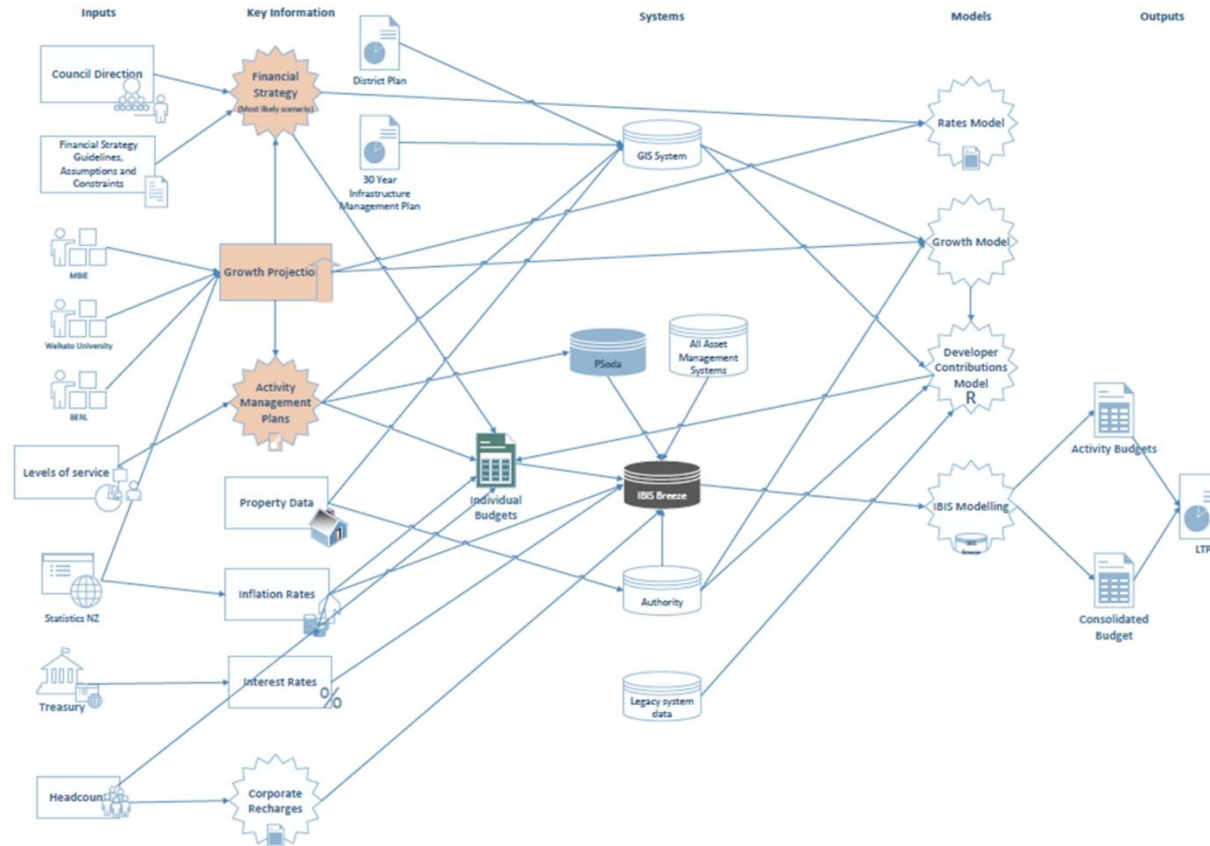
With learnings from this now-ended pilot, Copenhagen has joined with 19 other cities in Denmark to create a Regional Data Hub, which is fostering smart city initiatives intended to drive sustainable urban growth and help achieve the UN Sustainable Development Goals.

12

Appendices



Appendix I – Summary Data Schemas – With IBIS Breeze



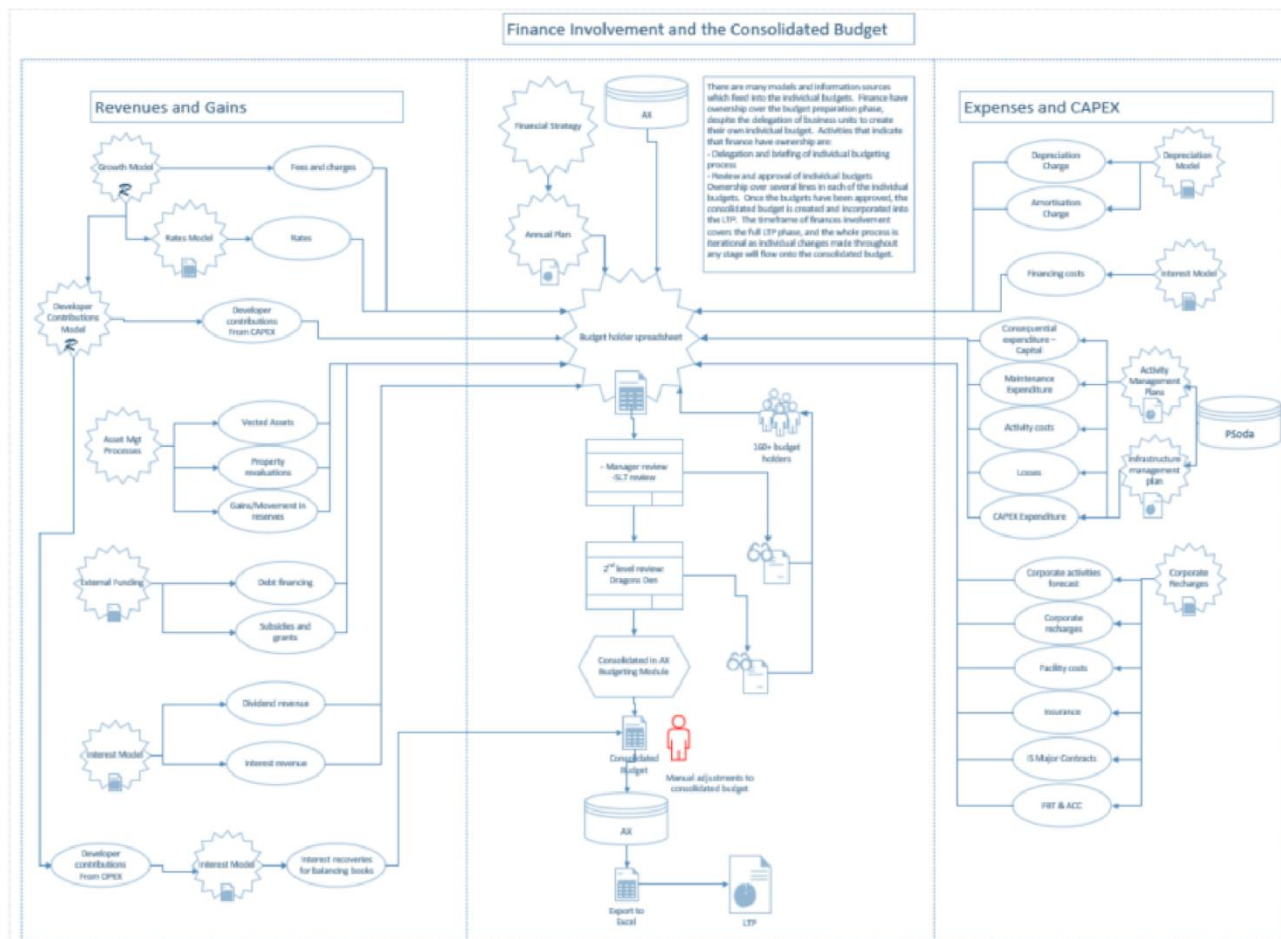
PwC

14

Item 9

Attachment 2

Appendix I – Summary Data Schemas – 2018-28 10YP process



PwC

15

Appendix II – Risk assessment framework

Risk Prioritisation Matrix

Impact

Level	Description
High	A significant weakness which could compromise Management's internal control.
Moderate	An issue which can undermine Management's internal control and should be addressed but with a lower priority than High.
Low	A weakness which does not seriously detract from the system of internal control but which should nevertheless be considered by Management.

Likelihood

Level	Description
High	Risk is likely or almost certain to happen (66-100%)
Moderate	Risk is possible to happen (36- 65%)
Low	Risk is unlikely or rarely will happen (0-35%)

Risk Matrix

Likelihood	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate
	Low	Moderate	High	
Impact				

Priority Rating

Level	Risk	Consequences of Risk Ratings
H	High	Requires immediate attention
M	Moderate	Requires attention/action underway within 3 months
L	Low	Requires attention/action underway within 6 months

Appendix II – Terms of Reference

Background

The long term plan (LTP), annual planning and reporting to the finance committee are all reliant on the same financial data sources and involve similar processes to put them together. They pull together data from a wide variety of sources across the entire Council and from external sources. It is vital that the underlying data that supports the information used in the preparation and ultimately the final output is timely, complete, accurate and valid in order for decision-makers to be able to place reliance on it.

HCC wants to bring together in one place a visual understanding of the flow of financial data that applies to the long term plan, annual plan and the finance committee papers.

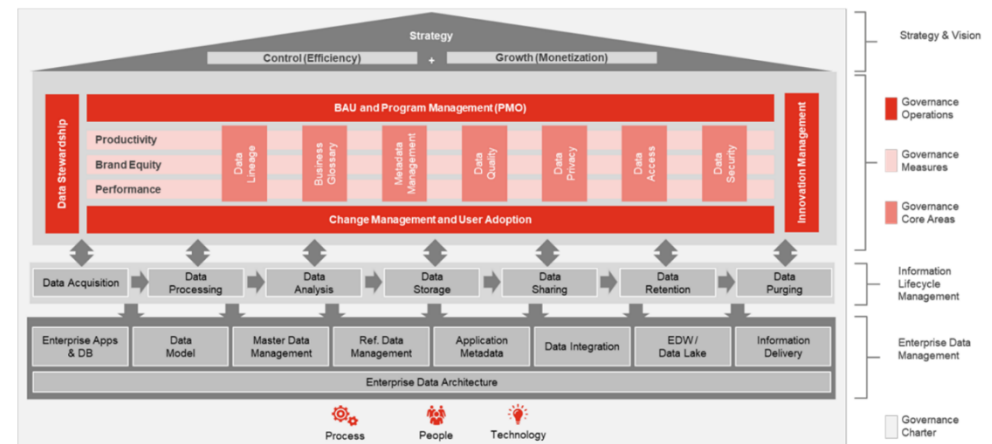
This engagement will enable management to leverage the knowledge and insights from the visualisation of the source and flow of financial information for the long term plan and related financial documents. This will lead to the ability to improve processes through the identification of inefficiencies, bottlenecks and potential lack of controls. It will also assist in determining the impact of a change in the data input(s).

We are therefore using the key financial planning and reporting processes as a use case for identifying where HCC can improve in relation to data governance. The findings from this engagement, where applicable, will be applied across the wider organisation.

Opposite is PwC's Data Governance model. The particular focus for this engagement is on the core governance areas of data lineage, data stewardship, data access and data quality.

There are two other related internal audit engagements that complement this work being:

- Psoda data (this will be a deep dive into the data quality within Psoda)
- Forecasting and Modelling (this will focus on growth forecasting and the quality/agility of the models that are applied to the LTP).



Sponsor

The Hamilton City Council (HCC) Executive Sponsor(s) for this engagement will be David Bryant, General Manager Corporate and Jen Baird, General Manager Growth.

Objective and scope

The objective of this engagement is to provide HCC with a visualisation (data schema) that will be used to identify improvements to key financial planning/reporting processes and aid in improving data governance through increased understanding and knowledge of key data and how it flows through the organisation.

Appendix III – Terms of Reference

Scope limitations

The scope encompasses the financial (numbers) data input flow from source to final outputs (being the long term plan/annual plan/finance committee reporting).

We are not assessing the:

- sensitivity analysis
- strategic data (strategies, plans, policies)
- non- financial performance measures (separate internal audit engagement)
- quality of the models (separate internal audit engagement)
- testing the operational effectiveness of any controls identified.

Our assignment does not constitute a review, audit, or assurance engagement as defined in the standards issued by the External Reporting Board. Accordingly, this engagement is not an assurance engagement, nor is it intended to, and will not result in, the expression of an assurance, audit or review opinion, or the fulfilling of any statutory audit or other assurance requirement.

Approach

We will start with a kick-off meeting with key HCC staff to be involved during this internal audit. This will enable us to communicate the:

- scope of work
- benefits and outputs
- approach and related time and information requirements.

Our approach to assessing the data governance practices within the financial planning/reporting process will involve:

Data Schema

Creating an overall high level data schema visualisation (data lineage map) using the 2018-28 L base document.

This will involve:

- interviews with all the stream leads (General Managers (or delegate), Financial Controller)
- mapping the data to source
- identification of the time taken to:
 - produce the outputs
 - receive the source data
 - update the source data
 - transform the data (whether at source or at any point throughout the dataflow)
- identifying the system integration points and documenting the controls in place over the transfer of data (interface controls and any manual reconciliations)
- documenting the dependencies

Data lineage mapping can be performed on different levels of detail. We propose to describe on conceptual level, which is the highest level of detail (as shown below). On this level, you usually map such components as:

- business processes
- applications, including reports and sources
- data sets.

To this we will add:

- timeline information (as described above)
- system integration controls
- dependencies



Appendix III – Terms of Reference

Data governance elements

1. For each major data component create an inventory of:
 - data stewardship – data owner, data stewards, risks
Note: the expectation is that this is focused on the stewards of the individual components (as it currently is), rather than a steward with end-to-end responsibility
 - data lineage – add data complexity,
 - data security – access, (change management, version control – of the outputs only)
 - data quality – completeness, accuracy, validity, timeliness, external review.
2. create a RACI matrix for all roles and responsibilities.
3. identification of areas for improvement along with recommendations.

This will involve:

- interviews with those staff who collate, control and use the data
- inspecting access rights to applications
- walkthrough/sight data quality controls
- reading relevant documentation including the 2018-28 LTP, Promapp documents, policies and procedures, feedback/lessons learnt from the 2018-28 LTP process

Deliverable

The deliverables will be a report including:

- A data schema (data lineage map) visualisation with associated information
- RACI matrix of responsibilities
- Areas of improvement and associated recommendations.

At the conclusion of the fieldwork, we will workshop the findings with management and prepare a written report of the inventories and our findings identified during the assessment (both strengths and weaknesses) along with recommendations for improvement where weaknesses are identified.

The report will be issued in draft to the engagement sponsor for comment, followed by a final report once all comments have been received, agreed, and incorporated within the report.

