



AGENDA

Ordinary meeting of the

Audit, Risk and Finance Subcommittee

**Thursday 4 August 2016
Commencing at 1.00pm
Council Chamber
Civic House
110 Trafalgar Street, Nelson**

Membership: Mr John Peters (Chairperson), Her Worship the Mayor Rachel Reese, Councillors Ian Barker and Brian McGurk, and Mr John Murray

Guidelines for councillors attending the meeting, who are not members of the Committee, as set out in Standing Orders:

- All councillors, whether or not they are members of the Committee, may attend Committee meetings (SO 2.12.2)
- At the discretion of the Chair, councillors who are not Committee members may speak, or ask questions about a matter.
- Only Committee members may vote on any matter before the Committee (SO 3.14.1)

It is good practice for both Committee members and non-Committee members to declare any interests in items on the agenda. They should withdraw from the room for discussion and voting on any of these items.

1. Apologies

Nil

2. Confirmation of Order of Business**3. Interests**

3.1 Updates to the Interests Register

3.2 Identify any conflicts of interest in the agenda

4. Public Forum**5. Confirmation of Minutes**

5.1 23 June 2016

7 - 14

Document number M1948

Recommendation

THAT the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 23 June 2016, be confirmed as a true and correct record.

**6. Status Report - Audit, Risk and Finance
Subcommittee - 4 August 2016****15 - 16**

Document number R6356

Recommendation

THAT the Status Report Audit, Risk and Finance Subcommittee 4 August 2016 (R6356) and its attachment (A1324298) be received.

7. Chairperson's Report

17 - 21

Document number R6372

Recommendation

THAT the Chairperson's Report (R6372) and its attachment (A1592555) be received;

AND THAT the Audit, Risk and Finance Subcommittee annual self-review questionnaire (A1592555) be noted for completion by members of the Subcommittee, and members of the Governance Committee be invited to do the same;

AND THAT, in light of there being no further Audit, Risk and Finance Subcommittee meetings in the 2013-16 triennium, the officer report with responses to the questionnaire, and any recommendations for change, is referred to the Governance Committee for its meeting on 25 August 2016.

8. Council's Key Organisational Risks: Progress Report 22 - 38

Document number R6320

Recommendation

THAT the report Council's Key Organisational Risks: Progress Report (R6320) and its attachment (A1565520) be received.

9. Insurance renewal 2016/17

39 - 41

Document number R5648

Recommendation

THAT the report Insurance renewal 2016/17 (R5648) be received.

10. Corporate Report to 31 May 2016 42 - 59

Document number R6248

Recommendation

THAT the report Corporate Report to 31 May 2016 (R6248) and its attachments (A1575438, A1582911, A1592842 and A1563107) be received.

Recommendation to Governance Committee and Council

THAT unbudgeted expenditure of \$50,000 be approved for engaging external resource to assist delivering the Internal Audit Plan 2016/17.

11. Bad Debts write offs for the year ending 30 June 2016 60 - 61

Document number R5510

Recommendation

THAT the report Bad Debts write offs for the year ending 30 June 2016 (R5510) be received.

12. Internal Audit Report to 30 June 2016 62 - 67

Document number R6205

Recommendation

Receive the report Internal Audit Report to 30 June 2016 (R6205) and its attachment (A1575455).

Recommendation to Governance Committee and Council

Note the internal audit findings, recommendations and status of action plans up to 30 June 2016 as detailed in report R6205.

PUBLIC EXCLUDED BUSINESS

13. Exclusion of the Public

Recommendation

THAT the public be excluded from the following parts of the proceedings of this meeting.

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

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Summary of New and Outstanding Significant Risk Exposures and Control Issues Identified from Internal Audits	Section 48(1)(a) The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7	The withholding of the information is necessary: <ul style="list-style-type: none">• Section 7(2)(j) To prevent the disclosure or use of official information for improper gain or improper advantage

14. Re-admittance of the public

Recommendation

THAT the public be re-admitted to the meeting.

Minutes of a meeting of the Audit, Risk and Finance Subcommittee

**Held in the Council Chamber, Civic House, 110 Trafalgar Street,
Nelson**

On Thursday 23 June 2016, commencing at 1.04pm

Present: Mr J Peters (Chairperson), Her Worship the Mayor R Reese,
Councillors I Barker and B McGurk, and Mr J Murray

In Attendance: Councillors E Davy, P Matheson, G Noonan and P Rainey, and
Chief Executive (C Hadley), Group Manager Infrastructure (A
Louverdis), Group Manager Strategy and Environment (C
Barton), Group Manager Community Services (C Ward), Group
Manager Corporate Services (N Harrison), Senior Accountant
(T Hughes), Internal Audit Analyst (L Anderson), Risk and
Procurement Analyst (S Vaughan), Manager Capital Projects (S
Davies) and Administration Adviser (L Halsall)

1. Apologies

The Chairperson said that Her Worship the Mayor had entered an apology, but was now able to attend the meeting.

There were no further apologies.

2. Confirmation of Order of Business

There were no changes to the order of business.

3. Interests

There were no updates to the Interests Register, and no interests with items on the agenda were declared.

4. Public Forum

There was no public forum.

5. Confirmation of Minutes

5.1 10 May 2016

Document number M1874, agenda pages 7 - 12 refer.

Resolved AUD/2016/041

THAT the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 10 May 2016, be confirmed as a true and correct record.

McGurk/Barker

Carried

6. Chairperson's Report

Mr Peters noted that there was a requirement under the Charter that an annual review of the Subcommittee be undertaken and that it would be necessary to hold a discussion with council officers regarding the process to ensure this happened at the Subcommittee's next meeting in August because this was the final meeting of the term.