Terms of Reference Addendum

Background

Our original Terms of Reference (ToR) was dated 24 October 2019. This addendum adds an additional item to that scope. The original scope focussed on the 10 year plan process that was in place at the time the 2018-28 10 year plan was prepared. Since that time, HCC has made a number of changes in systems and processes to improve the process for the 2021-31 10 year plan.

Objective and scope

In addition, we will assess the current and intended process and systems for delivering the 2021-31 10 year plan and highlight the changes made from the 2018-28 10 year plan data schema.

Deliverable

The deliverables will now include in addition to the original ToR:

- An updated data schema (data lineage map) visualisation with associated information

At the conclusion of the fieldwork, we will workshop the findings with management and prepare a written report of the inventories and our findings identified during the assessment (both strengths and weaknesses) along with recommendations for improvement where weaknesses are identified.

© 2020 PricewaterhouseCoopers New Zealand. All rights reserved. PwC refers to the New Zealand member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details

Council Report

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Morva Kaye
Authoriser: Tracey Musty
Position: Internal Auditor
Position: Financial Controller
Report Name: 2020/21 Internal Audit Update

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

- To inform the Strategic Risk and Assurance Committee on Internal Audit progress to 18 November 2020.

Staff Recommendation - *Tuutohu-aa-kaimahi*

- That the Strategic Risk and Assurance Committee:
 - receives the report; and
 - notes the progress against the Hamilton City Council Internal Audit Plan.

Executive Summary - *Whakaraapopototanga matua*




- The Council's internal audit function incorporates engagements delivered by PricewaterhouseCoopers (PwC) and internal Council staff. This report provides an update on progress by internal Council staff.
- Staff consider the decision in this report to have low significance and that the recommendations comply with the Council's legal requirements.

Discussion - *Matapaki*

- Progress against the work programme is as follows:

Audit	Status
Contract management This review covers checking a sample of contracts to ensure that the contracts have been set up and managed correctly. A scope of works will be agreed with management during the third quarter of the 2020-21 year.	
Payroll This work has been completed. Summary report attached.	

KEY

	Completed or on track
	Currently behind, expect to get back on track
	Permanently delayed

Financial Considerations - *Whaiwhakaaro Puutea*

6. This is a regular operating activity funded through the 2018-28 10 Year Plan.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

7. Staff confirm that the matters in this report comply with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

8. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
9. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
10. There are no known social, economic, environmental or cultural considerations associated with this matter.

Risks - *Tuuraru*

11. Any known risks have been identified relevant to the matters in this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

12. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have low significance.

Engagement

13. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Payroll assessment SRAC November 2020

Hamilton City Council

Internal Audit Assessment

Payroll 2020

November 2020

Sponsor

Dan Finn

People, Safety and Wellness Manager

Background

Hamilton City Council (Council) use PS Enterprise (PSE) for its human resources and payroll system.

The payroll system is due to be replaced in the 2021/22 financial year.

The payroll team comprises two permanent employees and a part-time team leader that are responsible for the maintenance of employee master data and the payment of weekly and fortnightly payrolls.

At 30 June 2020, Council's headcount was 1,240 employees comprising 934 full-time employees (FTE) and 155 fulltime equivalent employees.

Summary of what payroll staff do

- they manually enter 400 timesheets (hours worked, overtime and allowances) for the weekly payroll
- they manually enter 50 timesheets (overtime, allowances and other payments e.g. mileage) for the fortnightly salaries payroll
- they process final pays for employees who are leaving
- they enter expense claims submitted by Elected Members

Scope

1. Follow-up the implementation of the recommendations in PwC's 2017 Payroll Assessment report.
2. Assess the design effectiveness of payroll processes and controls over the processing of pay runs in accordance with Council policies and procedures.
3. Analyse payroll masterdata, payroll transactions and annual leave data to determine higher risk items for further procedures.
4. Assess how high annual leave balances are managed.
5. Understand how PSE (PS Enterprise)/payroll procedures have addressed compliance with the Holidays Act.

The scope is limited to:

- payroll masterdata and annual leave balance analysis at a point of time
- payroll transactions analysis covers the 2019/20 financial year (1 July 2019 – 30 June 2020 (to closest pay periods)).

Key findings

Fixed term contracts

1. When logging into 'Your View' in PSE a manager sees a 'dashboard' (Appendix 1) which shows employees on fixed term contracts expiring in the next two months. This is the signal for the manager to review the contract.

One fixed term contract out of 10 contracts reviewed, revealed that while an employee's fixed term contract ended on 29 May 2020, the employee is still submitting weekly timesheets in November 2020. When this was brought to HR's attention they immediately rectified.

HR should review fixed term contracts that have been extended multiple times, to determine that the reason is 'genuine'. Three fixed term contracts that extended for more than two years, used the reason for the temporary nature of employment as 'subject to the funding through the Infrastructure Alliance Contract' or 'funding available from the Ministry of Education'.

In a recent case *Morgan v Transit Coachlines Wairarapa Ltd [2019] NZ EmpC 66*, the Employment Court found:

In determining whether a fixed-term was entered into for genuine reasons on reasonable grounds it is relevant to consider:

- *whether the stated reasons were sincerely held; and*
- *whether the stated reasons were for proper purposes.*

Financial uncertainty related to ordinary business risk was not a genuine reason based on reasonable grounds for entering fixed-term agreements. Even if financial insecurity was a genuine reason for entering the agreements, it was not based on reasonable grounds.

Overtime

2. Overtime paid to waged employees can result from callouts and the need to complete a job. Total overtime paid to 183 waged employees in 2019/20 was \$605k. 36% of this overtime was paid to 12 employees who averaged more than 10 hours overtime per week.

Fatigue risk factors such as working long hours, night work and high work demands can put employees at risk of an accident, particularly as they are driving trucks and using machinery.

Two employees worked significantly high overtime hours in 2019/20

- an average of 15.2 hours overtime every week for 49 weeks
- an average of 15.9 hours overtime every week for 47 weeks

Overtime should be reviewed in relation to work place safety and the welfare of staff without disincentivising the ability of employees to earn overtime.

Data entry error resulting in overpayment

3. When processing the 'cashing up of annual leave' for an employee, payroll used an incorrect payroll 'element' (code). The error was identified later in the month and the payroll 'element' was corrected.

To do this type of correction in PSE, payroll staff manually enter a negative number of hours against the incorrect payroll 'element' and then have to manually enter a negative dollar value. In this instance they entered a positive dollar value which resulted in a \$6,023 overpayment to the employee.

The controls in place were:

- The first payroll officer entered the correcting payroll 'elements' in the payroll system and a test pay was run to check it was done correctly.
- The second payroll officer checked the data entry against the test pay.
- A payroll officer review of the *Gross Differences* report showed an 89% change in gross pay for this employee from the previous payrun. 'Leave buy out' was handwritten on the report as the reason.
- The Payroll Team Leader signed off the *Gross Differences* report.

The data entry error was not picked up by any of these controls.

This does not appear to be a systemic problem. But automating some of this process should be on the list of requirements for the new payroll system.

Leave Management Policy

4. Council's *Leave Management* policy allows employees in exceptional cases to 'cash up' their annual leave. A small number of employees annually cash up annual leave. While this is legal, it may not be good for the control environment or staff welfare.

The *Leave Management* policy states that 'no employee shall have a leave balance of more than 280 hours at any time'.

When logging into 'Your View' a manager also sees employees with high annual leave balances over 280 hours on a 'dashboard' (Appendix 1).

Thirteen employees identified had annual leave balances over 280 hours.

Due to Covid-19, payroll officers estimate that more than 10% of employees cancelled approved annual leave. It is not possible to confirm that employees with high annual leave balances had intended to take leave this year.

Annual leave is recorded as a liability in Council's Balance Sheet (\$6.6m as at 30 June 2020). It is important that managers actively manage employees taking leave and that this has been approved through 'Your View' correctly.

Management comment: People Safety and Wellness will be leading an audit to ensure that leave taken is booked and approved over the annual shutdown.

Access to documentation

6. To complete the Payroll assessment requests were made for documentation that showed a manager had the appropriate delegation to approve new appointments, salary changes, secondments, regrading of roles etc.

HR do not retain emails from managers approving the above in a format that is readily available.

Management comment: Automated process flows to be investigated which would have appropriate signature and delegation to provide suitable record keeping.

Electronic signature

7. Letters to potential and current employees from HR are all signed using the People Safety and Wellness (PSW) Manager's electronic signature. There is no record kept in a register of when the signature is used, for the PSW Manager to review.

Managers who authorise offers of employment and variations to terms and conditions to employees should also be responsible for signing the letters.

Management comment: PSW will transition to approving managers providing the appropriate signature for offers of employment, variations to terms and conditions and other employment matters affecting individuals.

Conclusion

Despite system limitations the Payroll Officers do a great job under real time pressure every week and complete the pays on time. The new payroll system needs to support their efforts and opportunity to add value and focus less on data entry. It is their collective aim to do so.

Follow-up of PwC Payroll Assessment (23 February 2017) findings

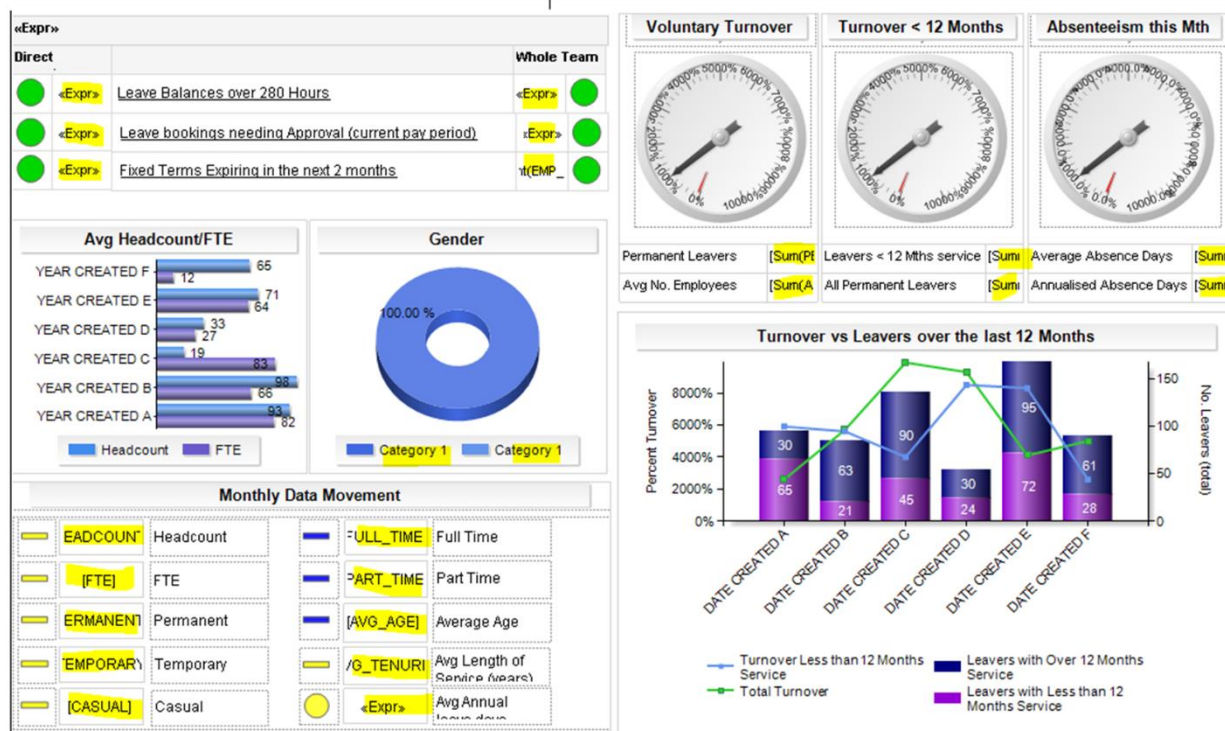
Organisation Improvement Register listing			Internal audit assessment			Management response		
PwC Ref	Issue (finding)	Closure comment	Follow up timing	Risk rating	Update	Revised due date	Comments	Assigned owner
Open or in progress issues								
1.	Access controls over the PS Enterprise system requires improvement		Apr 2021	High	There are no guidelines or formal process to determine who should have access to PSE and the type of access they should have. The last user access review was done in March 2020, evidence was not retained. Currently 45 users have access to PSE e.g. 8 IS Superusers, 9 Fujitsu, 1 Finance (for confirming bank account no for expense claims).	Jan 2021	Process set up to be reviewed quarterly.	Dan Finn
2.	Multiple employee IDs are setup for a single employee and there is no monitoring of excessive working hours		Feb 2022	High	Guidelines to safeguard against H&S risks have not been introduced for employees with multiple IDs. The new payroll system is looking at options for a single employee ID with multiple unique job IDs.	Dec 2021	Introduction of new payroll system.	Dan Finn
3.	Hash totals are not used within the online banking system for payments and excessive users have access to the payment file	Payroll email the hash totals for each payrun to Finance, who compare the email with the bank file to make sure the hash totals are the same.	Apr 2021	High	The Payroll Team Leader relies on Payroll Officers to check employee payments back to source documentation. The Payroll BNZ network folder is also the location for both Payroll and HR PSE modules. 34 users have access to the payment file which includes HR, Payroll, IS, Fujitsu, Finance and others. The Payroll BNZ network folder should have restricted access.	Jan 2021	Process to be reviewed.	Dan Finn

Organisation Improvement Register listing			Internal audit assessment			Management response		
PwC Ref	Issue (finding)	Closure comment	Follow up timing	Risk rating	Update	Revised due date	Comments	Assigned owner
	Open or in progress issues							
4.	On-line leaver form processing requires improvement		Apr 2021	Moderate	The process for a line manager being responsible for notifying HR of an employee leaving has not been formally documented. A system notification has not been implemented to raise an alert if mandatory fields are not completed in the Notification of Exit Form. Employees can currently submit the form without completing all mandatory fields, but the form is not received by HR.	Mar 2021	New process is being developed.	Dan Finn
5.	A lack of independent monitoring over master data changes and allowances		Feb 2022	Moderate	The Payroll Team Leader signs off the Audit Report and the Gross Differences Report and checks changes in bank account numbers, IRD numbers and changes in hourly rates. The Audit Report doesn't consistently show changes to an employee's salary. This report needs to be reconfigured in the new payroll system.	Dec 2021	Introduction of new payroll system.	Dan Finn
6.	Timesheet approval for waged employees requires improvement		Feb 2022	Moderate	No analysis has been done of waged employees working standard hours and being employed on a salary basis. The new payroll system will look at options for electronic timesheets.	Dec 2021	Employees have to agree to moving to a salary and some choose not to.	Dan Finn
	Closed issues							
7.	December wages are based on budgeted rosters not actual time worked	Payroll team will be working through the Christmas shutdown break so staff will only be required to provide actual timesheets.		Low				

Organisation Improvement Register listing			Internal audit assessment			Management response		
PwC Ref	Issue (finding)	Closure comment	Follow up timing	Risk rating	Update	Revised due date	Comments	Assigned owner
	Closed issues							
8.	Fewer checks are performed for special pay runs	Payroll do not perform special pay runs unless there are exceptional circumstances.		Low				

Appendix 1

The dashboard a manager will see in Your View: the highlighted areas will be populated with values.



Council Report

Item 11

Committee: Strategic Risk and Assurance Committee

Date: 04 December 2020

Author: Candice Swanepoel

Authoriser: Tracey Musty

Position: Business Performance Accountant

Position: Financial Controller

Report Name: Standard and Poor Credit Rating

Report Status	<i>Open</i>
----------------------	-------------

Purpose - Take

1. To inform the Strategic Risk and Assurance Committee on the Annual Credit Rating Report prepared by Standard and Poor (S&P) based on the year ending 30 June 2020.

Staff Recommendation - Tuutohu-aa-kaimahi

2. That the Strategic Risk and Assurance Committee receives the Standard and Poor Credit Ratings report.

Executive Summary - Whakaraapopototanga matua

3. S&P Global Ratings (previously Standard and Poor's) is the credit rating agency used by Hamilton City Council (HCC) to independently review and issue a credit rating on HCC debt.
4. These credit ratings assess the ability of an organisation to repay debt, by meeting interest payment obligations, as well as the likelihood of default.
5. Lending facilities utilise these credit ratings to determine the cost of debt being borrowed. A higher rating indicates that an organisation is a lower lending risk. This results in lower interest rates when lending.
6. S&P completed their review for HCC and provided the key indicators of HCC's financial health on 30 September 2020.
7. S&P affirmed HCC's long-term foreign-currency and local-currency ratings at AA-, and short-term rating at A-1+. The outlook remains stable.
8. The published Rating Action Commentary (RAC's) can be found in **Attachment 1**.
9. S&P have recently released a report assessing the New Zealand Institutional Framework for Local and Regional Governments. The insights from their analysis can be found in **Attachment 2**.
10. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Financial Considerations - Whaiwhakaaro Puutea

11. This is a regular operating activity funded through the Long Term Plan.

12. There are no financial implications in relation to decision as the rating remains unchanged with a stable outlook.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

13. Staff confirm that this matter complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

14. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
15. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.
16. The recommendations set out in this report are consistent with that purpose.
17. There are no environmental, social or cultural wellbeing implications identified in the formulation of this report.

Risks - *Tuuraru*

18. There are no known risks associated with this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

19. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation in this report has/have a low level of significance.

Engagement

20. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - S&P Ratings Report - 30 September 2020

Attachment 2 - S&P Public Finance System Overview

Research Update:

Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

September 30, 2020

Overview

- We forecast a large economic shock in New Zealand during 2021 because of the COVID-19 pandemic. When combined with Hamilton City Council's (Hamilton) large capital expenditure program in 2021, the shock will result in large after-capital account deficits and elevated debt levels. We expect these to improve shortly after as the economy starts to recover and the council delivers its capital program.
- The council is addressing infrastructure renewals, upgrades, and past deferrals, to cater for its rapidly growing population and economy. Its management, liquidity, and New Zealand's excellent institutional settings support our ratings.
- We are assigning our 'AA-' long-term foreign-currency and local-currency ratings and 'A-1+' short-term ratings to Hamilton.
- The stable outlook reflects our expectation that Hamilton's financial management will improve the council's budgetary performance and stabilize its debt burden after the economy recovers from the COVID-19 pandemic, and the council delivers its large capital program.

PRIMARY CREDIT ANALYST

Rebecca Hrvatin
Melbourne
(61) 3-9631-2123
rebecca.hrvatin
@spglobal.com

SECONDARY CONTACT

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker
@spglobal.com

Rating Action

On Oct. 1, 2020, S&P Global Ratings assigned its 'AA-' long-term foreign currency and local-currency issuer credit ratings and 'A-1+' short-term ratings to Hamilton City Council, a New Zealand local government. The outlook on the long-term ratings is stable.

Outlook

The stable outlook reflects our expectation that Hamilton's financial management will improve the council's budgetary performance and stabilize its debt burden after the economy recovers from the COVID-19 pandemic, and the council delivers its large capital program.

www.spglobal.com/ratingsdirect

September 30, 2020 1

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

Downside scenario

We could lower our rating on Hamilton if it allows its financial position to deteriorate significantly from our base case in the form of higher, more prolonged deficits, which would increase debt. This could occur, for instance, if capital expenditure increased more than we expect, or if the council's revenues don't rise in line with our forecasts. This scenario could also cause us to revise our assessment of the council's financial management.

Upside scenario

There could be upward pressure on our ratings if the council's budgetary performance improved with lower after-capital account deficits. This would result in the rise of debt subsiding earlier, and at a lower level, than we currently expect.

Rationale

We forecast a large economic shock in New Zealand during 2021 because of the COVID-19 pandemic. Hamilton has embarked on a relatively large capital expenditure program, of about NZ\$2 billion over the next decade, to build fundamental facilities and services such as water and road infrastructure for its rapidly growing population and economy. Because of this we project it will deliver a large after-capital deficit in 2021 with growing debt levels before debt stabilizes relative to operating revenues.

We expect the council's strong economy and financial management, and liquidity policies will continue to support the rating and reduce the risks associated with its weakening financial position during the COVID-19 pandemic.

Hamilton's strong economic outlook, financial management, and New Zealand's institutional framework support the ratings

The institutional framework within which New Zealand local governments operate is a key factor supporting Hamilton's credit profile. We believe this framework is one of the strongest and most predictable globally. It promotes a robust management culture, fiscal discipline, and high levels of disclosure.

Hamilton's financial management supports our ratings. Its budgets are credible and the budgetary process is well established, with the council preparing 10-year long-term plans every three years, and annual plans in the intervening years, in line with New Zealand requirements. The council's treasury management policy sets prudent limits on borrowing, liquidity, and interest-rate risk. Hamilton only borrows in local currency, in accordance with legislation. The council focuses on monitoring its debt to revenue as a prudent response to its large capital expenditure program in the next decade.

To better achieve capital delivery than in the past, the council actively monitors the status and delivery of its capital projects, captured in its Capital Monitoring Report, which the council reviews and approves every six weeks. Hamilton actively reprioritizes its delayed or deferred capital expenditure through a separate infrastructure strategic management team, which incorporates the project management office, and works with its finance team. However, we still expect it to under deliver its capital expenditure compared to its budget because of delays related to the

www.spglobal.com/ratingsdirect

September 30, 2020 2

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

COVID-19 pandemic, planning and national environmental policies, and contractor shortages, which are common in New Zealand.

Like its domestic peers, Hamilton is governed by an elected group of councilors, led by a mayor. Local elections were held in October 2019 and Paula Southgate is a newly appointed mayor. We don't anticipate any deviation from the current strategic direction of the council with this change. Day-to-day management is delegated to a full-time chief executive.

As a response to the global pandemic, the council announced a 12-point recovery plan in March 2020. The total fund allocation is NZ\$3.4 million; of which NZ\$1.2 million is budgeted for support to ratepayers, businesses, and community groups hit hardest by the pandemic. The focus of the stimulus is mainly on community welfare and to support local businesses recover from the economic shock of lockdowns and travel restrictions.

The council adopted its 2020-2021 annual plan in August 2020. It implemented a rate increase of 2.8%, which was lower than it originally proposed in the 2018-2018 long-term plan. The reduction is in response to the COVID-19 crisis-induced hardship experienced by the community.

Hamilton's economy has suffered through the COVID-19-induced recession, being one of the worst hit cities in the country. The local economy contracted by about 2.2% of GDP per capita in 2020 compared with the wider Waikato Region at 1.4%. Annual consumer spending declined by 4.5% as many households were forced indoors and outside of the Hamilton urban center throughout the lockdown period.

However, we believe the local economy will bounce back to pre-COVID-19 levels relatively quickly because Hamilton is the nation's third-fastest growing urban area behind Auckland and its surroundings. We anticipate Hamilton's economic growth to be in line with the national average as it addresses infrastructure development and services required as the population surges. Hamilton's population grew about 2.2% in 2019 compared with national growth of 1.6%. About 48% of Hamilton's population is younger than 30.

The city region historically relied on the dairy industry for the majority of its income and associated jobs, but employment is becoming more diversified. Research, education, and services are expanding as the population grows. Construction activity has softened recently, with residential building consents dropping marginally by 1.4%, compared with the same time last year. We believe the ongoing large Greenfield projects, such as Peacocke and Rotokauri, will contribute to the recovery of the economy, as well as add about 20,000 homes in the coming decade to meet residential housing demand.

Increased capital investment resulting in large after-capital deficits and elevated debt levels; liquidity remains strong, aided by access to the New Zealand Local Government Funding Agency

We expect Hamilton to continue to sustain large after-capital account deficits over the coming year as it delivers its capital expenditure program. We anticipate the council will incur modest after-capital account deficits in 2022 and 2023, averaging about 8%, after deficits peak at about 29% in 2021. Hamilton is experiencing high population growth, resulting in the council delivering a large amount of infrastructure to support residential housing growth. The council outlined its capital expenditure plan of about NZ\$2 billion for the 10 years in its 2018-2028 long-term plan. The majority of capital works for the next few years are attributable to the Peacocke Greenfield residential development, wastewater capacity and water treatment plant upgrades, and transport and road projects such as the Rotokauri Transport Hub and new Hamilton Ring Road.

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

This level of capital expenditure is higher than what the council delivered in the past, and we believe it will be difficult for the council to fully achieve it on schedule due to national capacity constraints and New Zealand Transport Agency grant delays. We expect Hamilton, like many of its domestic peers, to under-deliver on the rollout of its infrastructure plans. As such, we expect the council to underspend its capital expenditure by between 20% and 30% from 2021 to 2023 compared with its budget. The council has submitted 11 "shovel-ready" projects for central government funding as part of the Crown's economic stimulus plan after the COVID-19 pandemic. To date, the Crown has confirmed NZ\$16 million funding toward the development of cycle ways.

Supporting its financial position are the council's operating surpluses, which will average more than 20% of operating revenues from 2019 to 2023. While COVID-19 has affected the council's 2021 budget in terms of additional expenditure to support economic recovery, the council forged ahead with a general rate increase of 2.8%. We expect operating expenses to increase in fiscal 2021 and beyond because of higher consultant and engineering costs associated with the council's large capital program. Further, we believe the council has a high level of flexibility within its budget to increase rates and user charges or defer some nonessential capital expenditure to improve financial outcomes.

Our large forecasted after-capital account deficits reflect the council's decision, like its domestic peers, to fund its large infrastructure program through intergenerational equity. This involves funding infrastructure with long-term borrowing rather than through immediate rate increases to spread the cost of such infrastructure to future generations who will enjoy its benefits. This strategy, combined with the council's prefunding of debt maturities up to 12 months in advance, means total tax-supported debt will reach about 256% of operating revenues in fiscal 2023, up from 173% as of fiscal 2019. This makes Hamilton one of the most indebted councils in New Zealand that we rate. With elevated debt levels, we anticipate interest expenses to average about 7.3% of operating revenues between 2020 and 2022. We view Hamilton's contingent liabilities as very small, with little uninsured exposure to natural disasters or off-balance-sheet council-controlled organizations.

Hamilton's liquidity coverage is supported by its unutilized committed facilities of NZ\$60.5 million and its access to the New Zealand Local Government Funding Agency (LGFA). Hamilton's debt service coverage ratio is about 113% of upcoming debt maturities and interest costs. The council has NZ\$12.5 million of commercial paper and NZ\$50 million of debt maturing in 2021. Further, we consider that access to the LGFA provides Hamilton with strong access to a well-established source of external liquidity. In our view, the LGFA benefits from an extremely high likelihood of extraordinary central government support, and has helped Hamilton to lengthen its maturity profile and reduce its interest expenses compared to the past.

Key Statistics

Table 1

Hamilton City Council--Selected Indicators

MIL. NZ\$	2019	2020e	2021bc	2022bc	2023bc
Operating revenues	237	247	247	257	267
Operating expenditures	182	201	212	196	202
Operating balance	55	46	35	61	65
Operating balance (% of operating revenues)	23.3	18.6	14.3	23.6	24.4
Capital revenues	52	78	81	84	83

www.spglobal.com/ratingsdirect

September 30, 2020 4

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

Table 1

Hamilton City Council--Selected Indicators (cont.)

MIL. NZ\$	2019	2020e	2021bc	2022bc	2023bc
Capital expenditures	140	177	212	170	180
Balance after capital accounts	(34)	(53)	(96)	(26)	(32)
Balance after capital accounts (% of total revenues)	(11.7)	(16.4)	(29.1)	(7.7)	(9.1)
Debt repaid	87	30	50	60	70
Gross borrowings	117	158	146	86	102
Balance after borrowings	(4)	75	0	0	0
Tax-supported debt (outstanding at year-end)	411	528	624	650	682
Tax-supported debt (% of consolidated operating revenues)	173.4	214.3	252.8	253.0	255.9
Interest (% of operating revenues)	8.1	7.4	5.9	8.5	8.3
National GDP per capita (single units)	62,023	62,615	62,175	66,305	68,886

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

Ratings Score Snapshot

Table 2

Ratings Score Snapshot

Key Rating Factors

Institutional Framework	1
Economy	1
Financial Management	2
Budgetary Performance	3
Liquidity	2
Debt Burden	5
Rating	AA-

Key Sovereign Statistics

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

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

Related Criteria

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

Related Research

- COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020
- Ratings History List: Asia-Pacific Local And Regional Government Ratings Since 1975, May 29, 2020
- COVID-19's Effects Will Pressure New Zealand Council Ratings, May 24, 2020
- New Zealand 'AA/A-1+' FC And 'AA+/A-1+' LC Ratings Affirmed; Outlook Positive, May 3, 2020
- COVID-19: Emerging Market Local Governments And Non-Profit Public-Sector Entities Face Rising Financial Strains, April 6, 2020
- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Nov. 11, 2018

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

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

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

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

Ratings List

New Rating Action
Hamilton City Council
Issuer Credit Rating AA-/Stable/A-1+

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

Research Update: Hamilton City Council Assigned 'AA-/A-1+' Ratings; Outlook Stable

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Public Finance System Overview:

New Zealand's Institutional Framework For Local And Regional Governments

October 28, 2020

Institutional Framework Assessment:

Extremely predictable and supportive
Very predictable and well-balanced
Evolving but balanced
Evolving and unbalanced
Volatile and unbalanced
Very volatile and underfunded

Trend:

Improving
Stable
Weakening

PRIMARY CREDIT ANALYST

Rebecca Hrvatin
Melbourne
(61) 3-9631-2123
rebecca.hrvatin
@spglobal.com

SECONDARY CONTACTS

Martin J Foo
Melbourne
+ 61 3 9631 2016
martin.foo
@spglobal.com

Anthony Walker
Melbourne
+ 61 3 9631 2019
anthony.walker
@spglobal.com

Major Factors

Strengths	Weaknesses
<ul style="list-style-type: none"> - Extremely predictable system with changes flagged well in advance. - Highly transparent and accountable system with strong disclosure and reporting standards. 	<ul style="list-style-type: none"> - Large infrastructure responsibilities, which increase the sector's borrowing levels and weigh on councils' revenue and expenditure balance compared with similar systems.