Resolved AUD/2016/042

THAT the Chairperson's Report be received.

Peters/McGurk

Carried

7. Internal Audit Plan - 2016/17

Document number R4216, agenda pages 13 - 17 refer.

Internal Audit Analyst, Lynn Anderson presented the report. Ms Anderson said that there were 31 audits planned, and that she would undertake 16 audits, with the remainder split between consultants and expert staff. She reported that there had been a change to the internal audit procedure: extending the response time for corrective action for high risks found in audits to 10 working days.

In response to questions, Ms Anderson said that she believed she would be able to keep progress on track by having a very accurate scope and concentrating on primary risks, although by default some audits may get pushed out. She said suitable separation between officers and internal audit function was achieved by ensuring audits were undertaken by staff not involved in the work being audited and that she would review results.

Resolved AUD/2016/043

THAT the report Internal Audit Plan - 2016/17 (R4216) and its attachment (A1562649) be received;

AND THAT the Subcommittee note the changes in timeframes to the Internal Audit Procedure.

McGurk/Barker

Carried

Recommendation to Governance Committee and Council AUD/2016/044

THAT the Internal Audit Plan 2016/17 (A1562649) be approved;

AND THAT it be noted there will be unbudgeted expenditure required, which will be reported for approval to the Audit, Risk and Finance Subcommittee through the Corporate Report once estimates have been confirmed.

Murray/Barker

Carried

8. Accounting Policies

Document number R5504, agenda pages 18 - 34 refer.

Senior Accountant, Tracey Hughes, presented the report.

In response to questions, Group Manager Corporate Services, Nikki Harrison, explained that Council effectively had the delegation of approving accounting policies via the Annual Plan process.

Ms Harrison highlighted that Council did not revalue buildings for accounting purposes at present.

Resolved AUD/2016/045

THAT the report Accounting Policies (R5504) and its attachment (A1554702) be received;

AND THAT the Subcommittee notes the attached accounting policies will be included in the Annual Report 2015/16.

Murray/Barker

Carried

9. Procurement Policy

Document number R5507, agenda pages 35 - 52 refer.

Risk and Procurement Analyst, Steve Vaughan, presented the report.

Mr Vaughan tabled a document summarising the key changes between the 2015 policy and the new 2016 one (A1571292).

In response to questions, Mr Vaughan said that "preferred supplier" arrangements involved having a contract, certain conditions and expected service performance, and that arrangements had been reviewed and approved by legal advisers.

In further response to questions, Mr Vaughan explained that the bandings relating to quotations had changed in the new policy; of particular note was the fact that there was now a lower figure below which Council was not required to obtain quotes.

Resolved AUD/2016/046

THAT the report Procurement Policy (R5507) and its attachment (A1540508 and A345448) be received.

McGurk/Murray

Carried

Attachments

- 1 (A1571292) Tabled document, Procurement policy update: Key changes from old (2015) policy

Recommendation to Governance Committee and Council AUD/2016/047

THAT the revised Procurement Policy (A1540508) be adopted.

McGurk/Murray

Carried

10. Employee Conflicts of Interest Policy

Document number R5918, agenda pages 53 - 58 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report.

Ms Harrison explained that historically employee conflicts of interest had been managed in an ad hoc way with records being kept by the Senior Leadership Team, Building Unit and Resource Consent Unit. She said the InControl system would be used to ensure all conflicts were recorded and reviewed, and that adequate controls were in place.

In response to questions, Ms Harrison said that the policy included both pecuniary and non-pecuniary interests, and there would be the ability to record ongoing and potential short term conflicts. She added that staff

were asked relevant questions during the interview process and introduced to policies as part of the induction process.

Resolved AUD/2016/048

THAT the report Employee Conflicts of Interest Policy (R5918) and its attachment (A1288320) be received.

Barker/Her Worship the Mayor

Carried

11. Theatre Royal Loan

Document number R6040, agenda pages 59 - 95 refer.

Resolved

THAT the report Theatre Royal Loan (R6040) and its attachments (A1135204, A912504, and A1145163) be received.

Her Worship the Mayor/Murray

In response to a question, Group Manager Corporate Services, Nikki Harrison, confirmed that the Theatre Royal Trust had provided audited accounts to Council's Chief Financial Officer within three months of the Trust's balance date.

In response to a question Chief Executive, Clare Hadley, said that the High Court Review found transfer of the asset not to be a barrier to proceeding, but that the proposition was put to one side because of issues relating to earthquake prone buildings at the School of Music.

Concerns were raised about the status of the loan and the fact that there had been no repayments received to date. There was a suggestion that it should be made clear whether it was a loan or a grant and what the Theatre's financial sustainability was moving forward.

Attendance: The meeting adjourned from 2.32pm to 2.37pm.

Resolved AUD/2016/049

THAT a report of available options in relation to the Theatre Royal Loan is prepared for the Audit, Risk and Finance Subcommittee or its successor.

McGurk/Murray

Carried

12. Interim audit letter for year ending 30 June 2016

Document number R6064, agenda pages 96 - 103 refer.

Group Manager Corporate Services, Nikki Harrison, and Bede Kearney, Audit Director at Audit New Zealand, presented the report.

Ms Harrison reported that the interim audit for the year end was completed in mid-April and a number of recommendations were made in relation to contract and project management.

Mr Kearney explained that the recommendations in relation to contract and project management were around moving towards having a more consistent approach across the organisation and that there were no major concerns. In relation to the audit of the more traditional financial and non-financial systems, he reported that overall they were designed appropriately and were operating well.