Recent Developments

New Zealand has been highly successful in containing the COVID-19 pandemic compared with its global peers. This has allowed internal movement and the domestic economy to open much earlier than anticipated at the onset of the pandemic.

www.spglobal.com/ratingsdirect

October 28, 2020 1

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

General property rates--New Zealand local governments' key revenue stream--remains generally supportive of the sectors' financial outcomes. New Zealand local governments nevertheless are likely to report temporarily weaker budgetary performance during fiscal 2020 and 2021. This reflects the COVID-19 pandemic and associated restrictions on commerce and movement. We expect varying effects for local governments, with those significantly exposed to the tourist industry, international migration, or commercial activities likely to experience large, but temporary, downturns in their fees and charges. Rural local governments meanwhile are less likely to be financially affected. All local governments are seeking cost savings, such as reducing staff costs, delaying new hiring, and reducing travel and training expenses. We forecast that all rated local governments will achieve strong operating balances throughout the pandemic.

After-capital account deficits and debt levels are rising. Although projecting reduced revenues, most local governments are maintaining essential services and supporting economic recovery. Local governments are also investing in infrastructure to stimulate the economic recovery, keep up with growth pressures, and to meet changing national standards. Some local governments have increased the size of their capital works program, namely in roading and "three waters"--drinking, storm, and waste water--infrastructure. This has led to an increase in debt funding. Local governments generally have endeavored to reconcile the competing pressures of lower fee revenue, weaker rates increases during a time of economic stress, and the desire to support local economies by borrowing more than previously anticipated.

Regardless of the COVID-19 pandemic, underlying reforms are still taking place. The New Zealand government (Crown) is proposing significant reforms to the local government three waters infrastructure. The key reform is the establishment of aggregated water utilities that are structurally separated from local governments. This reform seeks to strengthen regulations and elevate some of the funding pressures that many local governments face by shifting the responsibility of the three waters infrastructure off their balance sheets. The three waters infrastructure accounts for a large proportion of the local government sectors infrastructure responsibilities and debt levels.

In 2020, a "Water Services Regulator Act" established a new water regulator, Taumata Arowai, as part of the three waters reform. We expect the reform program to take place over the next three years. It will attempt to address persistent systemic issues facing the three waters infrastructure by stimulating investment and improving quality as well as reforming current water service delivery into larger-scale providers. It aims to realize significant economic, public health, and environmental benefits over the longer term.

S&P Global Ratings doesn't consider these proposed reforms to be a risk to New Zealand's extremely predictable and supportive institutional framework at this stage. Details are still being worked through, but we believe the reforms could support the New Zealand local government framework.

Predictability: System Flags Changes Well In Advance

Frequency and extent of reforms

The New Zealand local government system is a mature sector, governed by legislation that is predictable and supportive of local councils across the country. It is also reflective of the generally stable policy environment of the New Zealand sovereign.

The Crown has launched several rounds of relatively minor reforms since 2012. The objectives of these reforms and the way they were introduced have reinforced our view of New Zealand's

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

extremely predictable and supportive institutional framework.

The Crown in 2016 established a select committee to look at making local governments more flexible and allowing them to share services and costs such as roads and water across multiple councils. The central government in late 2017 established the Three Waters Review, a cross-agency initiative led by the Department of Internal Affairs to develop recommendations for system-wide performance improvements for the three waters. This proposal included the establishment of aggregated dedicated water utilities, separate from local government, that would strengthen regulation and tackle some of the funding pressures of local government.

The Crown on July 8, 2020, announced a NZ\$761 million funding package to provide immediate post-COVID-19 stimulus to local authorities to maintain and improve three waters infrastructure. It also aims to garner local government support for its three waters reforms and the operation of Taumata Arowai. The proposed Water Services Regulator Bill, which contains details of the new water regulatory framework, received royal assent in August. The proposed timeframe around the reforms is over the next three years. All parties, including local governments, will agree on the coordination of resources, planning, and accountability of the service providers.

The reforms, which are the most significant in years, follow the 2012 to 2014 Better Local Government reforms. These reforms focused on:

- Defining the purpose of local governments;
- Setting financial prudence requirements;
- Changes to council governance arrangements, including mayoral powers;
- Assistance and intervention options for the minister of local government;
- Changes to the process for reorganizing local government;
- Providing guidance and increasing transparency for developer contributions, including introducing an objections process;
- Making local boards more widely available to unitary authorities;
- Encouraging greater collaboration between councils to improve efficiencies and reduce costs;
- Enabling more efficient and focused consultation on long-term plans and annual plans, while removing duplication between the two planning processes;
- Requiring greater transparency around risk management, long-term planning, and management of local infrastructure; and
- Increasing financial reporting requirements.

The 2012 to 2014 Better Local Government reforms strengthened our view of each local government's financial management. This is because the reforms ensure local governments have a greater focus on long-term capital and financial planning, with 30-year infrastructure strategies and risk management.

The three waters reforms will be the biggest change to the New Zealand system since several changes in jurisdictions and the financing system in the late 1980s and early 1990s, including the amalgamation of 850 public entities into 86 local governments. The Crown in 2010 forced the amalgamation of Auckland's eight individual councils. The amalgamation was intended to improve the region's historically fragmented administration and planning. It was flagged well in advance with a Royal Commission that was established in 2007 and reported its findings in 2009. After a number of public discussions and consultations, the amalgamation was passed by parliament in late 2009. There are now 78 local governments in New Zealand.

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

The Local Government Commission (LGC) proposed a number of amalgamations during 2015. After being widely debated among the Crown, local government, and residents, the proposals failed to receive public support and didn't proceed.

Ability of LRGs to influence or oppose reform

New Zealand local governments are established under the Crown's Local Government Act, and not the Constitution like some of their international peers.

Local governments have some power to soften the negative consequences of reform, individually and through Local Government New Zealand. The Crown can consult with the association or individual local governments, but local governments have no legislative power to reject reforms or demand additional funding to cover new mandates. Local governments were successful in watering down the Better Local Government reforms, such as removing the proposal to cap rate increases and stopping the proposed 2015 amalgamation of several entities.

The Wellington and Northland amalgamation proposals in 2015 demonstrated local councils' ability to influence the Crown. During the process, resident support was sought to seek referendums and the LGC's proposal ultimately was rejected. Once the LGC officially proposes an amalgamation, local residents can decide whether to accept the proposal or seek a referendum to oppose it. A referendum can be requested if 10% of electors in any affected area sign a petition seeking one. The results of a referendum are binding and require a simple majority for or against the final proposal to determine the outcome.

Revenue And Expenditure Balance: High Revenue Flexibility Offsets Large Capital-Expenditure Responsibilities

Overall adequacy of revenues to cover expenditure needs

Local governments have strong revenue and expenditure autonomy. The Crown does not limit general property rate increases, and standards for services are generally set low. Unlike in some other countries, the Crown is responsible for major operating expenditures for health, education, and social welfare.

General property rates are the key source of income for New Zealand local governments. They are set by individual local governments and are secured over properties. Local governments have very strong rate-collection abilities because they can recover unpaid rates ahead of residents' mortgages (i.e., local governments outrank banks and finance companies) and can seek court approval to sell properties to claim unpaid rates. These are key strengths underpinning New Zealand local councils' creditworthiness, as is the history of local government's revenues being substantially higher than comparable international systems.

In response to the COVID-19 pandemic, local authorities have lost revenues from nonrate sources, such as from reduced fees and charges, and have contained or lowered rate increases for residents and business facing economic hardship. We anticipate loss of fees and charges to be recovered in fiscal 2022. Hardest hit have been popular tourism areas and urban centers, which tend to be gateways to the world, receive large migration inflows, and where economic activity is often concentrated.

There are only two tiers of government in New Zealand. Local governments are responsible for a large proportion of infrastructure, such as road development and transportation, water supply,

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

wastewater treatment, and stormwater (i.e., the three waters). There is no system of fiscal equalization, and the Crown has steadily withdrawn financial assistance; such assistance now accounts for less than 10% of the sector's operating revenue (see chart 2). The Crown provides some capital funding for large infrastructure projects as well as ongoing grants for road renewal and maintenance. This amounts to about 5% of total revenues for the council sector. In response to the COVID-19 pandemic, the Crown announced up to NZ\$3 billion of grants for "shovel-ready" infrastructure. This funding isn't restricted to local governments and can be accessed by other public entities or community groups.

The size of New Zealand local governments' debt stock reflects the large infrastructure component of their responsibilities and timing of capital expenditure, rather than an operating revenue and expenditure mismatch. Local governments prefer to borrow to fund capital investments such as long-term infrastructure and amenities that benefit current and future generations rather than prefund their construction through current rates.

Moreover, New Zealand local governments consider debt as one way to share the construction cost of the infrastructure over the generations that make use of or benefit from them. This is commonly referred to as "intergenerational equity". In other words, for a piece of infrastructure that will last 30-50 years, local governments borrow to fund the upfront cost of construction and charge ratepayers over the next few decades to repay the debt.

We expect the New Zealand local government sector's debt levels to rise steadily over the medium term. This includes some council-controlled trading organizations. The sector's debt reached about NZ\$16.6 billion in 2019 (or 122% of reported operating revenues). The Local Government Funding Agency (LGFA) recently raised its foundation policy covenant limit on net debt to 300% of revenues from 250%, tapering back to 280% by 2026. The intention is to give local governments more buffer in the short term to deal with the fiscal stress arising from the COVID-19 pandemic, as well as expand infrastructure investment to help reduce the adverse economic effects of the pandemic.

Generally, the sector is overly optimistic in its budgeting of capital expenditure, so its debt levels are usually below what they forecast. The sector spent about 70% of its budgeted capital expenditure in 2019, resulting in debt being about 10% below budget. The increase reflects higher capital expenditure on roads and transportation (for example, Auckland Council's rail network), sewage treatment and disposal upgrades, water supply upgrades following the Crown's changes to water standards, and earthquake strengthening.

Changes in the Crown's regulations have partly influenced these debt levels. In the past decade, for example, increased investment in water assets by local councils is a direct result of higher water standards imposed by the Crown. In addition, changes to national building standards due to earthquakes will lift investment in local councils' building activity. Other drivers of infrastructure spending growth include increasing community expectations and strong population growth.

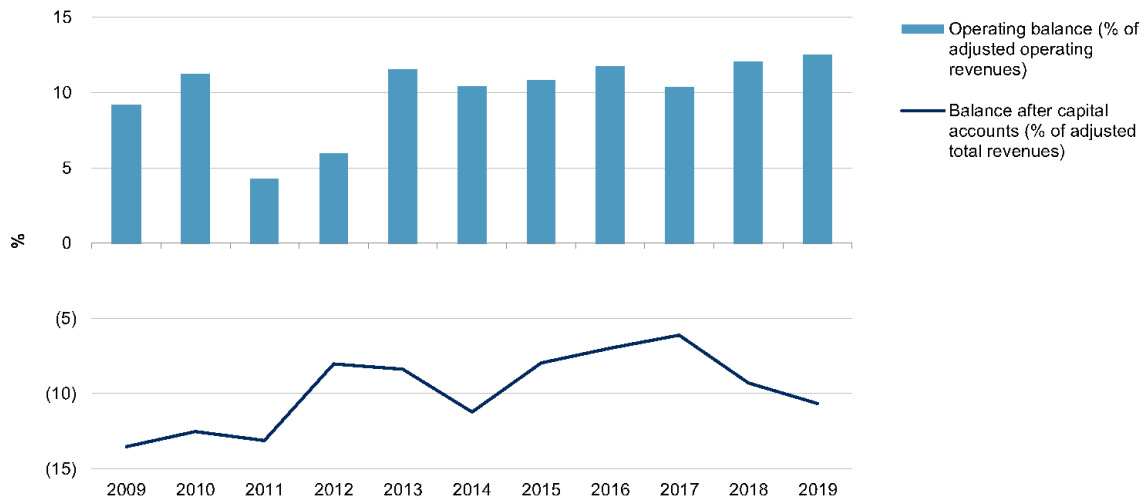
The Crown's proposed three waters reforms could substantially reduce the total debt stock of the local government sector; however, the reforms could also reduce the sector's operating revenues. The overall effect of the proposed reforms on the local government sector's revenue and expenditure balance consequently remains unknown.

The Crown occasionally introduces one-off programs to assist councils by providing additional grants or concessional loans. These include the 2017 NZ\$1 billion Housing Infrastructure Fund, which provided interest-free loans to five "high-growth" councils, and an ongoing program of discretionary capital grants for shovel-ready projects to be selected by the Infrastructure Industry Reference Group and Crown Infrastructure Partners.

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

Chart 1

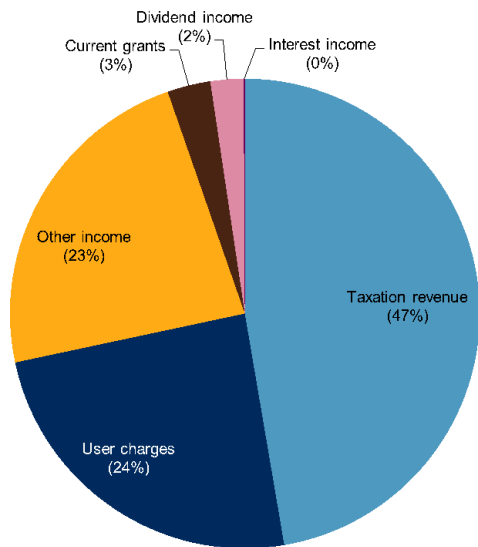
Budgetary Performance



Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2

2019 Operating Revenue Composition

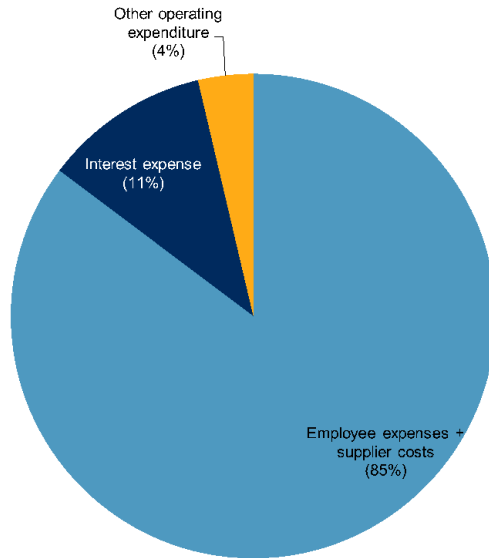


Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

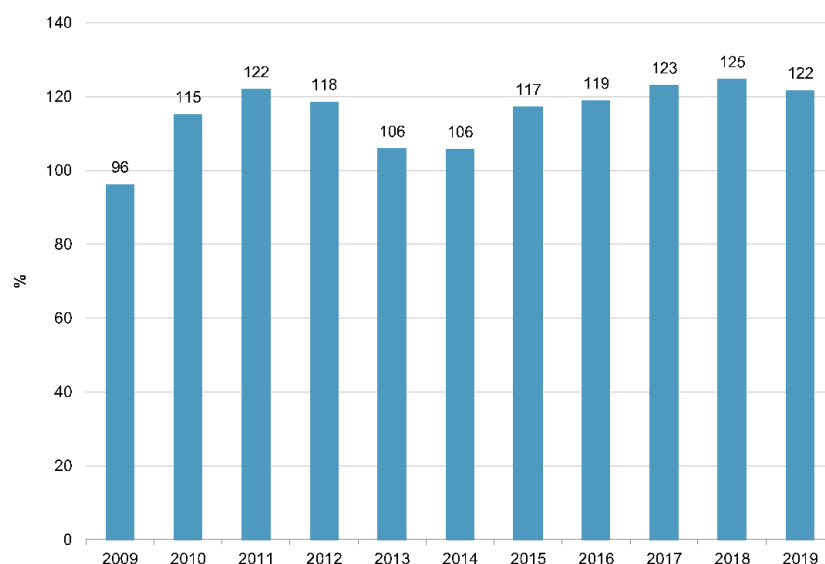
Chart 3

2019 Operating Expenditure Composition



Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 4

Total Tax-Supported Debt (% Of Operating Revenues) Of Rated New Zealand Councils

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Fiscal Policy Framework

The fiscal policy framework in New Zealand further supports the sector's revenue and expenditure match by requiring local governments to balance their budgets on an accrual basis and ensure that debt is not used to fund operating expenditure or financial investments (termed the "golden rule" of fiscal policy). The framework limits debt to capital investments and requires depreciation of capital to be expensed in the accrual financial statements. The Crown requires a local government to provide sound rationales if the council is forecasting an accrual operating deficit. Some local governments have signaled that they will run small accrual operating deficits. We expect all rated local governments to deliver strong cash operating surpluses.

Local governments' financial policies and targets are outlined in their long-term plans. There is no legislative limit on debt, but all local governments have internal limits that are published in the long-term plans, annual plans, and annual reports that are audited by Audit New Zealand to ensure financial sustainability. Debt limits and liquidity covenants exist for local governments borrowing from the LGFA, which as of October 2020 totals 56 of the sector's 78 local governments. Many of the remaining 22 local governments have little to no debt. During previous reforms, the Crown introduced more financial benchmarks for council comparisons in their annual reports.

Previous reforms introduced additional intervention measures that allow the Crown to intervene

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

before a situation becomes critical. Auckland Council--the largest and most sophisticated local government--is the only council allowed to borrow in foreign currency. No local government is allowed to use derivatives for speculative purposes. Further, councils must disclose liquidity targets and their interest rate exposure.

Extraordinary Support

There is no explicit guarantee for New Zealand's local governments and no history of extraordinary support provided to a local governments in default. There has been no known local government default in New Zealand. The Crown has set out a number of ways that it could intervene in the operation of local governments to prevent them from being on the verge of default. It has the power to call an election and dismiss a local government on the basis of a local government's inability to properly govern, poor financial management, or corruption. Other measures include requesting information from a local government, as well as appointing a Crown review team, a Crown observer, a Crown manager, and a commission.

The Crown has shown that it is willing to use these powers when needed. It has intervened in several local councils in recent years, such as:

- Appointing a Crown review and observer team to Tauranga City Council in September 2020 to address elected member relationship issues.
- Appointing a Crown observer to Christchurch City Council in January 2012 to assist the council after several major earthquakes. It also appointed a Crown manager in July 2013 to ensure the council regained its building consent accreditation, which was withdrawn by International Accreditation New Zealand (the council regained accreditation in 2015).
- Appointing commissioners to Kaipara District Council in August 2012 who replaced elected councilors, and appointing a Crown manager in 2016 and 2017 after a range of legal issues.
- Replacing councilors from Environment Canterbury, a regional council, with commissioners in May 2010.

The Crown has also demonstrated some willingness to support councils in exceptional circumstances. The Crown has proceeded with funding arrangements such as the Housing Infrastructure Fund and Crown Infrastructure Partners. To further alleviate pressure on borrowing needs, the Crown is considering special-purpose vehicles for large infrastructure projects. It has also granted Auckland Council the power to impose a regional fuel tax and allows local governments to charge accommodation taxes. These are relatively minor compared with general property rate income, however.

Another example is the Crown's cost-sharing arrangements for natural disasters, such as the repair and replacement of Christchurch City Council's essential infrastructure after a number of severe earthquakes. The Crown has pledged to fund 60% of the rebuild cost. These arrangements generally apply when natural disasters are declared.

The Crown and individual councils each fund 25% of the repair cost of properties that suffer from "weathertightness" issues or building moisture damage. The Crown is also expected to provide ongoing support to the LGFA, which raises debt on behalf of local councils. The LGFA was established in November 2011. This is reflected in our assessment of an "extremely high" likelihood of Crown support for the LGFA in the event of financial distress.

As a result of the Crown's close oversight of local governments, the system's transparency, and the mechanisms available to the Crown to intervene in a local council's operations, we expect

support would be forthcoming to a local council long before a default scenario materializes.

Transparency And Accountability: Sector Benefits From Strong Oversight And Disclosure Requirements

Transparency and institutionalization of budgetary process

The New Zealand local government system is highly transparent compared with that of its international peers. Governing laws set out in the Local Government Act 2002 impose comprehensive requirements for public consultation and financial planning and reporting. There is also clear separation between the responsibilities and roles of elected officials and their administration.

Strict financial and nonfinancial reporting requirements enhance the transparency and accountability of New Zealand local governments. The requirements include the public reporting of audited consolidated accounts, in accrual and cash terms, within specified time frames. Crown reforms have increased disclosure and transparency by introducing funding impact statements and disclosure of risk-management strategies.

The Local Government Act requires local governments to develop long-term plans that span 10 years and are updated every three years. Long-term plans supplement the annual planning process with which they are integrated, and reflect longer-term asset-management intentions. The system also requires local governments to consult the public on these documents and annual plans. All local governments also must develop and publish 30-year infrastructure strategies to identify future infrastructure needs and identify options, including asset management plans, to address them. These extensive plans, even for the smallest local governments, are an indication of the sector's long-term capital planning and budgeting capabilities.

Nearly all local governments adopted their 2021 Annual Plans before the start of the fiscal year, during a time of great uncertainty because of the COVID-19 pandemic. There were only a handful of exceptions that received approval to adopt the plans shortly after the 2021 fiscal year commenced. This is indicative of the strong accountability and transparency of the New Zealand system.

As part of the amended Local Government Act, local governments are required to prepare pre-election reports. The reports, which provide information about the issues a local government faces, promote public discussion and help voters make more informed choices. The reports provides details on a local government's financial performance for the three years before the election; financial plans and projects for the next three years; and statements comparing rates, rates increases, borrowing, and returns on investments, with the limits and targets set in the financial strategy.

Local governments also publish financial prudence benchmarking in their annual reports. This shows a local government's financial performance in relation to various benchmarks to assess whether it is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings. The benchmarks compare actual performance to budgets, including a local government's performance against self-imposed financial ratios that are flagged in long-term plans and annual plans.

Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments

Disclosure and accounting standards

The minimum level of disclosure in the New Zealand local government sector is high by international comparison. Local government's financial statements, on accrual and cash formats and including core and consolidated accounts; long-term plans, including treasury and liability management policies; 30-year infrastructure plans; and annual plans are all publicly disclosed and must meet detailed requirements as set out in legislation. Monthly and quarterly reports are also freely available via local government websites.

Financial statements are based on public benefit entities' accounting standards. These standards are similar to International Public Sector Accounting Standards, with amendments for the New Zealand environment.

Control levels and reliability of information

Long-term plans are audited by Audit New Zealand, a business unit of the Crown, or its appointed agents. Annual plans are published before the start of the financial year, and any changes to annual plans are also reviewed by Audit New Zealand and publicly disclosed. Audits are undertaken in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand's PBE accounting standards.

Trend: Stable

The trend for New Zealand local governments' institutional framework is stable, though sector-wide debt levels are increasing. Key areas of focus are the three waters reforms, with their proposed changes to the roles and responsibilities of local government water services, and special-purpose vehicles to fund local government infrastructure. These developments could underpin the structural level and trajectory of the local government sector's debt levels. We believe ongoing reforms to the sector have raised the level of standards local governments must meet in terms of transparency, accountability, reporting, and long-term financial planning.

Related Criteria

- Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

This report does not constitute a rating action.

S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Council Report

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Tracey Musty
Authoriser: David Bryant
Position: Financial Controller
Position: General Manager Corporate
Report Name: Audit NZ Final Management Report June 2020

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee on the Audit NZ Final Management Report for June 2020.

Staff Recommendation - *Tuutohu-aa-kaimahi*

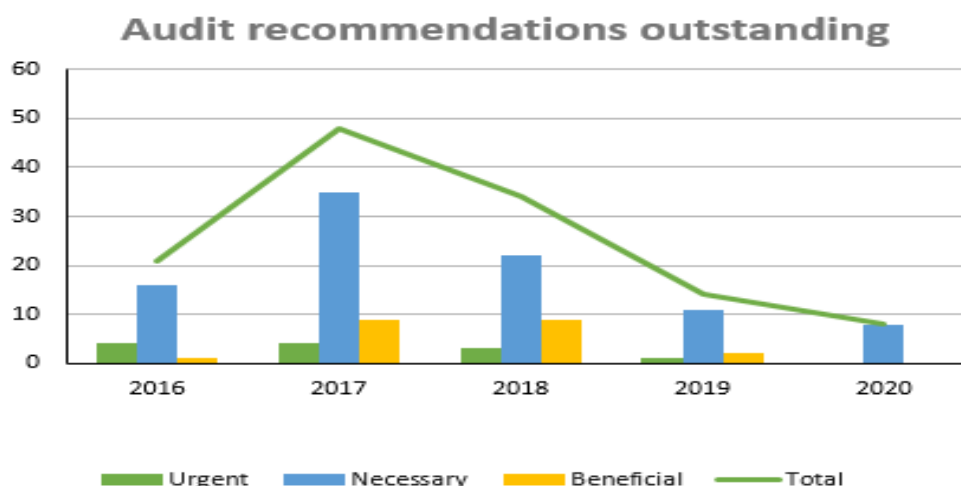
2. That the Strategic Risk and Assurance Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. Audit NZ completed their audit of the 2020 Annual Report and issued their Audit opinion on the 22nd October 2020.
4. A Qualified opinion was issued on the statement of service performance and an unmodified opinion expressed on the rest of the audited information. Though the issue of resource consent processing times has been resolved for the 30 June 2020 year, the limitation could not be resolved for the 30 June 2019 year thus leading to the qualification.
5. During this year's final audit, two new recommendations were made, and 4.5 prior recommendations closed.
6. As at 30 June 2020 we have 8 open recommendations. This represents a significant improvement on earlier years – as at 30 June 2017 we had 48 open recommendations. Since then we have addressing shortcomings by effecting various improvements to systems, processes / procedures as well as staff resourcing and knowledge.
7. The complete Management Report can be found in **Attachment 1**.
8. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Audit recommendations: An overview - *Ko ngaa Tuutohu noo te Arotake Puutea: He Tiro whaanui*

9. The number of audit recommendations and their priority is shown below.



As at 30 June 2016 there were 21 open recommendations involving Work-in-Progress, Property Plant & Equipment and Information Services. During the next year 39 new recommendations were reported; at year end the total open recommendations came to 48.

10. Capitalisation of Work-in-Progress and vested assets along with valuation and revaluation of assets featured strongly in the newly added recommendations. None of the 39 were prioritised as urgent. Between 1 July 2016 to 30 June 2020, only two new **urgent** recommendation were added – both in 2019 relating to building consents.
11. Since 2017 we have consistently closed several recommendations with only 18 (2018 – 5, 2019 – 8, 2020 – 5) new recommendations opened during the 2018 to 2020 financial years. A significant investment of time, money and effort has been made to tighten controls, improve processes and secure the right level of staffing with the appropriate skillsets. For instance, we commissioned a Capital WIP Assessment from PwC and incorporated the recommendations into the various work programmes. Improvements were also made to the monitoring processes and reports to better track performance of the entire capitalisation system.
12. Furthermore, we have explored and adopted various IT solutions to improve efficiency, enhance the security of and access to our data. For instance, the monthly patching of our desktops, reporting on the status of our IT assets and anti-virus, strengthening processes for granting access – especially privileged access – to our network and applications. Work in this area is ongoing as we look to maximise business agility in the ever-changing post-Covid environment.
13. In conclusion, we currently have eight recommendations open – three in Information Services, three relating to Property, Plant & Equipment, one for Work-in-Progress and one concerning the Waikato Community Trust.

Financial Considerations - *Whaiwhakaaro Puutea*

14. This is a regular operating activity funded through the Long-Term Plan.
15. There are no financial implications in relation to this decision.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

16. Staff confirm that this matter complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

17. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
18. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
19. There are no known social, cultural, economic and environmental wellbeings associated with this matter.

Risks - *Tuuraru*

20. There are no known risks associated with this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

21. Having considered the Significance and Engagement Policy, staff have assessed that the matter in this report has low significance and no engagement is required.