In response to a question, Ms Harrison said that Council was looking at a purchasing a centralised system for recording and monitoring contracts.

Resolved AUD/2016/050

THAT the report Interim audit letter for year ending 30 June 2016 (R6064) and its attachment (A1565622) be received;

AND THAT the suggested responses to the recommendations are noted.

Murray/Barker

Carried

13. Capital Projects Carry Forwards 2015/16

Document number R5992, agenda pages 104 - 110 refer.

Senior Accountant, Tracey Hughes, and Manager Capital Projects, Shane Davies, presented the report.

In response to a question, Group Manager Infrastructure, Alec Louverdis, explained he was seeking a global resource consent for gravel extraction. Separately, he said a Code of Practice was being developed relating to working in streams, which would include consultation with iwi and possible inclusion in the Nelson Plan.

Attendance: Councillor Barker left the meeting at 2.54pm.

In response to the Subcommittee's concern at the ongoing delay and the potential risk of flooding, Mr Davies said he would liaise with the operations team with a view to having the issue added to the capital team's "traffic light" report so that progress would be clearly visible.

Resolved AUD/2016/051

THAT the report Capital Projects Carry Forwards 2015/16 (R5992) and its attachments (A1562956 and A1557401) be received.

Murray/McGurk

Carried

Recommendation to Governance Committee and Council AUD/2016/052

THAT Council approves continuing work on 2015/16 capital projects within the 2015/16 approved budgets, noting a final report on carry forwards will come to the Governance Committee's meeting on 25 August 2016.

Murray/McGurk

Carried

14. Operating Expenditure Carry Forwards 2015/16

Document number R6071, agenda pages 111 - 116 refer.

Senior Accountant, Tracey Hughes, and Manager Capital Projects, Shane Davies, presented the report.

Resolved AUD/2016/053

THAT the report Operating Expenditure Carry Forwards 2015/16 (R6071) and its attachment (A1557519) be received.

Murray/McGurk

Carried

Recommendation to Governance Committee and Council AUD/2016/054

THAT Council approves continuing work on 2015/16 operating projects within the 2015/16 approved budgets, noting a final report on carry forwards will come to the Governance Committee's meeting on 25 August 2016.

Murray/McGurk

Carried

15. Corporate Report to 30 April 2016

Document number R5998, agenda pages 117 - 130 refer.

Senior Accountant, Tracey Hughes, and Manager Capital Projects, Shane Davies, presented the report.

Attendance: Councillor Barker returned to the meeting at 3.00pm.

Ms Hughes said the Subcommittee should note that because of the timing of its final meeting the delegations in respect of the draft Annual Report and final carry forwards report would need to be transferred to the Governance Committee.

In response to a question, Ms Hughes said that the \$104,000 in relation to the book fair was not a sum owing to Council. She confirmed that Founders ran the event, and the money raised went to Founders.

In response to a question, Mr Davies said he believed Council would meet the KPI on capital expenditure.

Resolved AUD/2016/055

THAT the report Corporate Report to 30 April 2016 (R5998) and its attachments (A1557787 and A1563107) be received;

AND THAT the Audit, Risk and Finance Subcommittee refer to the Governance Committee its delegation for the review of the draft Annual Report and the 2015/16 Carry Forwards Report.

McGurk/Barker

Carried

There being no further business the meeting ended at 3.05pm.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

4 August 2016

REPORT R6356

**Status Report - Audit, Risk and Finance Subcommittee -
4 August 2016**

1. Purpose of Report

- 1.1 To provide an update on the status of actions requested and pending.

2. Recommendation

***THAT the Status Report Audit, Risk and Finance
Subcommittee 4 August 2016 (R6356) and its
attachment (A1324298) be received.***

Lucy Halsall
Administration Adviser

Attachments

Attachment 1: A1324298 - Status Report - Audit, Risk and Finance
Subcommittee - 4 August 2016

Status Report - Audit, Risk and Finance Subcommittee – 4 August 2016

MEETING DATE	SUBJECT	MOTION	RESPONSIBLE OFFICER	COMMENTS
23 June 2016	Theatre Royal Loan	Resolved AUD/2016/049 <u>THAT</u> a report of available options in relation to the Theatre Royal Loan is prepared for the Audit, Risk and Finance Subcommittee or its successor.	Nikki Harrison	Ongoing

Chairperson's Report

1. Purpose of Report

- 1.1 To seek feedback and approval from the Subcommittee on the annual self-review questionnaire.

2. Recommendation

THAT the Chairperson's Report (R6372) and its attachment (A1592555) be received;

AND THAT the Audit, Risk and Finance Subcommittee annual self-review questionnaire (A1592555) be noted for completion by members of the Subcommittee, and members of the Governance Committee be invited to do the same;

AND THAT, in light of there being no further Audit, Risk and Finance Subcommittee meetings in the 2013-16 triennium, the officer report with responses to the questionnaire, and any recommendations for change, is referred to the Governance Committee for its meeting on 25 August 2016.

3. Discussion

- 3.1 At the last Audit, Risk and Finance Subcommittee meeting I raised the requirement of an annual self-review as contained in the Terms of Reference of the Subcommittee, and undertook to come back to the Subcommittee on this at the August meeting – the last scheduled for this Subcommittee in this term.
- 3.2 As well as a review of the Terms of Reference, Internal Audit Charter and Work Plan (all of which are recent documents which may not need alteration this soon) this is also an opportunity to assess the activities of the Subcommittee and to pass on suggestions for improvement to the relevant incoming Committee/Subcommittee.

- 3.3 The attached draft questionnaire seeks to do this. It will take about five minutes to complete. Input and comments on the questionnaire are welcomed.
- 3.4 My suggestion would be that the questionnaire is noted at this meeting for completion by Subcommittee members and, if agreed, members of Governance Committee also be invited to complete the questionnaire.
- 3.5 Due to this being the last Subcommittee of the 2013-16 triennium, I propose that the officer report containing results and any recommendations for change be referred to the Governance Committee for its meeting on 25 August 2016.

John Peters

Chairperson - Audit, Risk and Finance Subcommittee

Attachments

Attachment 1: A1592555 - Draft questionnaire for Audit, Risk and Finance Subcommittee

AUDIT RISK AND FINANCE SUB-COMMITTEE ANNUAL REVIEW

The Terms of Reference of the Sub-committee require that a self-review of its Terms of Reference, Internal Audit Charter and Work Plan takes place annually.

Although these documents have been implemented within the last twelve months, it is thought appropriate to provide incoming Sub-committee members for the new Council term with a current perspective of the need to review these documents, and also to provide an assessment by current members of the Governance Committee of the activities of the Sub-committee to date, with suggestions for improvements.

Key to Ratings:

1. No progress made in this area
2. Some progress, but improvement needed
3. Progressing satisfactorily
4. Yes, achieved

QUESTIONNAIRE

- 1 Do the following documents require review now?

Terms of Reference	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Internal Audit Charter	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Annual Work Plan	Yes <input type="checkbox"/>	No <input type="checkbox"/>

- 2 Has the Audit Risk and Finance Sub-committee conformed to, and reflected its Terms of Reference?

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved?

- 3 Does the Audit Risk and Finance Subcommittee provide relevant advice and respond in timely fashion?

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved?

A1592555

4 Does the Audit Risk and Finance Sub-committee contain the right level of expertise?

No progress made ☐ ☐ ☐ ☐ Yes, achieved
1 2 3 4

How can this be improved? _____

5 Does the Audit Risk and Finance Sub-committee have appropriate relationships with all relevant parties?

No progress made ☐ ☐ ☐ ☐ Yes, achieved
1 2 3 4

How can this be improved? _____

6 Has the Audit Risk and Finance Sub-committee added value and improved appropriate aspects of the following:

a) Council's Treasury Policies?

No progress made ☐ ☐ ☐ ☐ Yes, achieved
1 2 3 4

How can this be improved? _____

b) Audit of Council's Annual Report and annual accounts?

No progress made ☐ ☐ ☐ ☐ Yes, achieved
1 2 3 4

How can this be improved? _____

c) Guidance to the audit process and management of financial risk?

No progress made ☐ ☐ ☐ ☐ Yes, achieved
1 2 3 4

How can this be improved? _____

A1592555

d) Risk management and internal controls?

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved? _____

e) Monitoring Council's financial and service performance?

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved? _____

f) Appropriate guidance to the Internal Audit function?

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved? _____

g) Business continuity policy and procedure

No progress made	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes, achieved
	1	2	3	4	

How can this be improved? _____

7 In the last year:

a) What do you consider to be the Audit Risk and Finance Sub-committee's key achievement/s?

b) What do you consider to be the Audit Risk and Finance Sub-committee's most significant area/s for improvement?

A1592555

Council's Key Organisational Risks: Progress Report

1. Purpose of Report

- 1.1 To update the subcommittee on progress with identifying and managing key risks to the organisation's objectives.

2. Delegations

- 2.1 The Audit Risk and Finance Subcommittee has oversight of the Council's management of risk.

3. Recommendation

THAT the report Council's Key Organisational Risks: Progress Report (R6320) and its attachment (A1565520) be received.

4. Background

- 4.1 At its meeting on 10 May 2016 the subcommittee considered and received the second progress report on the Council's key organisational risks. This report was developed from updates of a series of broad brush business unit risk assessments conducted during the last quarter of 2015. That update included working with each business unit to develop objectives for risk management which are, as far as possible, specific, measurable and achievable within a defined timeframe.
- 4.2 At the time of writing, these objectives and a consistent set of techniques for assessing risks have been largely put in place. Work is continuing to improve the criteria for assessing risks and to develop the organisation's tools for assessing and managing risks. In addition the Council continues to put in place controls to reduce risks described in the attached update.

5. Update of controls

- 5.1 Since the last report controls to manage risks in the following key risk areas have been improved or further developed:

Key risk area	Controls updated since last report
1. Difficulty maintaining lifeline services in the face of natural hazard and similar events	Earthquake resistance improvements to Civic House complete Earthquake prone buildings legislation passed and being implemented
2. Customer aggression threatening health and safety	Tracking technology in place including for council vehicles
3. Reputational damage from negative media exposure	Employee Conflict of interest policy completed and being rolled out
5. Ineffective contracts and management of contractors compromising council service performance	Revised procurement policy approved Improved council originated contract templates being developed
6. IT failure impacts on service delivery	Further removal of bespoke systems
7. Incomplete and difficult to access records compromise decision making and public services	Rationalisation of offsite records and improved understanding of contents of records stored off site (contract in progress)
9. Fraud corruption or theft reduces Council capacity to deliver work programme	Audit findings being used to improve systems and procedures

6. Emerging key risk area

- 6.1 Since the last report we have identified one area of risk which may become a key risk for Council. This cannot yet be ranked as a key risk as there is not sufficient information to do so. The risk is that a major adverse event may either deny access to Civic House or prevent sufficient staff being available to adequately direct responses to the event and /or provide services required in the short term. Exercises and testing are planned to further clarify this risk.