Attachments

Attachment 1 - Report to the Council on the audit of Hamilton City Council

Report to the Council on the audit of

Hamilton City Council

For the year ended 30 June 2020

Item 12

Attachment 1

Contents

Key messages	3
1 Recommendations	5
2 Our audit report.....	7
3 Matters raised in the Audit Plan	9
4 Matters identified during the audit	12
5 Public sector audit.....	14
6 Group audit.....	15
7 Useful publications.....	16
Appendix 1: Status of previous recommendations	18
Appendix 2: Disclosures	20

Key messages

We have completed the audit for the year ended 30 June 2020. This report sets out our findings from the audit and draws attention to areas where the City Council is doing well and where we have made recommendations for improvement.

Audit report

We issued an unmodified audit opinion on the 22 October 2020 on the audited information included in Hamilton City Council and group's annual report, other than the statement of service performance. We expect to issue a modified ("except for") audit opinion on the statement of service performance because our work was limited in relation to the resource consent processing time measure in the prior year.

Without further modifying our opinion, we will also include an emphasis of matter paragraph in our audit report to draw attention to the disclosures about the impact of Covid-19 on the City Council.

On 11 March 2020, the World Health Organization declared the outbreak of a coronavirus (Covid-19). We reviewed Council's risk assessment and obtained an understanding of the implications of the pandemic on the Council. This included considering any impacts on the control environment, and any material uncertainties created due to the effects of the pandemic. We found that the City Council has included appropriate commentary and, where necessary, disclosed the impact of the pandemic on specific account balances and performance measures. Overall, we are satisfied that the disclosure is appropriate and acknowledges the uncertainties of the future in a post COVID environment.

In our Audit Plan, we identified the following main audit focus areas for this audit:

- The risk of management override of internal controls.
- Property, plant and equipment revaluations and fair value assessments.
- Statement of service performance.
- Project Kookiri – implementation of the Authority Financial Information System.

We found no issues to report on these matters. Our detailed comments are in section 3 of the report.

We are satisfied that the City Council has enhanced the processes and systems for measuring the timeliness of resource consents as well as building consents. Based on these improvements we have been able to close the previously raised audit recommendations. Refer to section 4.1 and Appendix 2.

We are satisfied that all audit adjustments required have been made.

Thank you

We would like to thank the Council, management and staff for the assistance provided during the audit and for the quality of the draft annual report that was provided at the start of the audit process.

A handwritten signature in blue ink, appearing to read 'Clarence Susan', with a stylized flourish at the end.

Clarence Susan
Appointed Auditor
27 October 2020

1 Recommendations



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

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

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Property, plant and equipment work in progress Management continues monitoring this balance and capitalises work in progress within the financial system in a timely manner.	4.2	Necessary
Waikato Community Land Trust The City Council keep a watching brief on the process and completion of the founding documents as well as arrangements about the future operation of the Trust to confirm that the City Council do not control the Trust in terms of PBE IPSAS 35 <i>Consolidated Financial Statements</i> .	4.3	Necessary

1.2 Status of recommendations

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

	Priority	Priority			
		Urgent	Necessary	Beneficial	Total
Final	New matters	-	2	-	2
	Prior year open matters	-	-	-	-
Interim	New matters	-	1	-	1
	Prior year open matters	-	3	-	3
Total		-	6	-	6
Matters that will be followed up during our next audit visit		-	2	-	2
Implement or closed in this report		-	3	1	4

2 Our audit report

2.1 We intend issuing a modified audit report



We issued an unmodified audit opinion on the 22 October 2020 with an “except for” audit opinion. This means we are satisfied that the financial statements and statement of service performance, except for the service performance measure discussed in section 2.1.2 below, present fairly the City Council’s activity for the year and its financial position at the end of the year.

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

2.1.1 Covid-19

Council has appropriately considered the potential impact of Covid-19 on the financial statements and the performance information for the year ended 30 June 2020. We found that the self-disclosures about management’s assessment of the impact of Covid-19 are good.

We will include an emphasis of matter paragraph in our audit report to draw attention to the disclosures about the impact of Covid-19 on the City Council.

2.1.2 Resource Consents – our “except for” qualification

The City Council included in its long-term plan a performance measure on the average processing time for non-notified land use and subdivision resource consents. In respect of the 30 June 2019 comparative information only, there were issues with recorded processing times not agreeing to underlying consent information at the time.

The extent of the inaccuracies we identified from our sample testing in the prior year meant that we were unable to determine whether the City Council’s reported result for this measure in the statement of performance for the prior year was materially correct. As a result, our work was limited and there were no practical audit procedures we could apply to obtain assurance over the reported result for the 30 June 2019 resource consent processing times.

The issues with recorded resource consent processing times has been resolved for the 30 June 2020 year. However, the limitation cannot be resolved for the 30 June 2019 year, which means that the City Council’s performance information reported in the statement of performance for the 30 June 2020 year may not be directly comparable to the 30 June 2019 performance information.

2.2 Corrected misstatements

There were a few corrected misstatements that management agreed to adjust. We have not listed the adjustments made in this report, as they were not significant.

2.3 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers.

In general, the information provided to support the annual report was of a good quality and was provided on time. This is supported by the fact that there were minimal misstatements requiring adjustment.

3 Matters raised in the Audit Plan



In our Audit Plan of 15 January 2020, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Property, plant and equipment revaluations and fair value assessments	
<p>We understand that the City Council's parks and gardens assets will be revalued during the financial year.</p> <p>Revaluations can be complex and require the use of assumptions and judgement. The asset classes being revalued are a significant portion of Council's assets and there is a risk that errors in the process or calculation could result in a material misstatement.</p> <p>We expect that City Council staff will review the outcome of externally prepared valuations and assess these for reasonableness.</p>	<p>The City Council revalued its parks and gardens assets as at 1 July 2019. This valuation was internally prepared, and was independently peer reviewed. We reviewed the scope and findings of the peer review performed and are satisfied that it was appropriate. We are also satisfied that the peer reviewer engaged by the City Council is suitably qualified and experienced.</p> <p>For this revaluation we have:</p> <ul style="list-style-type: none"> • reviewed the scope of the valuation performed and ensured it has been completed in accordance with the appropriate standards; • ensured the entire asset class has been revalued; • assessed whether the assumptions used are reasonable and supportable; • made enquiries of management regarding the assumptions used in the valuation; and • reviewed adjustments posted to the general ledger as part of the revaluation and related disclosures. <p>Based on the work that we performed, we are satisfied that revaluation movements have been recorded accurately and assets are fairly stated as at 30 June 2020.</p>

Audit risk/issue	Outcome
<p>The City Council also periodically revalues its other asset classes.</p> <p>If a material movements between the carrying amount and the fair value of these classes of assets are identified, they must be revalued for the City Council to comply with <i>PBE IPSAS 17 Property, Plant and Equipment</i>.</p>	<p>For assets that have not been revalued in the 2019/20 financial year, we reviewed management's fair value assessments and are satisfied that there is no material difference between the carrying amount and the fair value for these classes of assets.</p>
Statement of service performance	
<p>The Council is required to report on non-financial performance measures within the annual report. These measures are intended to provide robust information to the public about key aspects of the Council's service delivery.</p> <p>In the prior year, we issued a modified opinion, as we were unable to determine whether performance reported for the average, processing time for non-notified land use and subdivision resource consents was materially correct.</p> <p>The Council needs to ensure the data being reported for service performance measures is reliable and auditable.</p>	<p>We selected key (material) measures for review and to verify the reported results in the statement of service performance.</p> <p>For these selected measures, we gained an understanding of the systems and controls in place to provide assurance over the performance reported.</p> <p>We performed detailed audit procedures for the selected measures. We considered the adequacy and appropriateness of the evidence provided by the City Council to support the performance reported.</p> <p>The information provided for service performance measures was reliable and auditable.</p> <p>Refer to Section 4.1 for more information relating to the average processing time for non-notified land use and subdivision resource consents performance measure.</p>
Project Kookiri – implementation of the Authority Financial Information System	
<p>The Council implemented the Authority Financial Information System with effect from 1 September 2019. The implementation project is known as Project Kookiri.</p> <p>Because the Council's core financial processes and processing may be impacted if the transition from one system to the other goes wrong, we have engaged with the Council early and agreed on the assurance work to be performed in a separate proposal letter dated 23 July 2019.</p>	<p>We reported our findings in our Interim Report to the Council.</p> <p>Overall, we concluded that the implementation of the Authority Financial Information System was planned and executed effectively.</p>

Audit risk/issue	Outcome
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>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.</p> <p>Auditing standards require us to treat this as a risk on every audit.</p>	<p>In order to satisfy ourselves that management did not override controls in preparing the financial statements, we performed the following audit procedures:</p> <ul style="list-style-type: none"> • Tested the appropriateness of selected journal entries. • Reviewed accounting estimates for indications of bias. • Evaluated any unusual or one-off transactions, including those with related parties. <p>Based on the work that we performed, we did not identify any instances of management override.</p>

4 Matters identified during the audit



4.1 Resource consents

In 2019, as part of our audit process, we identified a high rate of inaccuracies in our sample when performing audit work over the measure “average processing days for non-notified land use and subdivision resource consents”.

We acknowledge the effort that the City Council has put into improving its administrative processes around resource consents and in reporting against this measure.

We noted an improvement in how documentation is recorded and stored. In addition, a review of dates entered into the system was performed at year-end to ensure the result was accurate and reliable.

Based on our audit work at the final audit, we are pleased to report that we did not identify significant errors or other areas of concern.

4.2 Property, plant and equipment work in progress

In completing our review of the work in progress balance for property, plant and equipment, we found there had been a significant increase from the prior year. This is consistent with the planned capital projects identified in the long term plan.

The City Council’s current practice is to manually adjust and capitalise individual assets that are part of an uncompleted programme in the general ledger and financial statements.

We expect the work in progress balance for property, plant and equipment to increase significantly going forward. If individual assets put in use are not capitalised in a timely manner, it creates a risk that the asset management data will be out of alignment with the general ledger and financial statements.

Although this manual process ensures that the financial statements are correctly stated, we recommend management continues closely monitoring and reviewing the manual process and capitalising work in progress in a timely manner.

Management comment

Agreed

4.3 Waikato Community Lands Trust

PBE IPSAS 35 *Consolidated Financial Statements* replaced PBE IPSAS 6 for periods beginning on or after 1 January 2019. Control is defined as “An entity controls another entity when the entity is exposed to, or has rights, to variable benefit from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity”.

“Control” by one entity over another entity exists in circumstances where the following three parts (a), (b) and (c) are all satisfied:

- a Exposure, or rights, to variable benefits from its involvement with the other entity (see paragraphs 30-34 of PBE IPSAS 35).
- b Power over the other entity (see paragraphs 23-29 of PBE IPSAS 35).
- c The ability to use its power over the other entity to affect the nature or amount of the benefits from its involvement with the other entity (see paragraphs 35-37 of PBE IPSAS 35).

We understand that the City Council has committed to provide grant funding of approximately \$2 million to the Waikato Community Lands Trust (the Trust) going forward. The Trust is to provide more affordable housing in the City. Should the Council have control of the Trust, the Trust will need to be consolidated as part of the Group financial statements.

We note that the founding documents for the set-up of the trust are still in progress and has not yet been completed and signed. We were therefore unable to make a proper assessment whether the Council will control the Trust or not.

Management’s initial assessment and view is that once up and running the Trust will not be controlled by the City Council.

We recommend the City Council keep a watching brief on the process and the completion of the founding documents as well as arrangements about the future operation of the Trust to confirm that the City Council do not control the Trust in terms of PBE IPSAS 35.

Management comment

Agreed

5 Public sector audit



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

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

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

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

6 Group audit



The group comprises:

- Hamilton City Council (the City Council);
- Waikato Innovation Growth Limited (Group); and
- Waikato Regional Airport Limited.

We have not identified any of the following during our audit for the year ended 30 June 2020:

- Instances where our review of the work of component auditors gave rise to a concern about the quality of that auditor's work.
- Limitations on the group audit.
- Fraud or suspected fraud involving group management, component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.

7 Useful publications



Based on our knowledge of the City Council, we have included links to some publications that the Council and management may find useful below.

Description	Where to find it
Client updates	
<p>As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled.</p> <p>This year's material is accessible via video presentations on our website. You can explore the material at a pace that takes account of your busy schedule. The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to COVID-19 and climate change.</p>	<p>Link: Client updates</p>
Client substantiation file	
<p>When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively.</p> <p>We have put together a toolbox called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a toolbox to help you collate documentation that the auditor will ask for.</p>	<p>On our website under good practice.</p> <p>Link: Client Substantiation File</p>

Description	Where to find it
Long-term plans and consultation documents	
<p>Having audited long-term plans (LTPs) since 2006, we understand the significant effort that Councils invest in preparing an LTP.</p> <p>We want to make the audit process for the 2021-31 LTPs and consultation documents as straightforward as possible, so we've put together some information to help Councils to:</p> <ul style="list-style-type: none"> • understand our responsibilities and our main focus areas in the audit; • prepare better documents for their communities; and • develop project plans that make their LTP process go smoothly. 	<p>On our website under good practice.</p> <p>Link: Long-term plans and consultation documents</p>
Good practice	
<p>The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on:</p> <ul style="list-style-type: none"> • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments. 	<p>On the OAG's website under good practice.</p> <p>Link: Good practice</p>

Appendix 1: Status of previous recommendations

Implemented or closed recommendations

Recommendation	First raised	Status
Building consents		
We recommended that systems and processes be enhanced to ensure correct and accurate reporting. This should include that documentation relating to the processing of a building consent is filed and maintained for review purposes.	2019	<p>Management has improved the systems and processes to ensure correct and accurate reporting.</p> <p>Management has also improved on its administrative processing of building consents to ensure all documentation is filed and maintained.</p> <p>Matter closed.</p>
Interest register		
We recommended Council ensures that processes and procedures are in place to ensure that all elected members' interests are recorded in the interests register. The City Council could perform regular searches of various registers to ensure that the interest register is complete and up to date.	2019	<p>We found that Management has processes in place to ensure that all elected members' interests are being recorded in the interest register.</p> <p>Management has also completed regular searches of various registers to ensure the interest registers are complete and up to date.</p> <p>Matter closed.</p>
Mixed group consolidation adjustments		
We recommended the Council discusses mixed-group reporting issues with Waikato Innovation Group Limited. This will ensure that any adjustments that arise on transition to the new for-profit standards that need to be reversed for Public Benefit Entity consolidation purposes are incorporated into the final group accounts.	2019	<p>Appropriate adjustments were made upon consolidation of Waikato Innovation Group Limited.</p> <p>Matter closed.</p>

Implemented or closed recommendations from the Report to Council on the interim audit

Recommendation	First raised	Status
Resource consents		
We recommended Management reviews all consents processed in this financial year to ensure the dates recorded are accurate.	2020	Management has reviewed all consents processed during this financial year. Refer to section 4.1 for further detail. Matter closed.
Water and wastewater treatment plants		
SCADA equipment not depreciated We recommend that as the SCADA equipment assets for the wastewater treatment plant and water treatment stations do not have an indefinite life they be depreciated in line with the Council's accounting policy	2019	Management has depreciated SCADA equipment in accordance with their accounting policy. Matter closed.