7. Options

- 7.1 Accept the recommendation – receive the Key Organisational Risks Progress Report.
- 7.2 Reject the recommendation – do not receive the Key Organisational Risks Progress Report.

8. Alignment with relevant Council policy

- 8.1 This report is in alignment with the Council's Risk Management Framework approved in 2015.

9. Assessment of Significance against the Council's Significance and Engagement Policy

- 9.1 This is not a significant decision under the Council's Significance and Engagement Policy.

10. Consultation

- 10.1 No external consultation has been undertaken in the preparation of this report although information from the Council's developing risk management systems has been used in preparing it.

11. Inclusion of Māori in the decision making process

- 11.1 There has been no consultation with Maori in the preparation of this report.

Steve Vaughan

Risk & Procurement Analyst

Attachments

Attachment 1: (A1565529) Progress report 3: Council's key organisational risks

Progress Report 3

Council's Key Organisational Risks

Revised July 2016

A1565520

Page 1 of 14

Overview

The purpose of this document

This third progress report provides an update of the key risks which the Council faces. In many cases the information to meaningfully update risk levels requires significant time to acquire, so this report remains a work in progress.

In particular:

- The assessed risk level for “risks that matter” remain unchanged from the last report although some limited indications of risk reduction are becoming available
- Defining risks in terms of organisational and group objectives is well advanced
- Controls are in place to manage risks that are “mission critical” to our organisation, and work on refining these continues
- Business unit managers are steadily gaining experience in assessing and responding to risks

Developing the Risk Profile

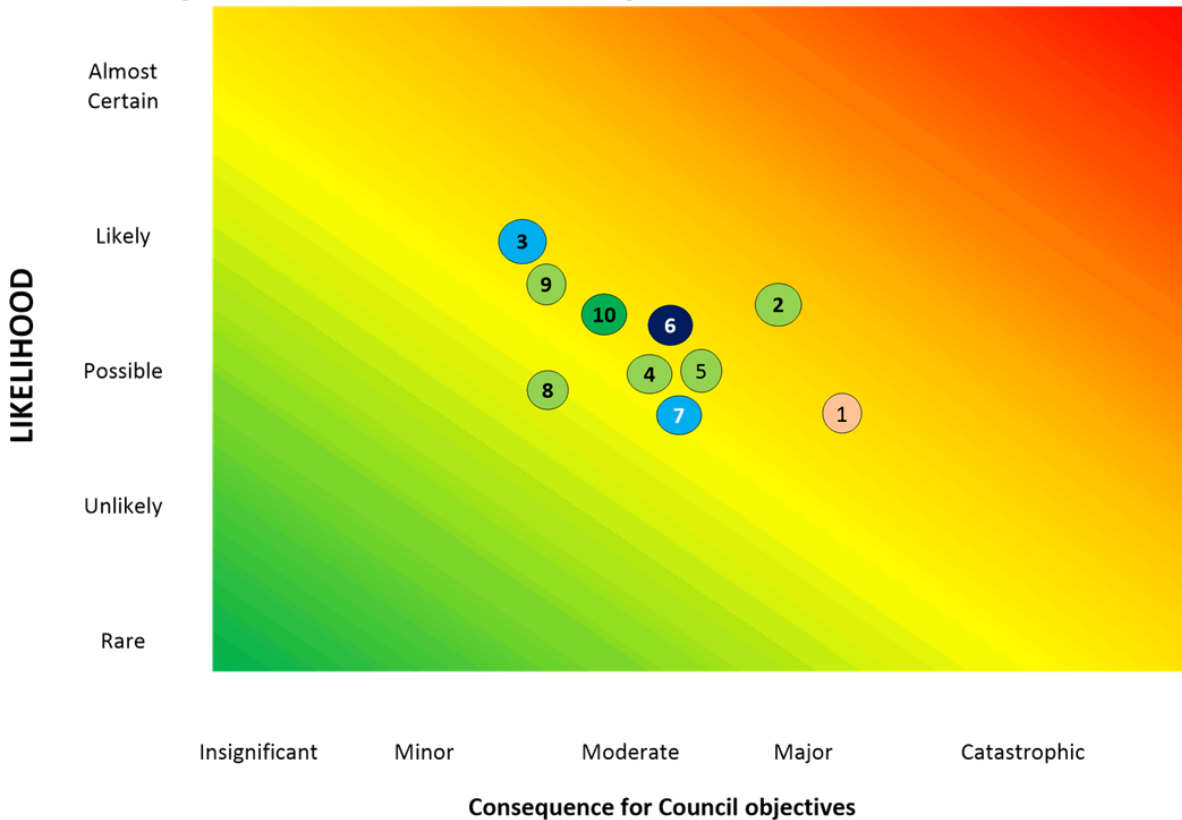
This report is continuing to be developed into a risk profile for the whole organisation providing detail on:






- What are our key organisational risks – body of this report
- Any change in these risks –right hand side panel of each page
- What we are doing to manage these risks – i.e. the controls already in place
- Where we could or need to be doing more – treatments or planned controls
- What risks are emerging as key organisational risks – last section of this report

Next steps, next review, and reporting

- Council’s key organisational risks have been reviewed by the SLT once since the last report.
- Risk Owners and business unit managers are working to more clearly specify risks on the basis of Council objectives, enabling them to focus on the component of the key risks which they control. Updates to risk criteria - standardised descriptions of the consequence (see annex for overview) likelihood, and level of authorising risk acceptance – will aid this going forward

Council Key Residual Risk 'Heat Map'



Risk Owner (Person with the authority and accountability to manage the risk. If the risk cuts across many areas, the CEO is noted as the risk owner, supported by relevant SLT members)									
	Corporate Services		Strategy & Environment		Chief Executive		Community Services		Infrastructure

1. Difficulty maintaining lifeline services in the face of natural hazard and similar events

Why do we see this as a risk?

The Council is responsible for maintaining many lifeline services such as water, wastewater, and the roading network. The operation of these services is subject to disruption by natural hazard and related events such as severe weather events, seismic events, rural fire, or tsunami. Maintaining services and restoring them after these events requires planning and diversion of resources from ‘business as usual’ infrastructure maintenance and development.

Managing the risk

Ongoing focus on infrastructure, asset management planning and civil defence emergency management (CDEM) across the 4Rs of risk reduction, readiness, response and recovery.

Review and improve information management processes during an event to better inform response, recovery and business as usual

Controls - What we have in place

- Civil defence planning, management and resources; Data Management in Emergency Event, Rural Fire Management via Waimea Rural Fire Committee, Business Continuity Plans
- Disaster recovery funding; Natural Hazards project work, Nelson Plan;
- Insurance/Risk sharing;
- Infrastructure planning; LIMS;
- Earthquake strengthening of buildings and structures (e.g. bridges)
- Asset Management plans for each network
- Structural Engineer in Building Unit
- 30 Year infrastructure strategy
- Regional lifeline work

Treatments - What we are planning

- Review, update and test business continuity plan, Review infrastructure insurance arrangements (LAPP v external insurer)
- Hazards – review of impact from significant earthquake or flood on infrastructure, including Civic House Earthquake procedure,
- Explore use of Riskscape - NZ designed natural hazard prediction software package
- Earthquake Prone Building Legislation (passed) implementation

Risk Owner

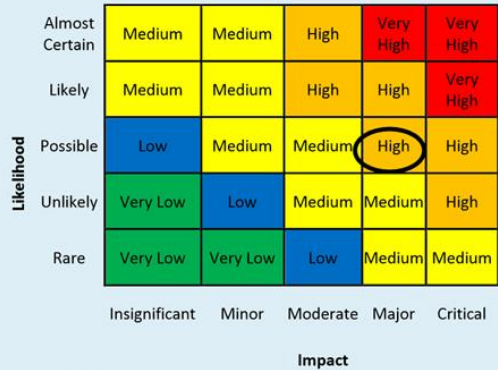
Group Manager Infrastructure

[support from Group Manager Strategy & Environment]

Residual Risk Rating

High

Risk Map



Risk Movement

None

Last Update: July 2016

2. Customer Aggression Threatening Health & Safety of those who work for and with Council

Why do we see this as a risk?

The Council's objective is to have all those who work for us safe at work. Council staff, elected representatives, contractors and volunteers can be threatened and abused while carrying out duties at Council facilities or in the field, leading to work stress and fatigue. Elected representatives and the staff who have a public interface (e.g. Customer Service centre, contracted staff, public events, libraries) experience aggression on a regular basis. The potential for serious assault to occur is always present.

Managing the risk

Council is working on reviewing and managing the risk through best practice H&S management systems and continuous improvement.

Controls - What we have in place

- Recruiting assessment for individual resilience
- Workplace design and operation – Civic House security (including meetings), locked door to staff areas
- Various policies and procedures to address response
- Alarms and emergency procedures;
- Cell phones/radio and vehicle and working tracking technology
- Training for high exposure positions
- Employee Assistance Programme
- Video camera surveillance of CSC
- Minimum cash holdings
- Work in pairs in the field where appropriate
- Incident reporting
- Incident Management Team

Treatments - What we are planning

- Recommendations from security review
- More risk assessments for events involving those exposed to the public
- Improvements to H&S systems and reporting
- Lone Worker policy

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

High

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
	Impact					
		Insignificant	Minor	Moderate	Major	Critical

Risk Movement

Some preliminary indications that the controls are reducing the frequency of these incidents.

Last Update: July 2016

3. Reputational Damage from Negative Media Exposure

Why do we see this as a risk?

The ongoing public and media scrutiny of Council activities combined with conflicting interests and perceptions of individuals and community sectors can result in negative and incorrect media exposure. This in turn can lead to reputational damage, reduced staff morale, and loss of public confidence and trust.

Managing the risk

Proactive and early communications of fact about Council operations.

Controls - What we have in place

- Communications Manager role
- Communications plans for all projects and weekly meetings with Project Managers
- Customer surveys
- Use of different communications media
- LGNZ know how training and internal induction training
- Councillor code of conduct
- Standing orders
- Councillor interests register
- Senior staff conflict of interest register
- Media Policy
- Report it now
- Privacy officer appointed
- Internal communications resource to enable staff to provide correct information about Council work

Treatments - What we are planning

- Conflicts of interest policy – completed and roll out underway
- Staff conflicts of interest register being developed

Risk Owner

GM Community Services

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical
		Impact				

Risk Movement

None

Last Update: July 2016

4. The nature of field work or working alone exposes workers and/or members of the public to higher likelihood of injury or stress

Why do we see this as a risk?

The nature of many field operations exposes workers (including contractors, council staff and volunteers) to the increased likelihood of accidents impacting on the objective to keep our people safe. Lone workers (such as building inspectors parking staff etc), and workers undertaking hazardous tasks, (river work, forestry activities, working at heights, confined spaces, or with asbestos or hazardous substances) are particularly exposed.

The public may also be at risk to potential harm whilst entering areas of active Council controlled works or using Council owned facilities, parks and reserves or while attending public events where hazards are not identified or managed fully.