Recommendations reported in Report to Council on the interim audit

Recommendation	Priority	First raised
Improvements needed to Fujitsu monthly reporting and monitoring	Necessary	2020
No organisational business continuity plan or IT disaster recovery plan	Necessary	2015
Manual processing of weekly timesheets	Necessary	2019
Treatment of found assets	Necessary	2018

Recommendations to be followed up at the next audit visit

Recommendation	Priority	First raised
Road and traffic network asset revaluations ¹	Necessary	2017
Improve data for water and wastewater treatment plants ² SCADA equipment not depreciated (<i>this part of the recommendation has been closed, refer to table above</i>)	Necessary	2019

¹ This recommendation will be followed up when the next road and traffic network asset revaluation is performed.

² This recommendation will be followed up when the next water and wastewater revaluation is performed.

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>During the audit, three non-influential independence mitigations were managed. These have been reported to the Strategic Risk and Assurance Committee.</p> <p>Other than our audit of Hamilton City Council's annual financial statements and performance information and our assignment in the area of the debenture trust deed and other assurance engagement for Project Kookiri, we have no relationship with or interests in the City Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$233,450, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$35,330, for:</p> <ul style="list-style-type: none"> • Project Kookiri - \$27,330 • Debenture trust deed limited assurance engagement - \$8,000
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council or its subsidiaries during or since the end of the financial year.</p>

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

PO Box 256
Waikato Mail Centre
Hamilton 3240
Phone: 04 496 3099

www.auditnz.parliament.nz



Council Report

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Morva Kaye
Authoriser: Tracey Musty
Position: Internal Auditor
Position: Financial Controller
Report Name: Organisational Improvement Register as at 30 November 2020

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee on the status of Hamilton City Council's Organisational Improvement Register as at 30 November 2020.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Strategic Risk and Assurance Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. The Council's risk management programme includes the completion of external audits by Audit New Zealand, New Zealand Transport Agency (NZTA) and others and internal audits by PricewaterhouseCoopers (PwC) and an internal resource.
4. Actions and recommendations resulting from these audits are recorded and monitored through the Organisational Improvement Register.
5. Staff consider the decision in this report to have low significance and that the recommendations comply with the Council's legal requirements.

Discussion - *Matapaki*

Audit New Zealand

6. There are eight recommendations outstanding in Audit New Zealand's final management report for the year ended 30 June 2020.
7. All eight recommendations for improvement have a priority of 'necessary'.
8. Recommendations are at various stages of being implemented or awaiting other actions e.g. revaluation of assets at a future date.

Audit NZ Recommendation	Year	Priority	Update
New matters			
Property, plant and equipment work in progress	2020	Necessary	Being monitored.
Waikato Community Land Trust	2020	Necessary	Being monitored.
Fujitsu monthly reporting and monitoring	2020	Necessary	Being monitored.
Open recommendations (prior year open matters)			
No organisational business continuity plan or IT disaster recovery plan	2015	Necessary	Organisational business continuity and pandemic plans have been developed and testing planned. The IT Disaster recovery plan is still in development. The project to develop this plan is scheduled to be completed 30 June 2021.
Treatment of found assets	2018	Necessary	Changes required to IPS software and new processes implemented. Expect to be completed by June 2021.
Manual processing of weekly timesheets	2019	Necessary	Electronic timesheets will be included in the new payroll project.
Recommendations to be followed up at the next audit			
Road and traffic network asset revaluations ¹	2017	Necessary	Next asset revaluation 30 June 2021.
Improve data for water and wastewater treatment plants ²	2019	Necessary	Next asset revaluation 30 June 2022.
¹ This recommendation will be followed up when the next road and traffic network asset revaluation is performed.			
² This recommendation will be followed up when the next water and wastewater revaluation is performed.			

PwC Tax Compliance Review

9. The Tax Compliance Review was completed in December 2017.
10. Four outstanding recommendations are at various stages of being implemented.

Ministry of Social Development (MSD) Social Services Accreditation Review - Waterworld

11. Council receives funding from MSD for the OSCAR approved holiday programme.
12. Every two years Council are audited against a core set of accreditation standards to ensure that we have the capability and capacity, as a non-government organisation, to safely deliver social services to New Zealanders.
13. A pre-assessment questionnaire has been completed and an onsite assessment will be undertaken by MSD on 23 November 2020.

Financial Considerations - *Whaiwhakaaro Puutea*

14. This is a regular operating activity funded through the current Annual Plan.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

15. Staff confirm that this project complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

16. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
17. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
18. There are no known social, economic, environmental or cultural considerations associated with this matter.

Risks - *Tuuraru*

19. Any known risks have been identified relevant to the matters in this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

20. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have low significance.

Engagement

21. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.

Council Report

Item 14

Committee: Strategic Risk and Assurance Committee

Date: 04 December 2020

Author: Julia Kofoed

Authoriser: David Bryant

Position: Insurance Lead

Position: General Manager Corporate

Report Name: Annual Insurance Report

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee on Council's 2020/2021 insurance renewal programme.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Strategic Risk and Assurance Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. Council tenders its insurance programme under the Waikato Local Authority Shared Service (WLASS) company umbrella with Aon New Zealand (Aon) as the appointed broker.
4. The purpose of this relationship is to leverage the region's collective insurance requirements, deliver economies of scale through reduced brokerage costs and reduce the impact of fluctuations in premiums costs and market capacity.
5. This year WLASS undertook a formal tender process and Aon were successful in being reappointed as the group's insurance broker in June 2020.
6. Council's insurance policies all have a common annual renewal date, with cover for this year placed and effective 1 November 2020.
7. Council insures for a probable maximum loss reinstatement value for the Material Damage, Business Interruption and Infrastructure policies. This is as opposed to insuring the full replacement value of all Council assets. This approach allows Council to balance premium spend with associated risk and likelihood of a major event.
8. Council holds multiple insurance policies with the portfolio managed by Council's Insurance Lead. A list of policies and premiums is included in paragraph 19 of this report.
9. The insurance programme is regarded as a risk management tool to mitigate financial loss associated with unforeseen and significant adverse events.
10. The Infrastructure placement specifically address natural catastrophe losses to underground wasters assets and key high value bridges.
11. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Discussion - *Matapaki*

Item 14

12. The insurance market continues to be impacted by major catastrophe events. Over the last few years there has been a significant hardening of local and global markets. The global economic losses from natural disasters topped USD232 billion in 2019 – bringing it close to the costliest decade for natural disasters. 2019 saw 41 events that caused approximately USD1 billion in economic losses and 12 events that led to USD1 billion of insured losses.
13. The impacts felt by the global market in relation to natural disaster events impact Council's Infrastructure programme. However, through the provision of better-quality data, which has been a focused effort by Council staff, Aon have been able to garner local market support for the infrastructure programme, which had not been available in recent years. This has brought an element of competitive tension into the markets allowing the global market pressure to be mitigated. Council will continue working on the provision of quality data to allow insurers to understand and accurately price Council's assets.
14. The New Zealand market for Material Damage and Business Interruption insurance was initially showing signs of slowing down, with expected increases in premium indicated lower than what was actually received. With the global pandemic event currently taking place and the longer-term impacts on global economies not yet fully understood, future rating indications are now difficult to quantify.
15. There has been a significant increase in the cost of Professional Indemnity insurance for this year's renewal. The increase is primarily driven by building consent and associated issues that have been experienced by New Zealand Local Authorities in recent years. It is estimated that claims paid and notified are well in excess of overall premium collected in the market. For the current lead insurer to continue participation in the programme, increased pricing is required. Without a sustainable premium pool to pay Building Act losses insurers will restrict or remove coverage for these types of claims.
16. Council has opted not to take an individual Hall Hirers policy, which provides an approximate \$20,000 premium saving. Council's Public Liability insurance policy now includes an extension to cover this type of risk within the standard pricing, terms and conditions.
17. There are no significant changes to Council's insurance policy conditions for the 2020/2021 renewal year.
18. Council has engaged Aon to facilitate an insurable risk profiling workshop at the beginning of December with SLT, asset managers and other key staff. Workshop outputs will feed into Council's strategic direction for the insurance portfolio with the objective of better understanding Council's risk profile and appetite to risk thereby optimising insurance outcomes for the future.

19. Policies and premiums are summarised in the table below:

Policy	2019/2020 Premium	2020/2021 Premium	% Change
Physical damage policies:			
Material Damage	\$ 1,028,532.37	\$ 1,156,798.39	12%
Business Interruption	\$ 58,913.74	\$ 63,795.00	8%
Infrastructure Placement	\$ 647,621.50	\$ 650,243.88	0%
Commercial Motor	\$ 174,538.84	\$ 197,875.57	13%
Fine Arts	\$ 69,854.88	\$ 78,477.97	12%
Annual Contract Works	\$ 16,400.00	\$ 16,460.00	0%
Boiler Explosion	\$ 2,702.00	\$ 3,492.00	29%
Liability policies:			
General Liability	\$ 66,500.00	\$ 69,885.00	5%
Professional Indemnity	\$ 174,712.00	\$ 314,542.00	80%
Liability Excess Layer	\$ 35,258.00	\$ 35,258.75	0%
Employers Liability	\$ 1,056.00	\$ 1,169.00	11%
Statutory Liability	\$ 6,875.00	\$ 7,279.00	6%
Fidelity/Crime	\$ 26,034.00	\$ 27,342.00	5%
Hirers Liability	\$ 19,000.00	-	-100%
Aviation Liability	\$ -	\$ 2,686.19	
Other policies:			
Personal Accident	\$ 1,119.25	\$ 1,180.13	5%
Business Travel	\$ 1,282.50	\$ 265.00	-79%
Total	\$ 2,330,400.08	\$ 2,626,749.88	13%

Financial Considerations - *Whaiwhakaaro Puutea*

20. This is a regular operating activity funded through existing budgets.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

21. Staff confirm that this project complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

22. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
23. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
24. There are no known social, economic, environmental or cultural considerations associated with this matter.

Risks - *Tuuraru*

25. Any known risks have been identified relevant to the matters in this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

26. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have low significance.

Engagement

27. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.

Council Report

Item 15

Committee: Strategic Risk and Assurance Committee

Date: 04 December 2020

Author: Sean Murray

Authoriser: Sean Murray

Position: General Manager Venues, Tourism and Major Events

Position: General Manager Venues, Tourism and Major Events

Report Name: Waikato Regional Theatre - Risk Assessment Report

Report Status	<i>Open</i>
----------------------	-------------

Purpose - *Take*

1. To inform the Strategic Risk and Assurance Committee of the risk assessment mitigations considered in the draft funding deed for Council's build contribution and asset maintenance grant towards the new Waikato Regional Theatre (WRT) project.
2. To seek the Strategic Risk and Assurance Committee's recommendation to the Council concerning risk mitigation relating to its contribution to the WRT, primarily via the proposed Funding Deed between Council and the Waikato Regional Property Trust, when the deed is brought to the next available Council meeting.

Staff Recommendation - *Tuutohu-aa-kaimahi (Recommendation to the Council)*

3. That the Strategic Risk and Assurance Committee:
 - a) receives the report;
 - b) receives the risk assessment undertaken on Council's funding of the Waikato Regional Theatre project; and
 - c) recommends to the Council accepts the Strategic Risk and Assurance Committee's endorsement of risk mitigation relating to its contribution to the Waikato Regional Theatre via the proposed Funding Deed between Council and Waikato Regional Property Trust.

Executive Summary - *Whakaraapopototanga matua*

4. This report provides information on management's risk mitigation assessment of Council's funding contribution to the Waikato Regional Theatre project (WRT) to be constructed and operated by an independent trust, Waikato Regional Property Trust (WRPT).
5. At its meeting on 3 September 2020, the Strategic Risk and Assurance Committee requested that a report be prepared to better understand the risks associated with this project, given Council's significant contribution of \$25M towards the build and \$1.1M for an annual property maintenance and equipment renewals grant.

6. This is a public infrastructure project conceived, managed and funded by an independent philanthropic organisation. Council is one of a number of funders (less than a third of the project build cost) and bears no direct project management risk.
7. However, should the project fail at any stage, the value of Council's contribution could be lost and given the nature of the project, Council could be left with the task of having to step in to ultimately ensure the central city has a major performing arts theatre.
8. A document detailing potential risk triggers and the controls and mitigations in place as they relate to Council's funding support is included as attachment one for the committee's review and discussion.
9. The intention behind this report is to provide the Strategic Risk and Assurance Committee an understanding of how these risks relate to the project and Council's overall approval of the Funding Deed.
10. The risks and mitigations related to the WRT project are specific to Council's funding contributions and are the primary tenant of the terms of Council's Funding Deed.
11. The Deed seeks to record not just Council's contribution towards the WRT but seek to protect Council's investment and interests in the case of a default at any point in time, hence the nature of the risk mitigations put in place.
12. Staff consider the decision in this report to have medium significance but of high interest and that the recommendations comply with the Council's legal requirements.

Background - *Koorero whaimaarama*

13. On 26 July 2016, Council accepted a proposal from Momentum Waikato Community Foundation (Momentum Waikato) and committed in principle to support the design and build of a new 1300-seat state of the art regional theatre facility in Hamilton.
14. The project, now well underway, is led by Momentum Waikato who have secured the funding of the build cost and established an ownership and operating structure independent of Council.
15. The project to construct the WRT has a total estimated cost of \$78M (including contingencies). The centrally located site (former Hamilton Hotel) was gifted by a private contributor and is valued at \$4M.
16. As per the original 2016 proposal to Council, Momentum Waikato initiated the project build and fundraising and subsequently handed over the project management of the build to the WRPT, the independent trust responsible for overseeing the build programme and ongoing ownership and operational management.
17. In June 2018, Council resolved via the 2018-2028 10-Year Plan to formally grant \$25M towards a build contribution plus a provision for an annual property maintenance and equipment renewals grant of \$1.1M per annum from the opening date of the WRT.
18. In October 2019, Momentum Waikato confirmed they had secured Central Government's Provincial Growth fund support of \$12M towards the project, along with other funding from Hamilton City Council (\$25M), Waikato Regional Council (\$5M), Trust Waikato (\$15M), Lotteries Board (\$4M) and a range of trusts and philanthropic individuals, families and businesses (\$12M).
19. On the financial front, Momentum Waikato has raised \$73M, leaving \$5M to find via an external fundraising campaign although this amount is to be underwritten by Momentum Waikato.