Managing the risk

Review of H&S practices and management of contractor H&S across Council and working to ensure Council has best practice H&S management systems, leadership and planning in line with legislation changes and robust risk assessments integrated across whole of Council.

Controls - What we have in place

- Health and Safety Management System (Charter, Standards, Strategic Plan)
- H&S policy , management plans and procedures
- Training (incident investigation, risk management, safe work observations, induction) for CMT/SLT and Team Leaders
- Event reporting analysis, corrective and preventative actions
- H&S performance reporting and trend analysis
- Visible Felt Leadership (Safe work observations of operational activities by Council leaders)
- Electronic incident and risk management system (InControl) in place
- Incident Management Team including procedure and training
- Specialised leadership training for CMT/SLT and Team leaders

Treatments - What we are planning

- Review of contracts and contractor processes relating to H&S
- Targeting auditing/oversight of high risk activities
- Implementing routine risk assessment practices
- Transfer of existing hazard registers to workplace risk management information in InControl
-

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Impact				
		Insignificant	Minor	Moderate	Major	Critical

Risk Movement

None

Last Update: July 2016

5. Ineffective Contracts and Management of Contractors compromises Council service performance

Why do we see this as a risk?

Inconsistent quality of contracts and oversight of the activities of contractors can impact on our objectives to keep people safe, operate within budget, deliver quality services and maintain a high reputation. The larger contracts include EIL, Nelmac and Olsens (forestry), which if not well controlled create risks to the Council in terms of safety, financial, reputational and asset management and protection. The quality of contracts and Council supervision may be reduced due to workload pressures or the visibility of contractor activity. The potential to overlook contractor Health and Safety management exposes Council to liability under the Health and Safety at Work Act 2015.

Managing the risk

The Organisational Assurance business unit has a review of Council management of Contractor H&S well underway.

Controls - What we have in place

- Contractor selection process and pre-qualification forms
- Contracts and specifications
- Contract performance management processes including reviews
- Where relevant, contractors follow NCC procedures
- Contractor audits/oversight
- Using contractors reputation as an attribute
- Revised procurement policy (for Council approval in July) – supporting procedures being developed

Treatments - What we are planning

- Improved contract templates, policies, procedures and oversight – being implemented next quarter
- Review of contractor performance management
- Coaching of contract managers to support and align to Council expectations

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical

Impact

Risk Movement

None

Last Update: July 2016

6. Technology (IT) failures Impacts on Service Delivery

Why do we see this as a risk?

Council is heavily reliant on technology for its day to day business operations. Failure of software/ hardware or phone systems would impact on the ability to provide promised levels of service. Such failures can also result in financial loss and the potential for loss of key information. Causes may include cyber-attack, electricity interruptions, unsupported and out of date hardware/software, or other failures due to natural or infrastructure events.

Managing the risk

IT is in the process of moving to an outsourced model for externally hosted/supported systems.

Controls - What we have in place

- IT replacement and upgrade planning
- IT backup and disaster recovery procedures
- IT and phone system redundancy
- IT security and regular IT security review
- Emergency plans – "Plan B" provider out of region
- Annual recovery tests
- Simplification policy - fewer vendors, models.
- ITIL and Cobit frameworks (recognised best practice frameworks for delivery and planning of IT services)
- Use of multiple phone providers for emergency
- UPS, Generator & fuel supply
- Change management processes
- IT steering group

Treatments - What we are planning

- Implementation of externally hosted and supported IT infrastructure
- Cyber-attack insurance being considered
- Business continuity plan update commenced
- Removing dependency on bespoke systems (approx. 15% remaining)
- IT strategic plan

A1565520

Risk Owner

GM Corporate Services

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical
		Impact				

Risk Movement

None

Risk Update: July 2016

7. Incomplete and difficult to access records compromise decision making and public services

Why do we see this as a risk?

Council is required to comply with the Public Records Act. Council relies on a number of different systems to provide information for the public and on which to base decisions. Where the information is incomplete or difficult to access this can lead to poor advice or decision making with the potential for litigation and adverse media reporting. For example, poor information on GIS used for planning can result in costly construction delays and rework. Failure to follow records management processes may result in documents/information being overlooked which in turn creates a risk of legal non-compliance and reputational damage. Our inherited mix of paper and electronic records may lead to incomplete information provision to the public.

Managing the risk

The Strategic Records Steering Group are carrying out specific risk assessment and assigning resources.

Controls - What we have in place

- Quality assurance and sign off processes
- Review of outputs
- Promapp
- Peer review
- Document management policy and process
- Records management audits
- Archivist position
- 5-year Records Strategy

Treatments - What we are planning

- Implementation of Records Strategy across the organisation
- Review of organisations use of the EDRMS system and knowledge of Legislation
- Property Information management review
- Rationalisation of off-site storage of records including improved understanding content of records stored off site
- Approve and implement Spatial Information Strategy

Risk Owner

GM Community Services

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical

Impact

Risk Movement

None

Last Update: July 2016

8. Loss of specialist expertise compromises capability to deliver council work programme

Why do we see this as a risk?

Council's delivery of all of its objectives can be affected by the loss of staff in specialised roles or with extensive organisational knowledge. Loss of staff, particularly in key project or planning phases has the potential to disrupt timing, impact on outcomes and place pressure on remaining staff. The potential exists particularly within areas that are demand or timeline driven such as Planning and Communications, but also where there are areas of specialised expertise such as GIS, Environmental Programmes.