20. The projected completion date for the WRT is December 2022 and the build project is fully consented and scheduled to commence on site in February 2021.

Discussion - Risk Assessment and Mitigation

21. The identified risk triggers of Council's funding contribution towards the WRT relate to:
- Project Build/Budget overrun*
 - Project Funding Shortfall*
 - Ongoing operation*
 - Reputation and External Partnership Funding Concept*
22. **Attachment 1** "Waikato Regional Theatre Risk Assessment" reviews each risk trigger and the mitigations in place.
23. **Attachment 2** is a summary of the proposed Funding Deed.
24. It is noted that risks for the project as it relates to Regulatory, People, Health and Safety, Community Wellbeing, Technology, Operational, Disaster Event, Environmental, and Project Management is deemed the responsibility of WRPT and not Council.

Next Steps

25. The staff recommendation proposes that if the Committee are satisfied with the risk mitigations as discussed in this report, they endorse the appropriateness of the risk mitigations in place via a recommendation to the Council.
26. A future council report will provide a full background on the project, a copy of the Funding Deed and request the approval for the Chief Executive to execute the Funding Deed with the WRPT.

Financial Considerations - *Whaiwhakaaro Puutea*

27. Council has already approved payment towards the project of \$6.350M. The balance to be paid is \$18.650M and is payable subject to the sign off of the Funding Deed.
28. WRT related operating activity is funded through the 2018-2018 10-Year Plan and 2021-2031 draft Long Term Plan.

Type of Costs – WRT	20/21 000s	21/22 000s	22/23 000s	23/24 000s	24/25 000s	25/26 000s	26/27 000s	27/28 000s	28/29 000s	29/30 000s	30/31 000s
Operating Expenditure											
Council's Build Contribution	\$6,650	\$9,000	\$3,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Council's Annual Asset Maintenance Grant	\$0	\$0	\$1,100	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI
Total Opex	\$6,650	\$9,000	\$4,100	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI	\$1,100 + CPI

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

29. Staff confirm that the recommendation to Council complies with the Council's legal and policy requirements. Staff have sought advice during the formative stages of this project from Tompkins Wake who have drafted the Funding Deed.
30. The draft Funding Deed has also been shared with the Waikato Regional Council and Trust Waikato who are also major contributors.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

31. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
32. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.
33. The recommendations set out in this report are consistent with that purpose.
34. The intended outcomes of the creation and ongoing operation of the WRT are well connected to Council's "Our Vision for Hamilton" and is specifically mentioned in Priority Three – Shaping a Central City where people love to be.

Social

35. The project's primary purpose is to deliver a purpose-built performing arts theatre for the city and region that is accessible to the performing arts sector, professional, amateur and community groups for performance and events. The facility will act as a hub and add vibrancy and social character to the city and central precinct.

Economic

36. The theatre build itself will take place over two years and will employ over 100 workers (excluding indirect employment generation).
37. Once operational the theatre will have a small permanent staff base (12 FTE) and it will deploy a casual pool of up to 30 people and generate significant downstream employment opportunities for local performance, design, technical, maintenance contractors and hospitality industries. It will also attract an audience base from outside Hamilton and the Waikato. The owner/operator of the WRT will operate and be governed by robust financial management practices and systems.

Environmental

38. The WRT will include design elements with a range of best practice solutions to mitigate any environmental impacts. The facility will act as a hub and add vibrancy and social character to the city and central precinct.
39. The WRT will be built and operated in a way to ensure the venue is safe, secure and operates within a healthy environment.

Cultural

40. The purpose of the WRT is to provide performance space access for a wide range of cultural groups from across the community.

Risks - *Tuuraru*

41. Risk assessment and risk mitigation is addressed in earlier sections of this report.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

42. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a medium level of significance.

Engagement

43. The WRT is a project initiated by an external party (Momentum Waikato) which came from a significant engagement process already conducted by Council in 2016 and 2017. The project has had strong ongoing communication to the public in respect of development, the totality of the funding achieved and any issue resolution of interest. Therefore, no further engagement is required.
44. Given the medium level of significance determined, the engagement level is medium. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Waikato Regional Theatre - Risk Assessment

Attachment 2 - HCC and Waikato Regional Property Trust - Summary of Proposed Funding Deed

Risk					
Waikato Regional Theatre – Protecting Council’s funding contribution Funding support (1/3 of project value) of a major project delivering public infrastructure by an organisation Waikato Regional Property Trust (WRPT) wholly independent of HCC.					
Risk Owner (GM Level)	Sean Murray Venues, Major Events and Tourism	Category	Strategic Financial and Reputational		
Risk Triggers					
Project build / Budget overrun <ul style="list-style-type: none">The built theatre does not meet the specifications required as stipulated by Council due to stakeholder pressure to change the project scope, design or timelines.Changes in the resource market e.g. the increased cost of construction material.Changes in the regulatory and compliance environment leading to redesign or changes in project management decisions.Project management failure leading to budget overrun and HCC contribution being put at risk.Project ceases, performing arts theatre not delivered, Council contributions lost.Project objective fails. Hamilton has no major performing arts theatre.					
Funding shortfall <ul style="list-style-type: none">Major emergency or event which leads to financial ruin for funders and/or major contributors.Stakeholder relationship breakdown.Funders walk away from the project and/or are unable to continue funding the project					
Theatres ongoing operation <ul style="list-style-type: none">That the operation does not effectively operate for the benefit of both professional and community based performing arts interests.Insufficient funding to operate theatre and failure of operating budget / business case.Theatre ceases to operate.					
Reputation and External partnership funding concept <ul style="list-style-type: none">If the project fails, perceptions over the “model” whereby Council trusts private entities to fund and activate public infrastructure initiatives.Poor project management and governance leads to conflicts between key stakeholders.Community expectations between Council and WRPT not met.Incomplete or failed project due to objectives not being met results in a negative reputation for Council despite Council being one of many funders.					
Inherent Likelihood	Possible	Inherent Consequence Driver E.g. Strategic Political Service Delivery	Major	Inherent Risk Rating	Rating Very High

D-3523155

1

Controls and Mitigations – primary tools Deed of Funding, Funding Milestones, relationship management. A clear and transparent WRPT plan is in place including organisational roles and responsibilities.

Project build/ Budget overrun

- Minimum theatre specifications are stipulated as a requirement within the Funding Deed.
- Master-planning and construction managed by WRPT as per the Funding Deed
- Council is one of multi-funders seeking certain outcomes in return for their contribution
- Thorough risk register for project management, budget and procurement planning and risk mitigations are undertaken by WRPT. All prior project planning, budget planning and risk mitigations have been undertaken by WRPT in accordance with central and local Govt project management, procurement and risk mitigation standards.
- Funding Deed states nil responsibility for Council for project cost overrun by WRPT.
- WRPT cannot borrow funds ahead of HCC who hold security over Council's interests in assets and IP at whatever point. The drawdown schedule for funding the construction phase is conditional on no material adverse change prior to the release of Council's staged contribution
- WRPT monitoring and reporting schedule in place for all entities involved. The governance board reports monthly to Council's appointed expert representative, on construction and funding management and on-going reports on its operations
- Management of a Default Event in the Funding Deed providing Council to terminate any additional funding obligations and repayment of unused funds by WRPT.

Funding shortfall

- Funding Deed Agreement protects Council's investment and interests in the case of a default event at any point in time
- Multiple contributors to the project, shared risk. (Central and Local govt, private funders)
- Robust project management timeline and risk register in place as part of the Funding Deed which is reviewed, updated and reported monthly by the WRPT board
- Within the Funding Deed, WRPT holds responsibility for risks relating to cash flow and increased costs, performance monitoring, early identification and resolution of any issues
- In the Funding Deed, Council's contribution is conditional on the WRPT fully funding the construction of the theatre.
- Management of a Default Event in the Funding Deed providing Council to terminate any additional funding obligations and repayment of unused funds by WRPT

Theatres ongoing operation

- Council's expectations of the theatre's operations are aligned through the original project proposal and provisions within the Funding Deed.
- Response and contingency plan within the Funding Deed for Council to reclaim any IP ownership of WRPT (engineers report, construction plans, architectural plan etc) should the project fail
- In the case of failure all legal and insurance implications for asset returns is stipulated in the Funding Deed.
- WRPT monitoring and reporting schedule in place for all entities involved. An independent qualified person will monitor this on behalf of Council.

D-3523155

2

Reputation and External partnership funding concept <ul style="list-style-type: none"> • Appointment process for the construction contractor has been completed in accordance with central government procurement and due diligence procedures • Media and communications plan in place, regularly scheduled between WRPT, Council and stakeholders • Established relationship between WRPT and Council ensuring transparency and partner arrangements in place by different parties to the project • Clarity within the Funding Deed and in all communications that Council holds no responsibility for the conduct/failure of the WRPT. • Council is a funder only seeking certain outcomes in return for their contribution. 					
Residual Likelihood	Possible	Residual Consequence Driver Strategic Political Service Delivery	Serious	Overall Residual Risk Rating	Rating High
Action Owner			Mitigation		
tba			tba		

NOTE: Risk for the project as it relates to Regulatory, People, H&S, Community Wellbeing, Technology, Operational, Disaster Event, Environmental, and Project Management is the responsibility of WRPT and not Council.

Waikato Regional Theatre HCC Funding Deed in Summary

The Funding Deed seeks to record not just Hamilton City Council's gift towards the theatre but seeks to protect Council's investment and interests in the case of a default at any point in time which could cause Council's funding to evaporate and or be left back in a position where the city and regional is absent of a major performing arts theatre. The Deed can be summarised as follows;

Introduction

The parties to this Funding Deed are the Hamilton City Council (HCC), and the Waikato Regional Property Trust (Trust).

This Deed records the terms and conditions on which the Funding will be provided by HCC regarding the construction of the Waikato Regional Theatre.

It also outlines the additional funding the HCC will provide for the property and equipment maintenance (PEMA) renewals and other related property costs on the basis that the Trust continues to own and operate the Theatre, Drawdowns and what the HCC can do when a default event occurs.

Momentum Waikato was the original project sponsor, but as originally anticipated that role has been taken over by the Trust will be the ultimate owner of the Theatre.

Construction Funding

The HCC will provide an overall contribution of \$25,000,000 for the construction of the Theatre. Of this amount, \$6,350,000 has already been provided. This Deed, therefore, relates to the remaining funding of \$18,650,000.

Conditions

There are a number of conditions to be satisfied prior to HCC being committed to provide its funding, which relate primarily to:

- HCC being satisfied that the design of the theatre will meet HCC's specifications and its operation will be reasonably available for use by both professional and community theatre users.
- That the Trust has the funding necessary to complete the construction of the theatre;
- That an independent expert has verified the costs of the theatre; and monitors the build process.
- That HCC can appoint an independent observer to attend the meetings of the Trust.

Drawdown

The drawdown of any part of the Construction Funding the Trust must deliver a drawdown notice and confirm, including but not limited to:

- The costs for which the funding is required;
- That the drawdown is reasonably consistent with the drawdown schedule; and

- That there has been no material adverse change on the funding and construction of the Theatre
- No default event having occurred.

Reports

HCC will receive all information provided to the project control group set up to manage the construction of the Theatre, as well as on-going reports on its operations akin to the reporting that HCC receives from its CCOs.

Default Event

A Default Event will occur if:

- The Trust becomes insolvent or is unable to meet its financial obligations or the Trust winds up;
- There is a material variation to the purposes of the Trust that amounts to a withdrawal from, or abandonment of the purposes of the Trust;
- The Theatre and/or the Land are for any reason unavailable for a period of more than 3 months;
- Momentum, the Trust, or the Project Working Group decides that the HCC in its absolute discretion considers will materially increase the cost of the Project;
- A material amount of Committed Funding becomes unavailable or insolvent;
- Momentum or the Trust breaches a material term of the Deed or any other agreement relating to the Project, and it is not remedied by Momentum and/or the Trust within 20 Working Days.

The Trust will notify HCC immediately on becoming aware of a Default Event or a material adverse change in the Trust's financial position or completion /availability of the Theatre. Due to a Default Event, the HCC may terminate any additional funding obligations under this Deed and Momentum and the Trust must pay to HCC any amount of Funding that has been paid but not been spent on that date.

Purchase Option

The Deed grants the HCC the option to purchase the Theatre, including the Land, for \$1.00 if a Default Event has occurred, or any other person seeks to exercise a remedy against Momentum or the Trust that might impact on the ownership and operation of the Theatre. This will be secured by an Encumbrance Instrument in favour of HCC to be registered as a first ranking security on the title to the Land.

Sale of the Theatre

The Theatre must not be sold unless HCC consents. If sold, HCC receives its proportionate share of funding from the sale proceeds.

PEMA Funding

The HCC has also agreed to provide funding of \$1.1M per annum (plus CPI adjustment) for the PEMA. The funding commences on the date that the Theatre is completed and ends on the 30 June that is 10 years from the Commencement Date. If HCC is satisfied with the Business Plan and the performance of the Trust in operating and maintaining the Theatre, the Funding will renew for a further 10-year period.

END.

Council Report

Item 16

Committee: Strategic Risk and Assurance Committee
Date: 04 December 2020
Author: Narelle Waite
Authoriser: Becca Brooke
Position: Governance Advisor
Position: Governance Manager
Report Name: Recommendations from Open Committee meetings

Report Status	Open
---------------	------

Purpose - *Take*

1. To seek the Strategic Risk and Assurance Committee's approval of the following recommendations from Committee meeting:
 - Environment Committee Meeting of 1 December 2020, in respect of the Climate Change Programme Update (Agenda [Here](#)).

Recommendations from the Environment Committee Meeting of 1 December 2020

That the Strategic Risk and Assurance Committee notes:

a) *that the Environment Committee approves that 'Climate Change' is classified as a strategic risk and is included on Council's Strategic Risk Register.*

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.

Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

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

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Confirmation of the Public Excluded Strategic Risk and Assurance Committee Minutes - 3 September 2020) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
C2. 2021 Internal Audit Update PwC - Public Excluded)	
C3. Verbal update on any legal issues or risk		
C4. Fraud and Protected Disclosures Update		
C5. Cyber Risks / Issues - Verbal Report		

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

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)
Item C3.	to maintain legal professional privilege	Section 7 (2) (g)
Item C4.	to protect information which is subject to an obligation of confidence and disclosure would likely prejudice continual supply of similar information where it is in the public interest for that information to continue to be available	Section 7 (2) (c) (i) Section 7 (2) (c) (ii)
Item C5.	to protect information which is subject to an obligation of confidence where disclosure would likely damage the public interest	
	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)