Managing the risk

Controls - What we have in place

- Procedure and Promapp project documentation
- File management system
- HR notice periods and handovers
- More than one staff member with knowledge of key roles/projects
- Succession, business units and long term planning
- Use of Contractors to cover gaps
- Workplace Support Service and Reporting
- Report it Now
- Promapp (procedures)
- Staff survey for morale and culture
- CEE committee/relationship with CE
- Preferred suppliers, short term contracts, working with other BCA's
- Business Planning
- Networking within sector e.g. SOLGM, Ingenium.

Treatments - What we are planning

- Implementation of standardised project tracking/recording protocols (in progress)
- Planned rewrite of Council risk management policy, risk criteria, and supporting procedures plus manager KPI

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	Medium	High	Very High	Very High
	Likely	Medium	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High	High
	Unlikely	Very Low	Low	Medium	Medium	High
	Rare	Very Low	Very Low	Low	Medium	Medium
		Insignificant	Minor	Moderate	Major	Critical
Impact						

Risk Movement

None

Last Update: July 2016

9. Fraud, corruption or theft reduces the Council's capacity to deliver its work programme

Why do we see this as a risk?

Economic crime is a potentially fundamental exposure for any organisations. NCC has fraud exposures both internally and via the reliance on use of contractors and volunteers for activities such as festivals and through provision of grants. Fraudulent activities reduce the council's ability to deliver on most of its objectives which involves the expenditure funds or generation of revenue. Such activities also divert time and resources to track and rectify them

Managing the risk

Council has a system of internal controls over all aspects of its business. These are being progressively audited and audit recommendations used to strengthen controls where required. All audits will include an assessment of internal controls and fraud risk. A physical security review has been completed.

Controls - What we have in place

- Internal controls
- Internal and External audit
- Code of conduct
- Organisational values
- Building security systems
- Report It Now
- Review of community assistance grants process
- Delegated authorities
- Segregation of duties
- Findings from physical security review being implemented

What is planned?

- Fraud risk assessments – in progress
- Completion of targeted internal audit to provide assurance on internal control to reduce fraud risk
- Fraud prevention training

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

MEDIUM

Risk Map

	Almost Certain	Likely	Possible	Unlikely	Rare
Likelihood	Medium	Medium	High	Very High	Very High
	Medium	Medium	High	High	Very High
	Low	Medium	Medium	High	High
	Very Low	Low	Medium	Medium	High
	Very Low	Very Low	Low	Medium	Medium
	Insignificant	Minor	Moderate	Major	Critical
	Impact				

Risk Movement

None

Risk Update: July 2016

10. Breach of Privacy of Personal Information affects council's reputation

Why do we see this as a risk?

Information held by Council is publicly available but may include personal information that should not be disclosed. Staff may inadvertently or wilfully disclose personal information, either electronically or by supplying documents or leaving documents unattended, damaging the Council's reputation. This can possibly lead to legal action.

Managing the risk

Controls - What we have in place

- IT security systems
- IT flags on withheld information (pop ups) database and GIS
- Housekeeping (tracking, suitable storage of records)
- Locked Tardis files
- Code of conduct
- Confidentiality clause in employment agreements
Access to ratepayer and owner names is controlled in GIS systems (NMap, Top of the South Maps and contractor access to GIS databases)
- LGOIMA
- Privacy officer appointed

Treatments - What we are planning

- Induction training on Privacy – commenced
- Internal audit of Privacy Act compliance within high risk areas – in progress

Risk Owner

Chief Executive

[support by all Senior Leadership Team]

Residual Risk Rating

MEDIUM

Risk Map

Likelihood	Almost Certain	Medium	High	Very High	Very High
	Medium	Medium	High	High	Very High
	Likely	Medium	High	High	Very High
	Possible	Low	Medium	Medium	High
	Unlikely	Very Low	Low	Medium	High
	Rare	Very Low	Very Low	Low	Medium
		Insignificant	Minor	Moderate	Major
		Critical			
		Impact			

Risk Movement

None

Risk Update: July 2016

Annex: Key Risk Management Concepts

Risk: The effect of uncertainty on objectives.

Risk is usually described as a combination of consequence for a given objective or objectives and the likelihood of that consequence eventuating. The levels of risk set out in this report are derived from a consistent set of judgements about the acceptability of given levels of consequence and likelihood.

Consequence: The effect that a particular (uncertain) event would have on a given objective (or objectives). At present consequences are scaled using the following consequence scales:

- **Safety of staff or public:** from minor injury to multiple fatalities
- **Health of staff or public:** from few people affected temporarily to large numbers with serious effects
- **Asset performance:** from few people affected by failure to several thousand affected
- **Environmental:** from short term temporary impact to major/ permanent environmental damage
- **Historical/ cultural:** from minor/temporary loss of historical record to major damage / destruction of nationally important objects/ buildings etc.
- **Financial:** from losses of less than \$100,000 to more than \$5million
- **Reputation:** from minor reaction by a small number to complete loss of confidence in the council
- **Relationship with Iwi:** from minor issues to complete breakdown of relationships

Likelihood: scale extends from rare (e.g. less common than 1 in 100 year event) to almost certain.

Residual Risk: The level of risk remaining after controls have been put in place. The risk levels given in this report are all residual risks.

Controls: Actions which are in place which modify (generally reduce) risks.

Treatments: Actions which may be taken but are yet to be taken to modify (generally reduce) risks.

Insurance renewal 2016/17

1. Purpose of Report

- 1.1 To update the subcommittee on the 2016/17 insurance renewal.

2. Delegations

- 2.1 The Audit, Risk and Finance subcommittee has responsibility for risk management.

3. Recommendation

***THAT the report Insurance renewal 2016/17
(R5648) be received.***

4. Background

4.1 Top of the South Collective

- 4.2 Nelson City Council is part of the Top of the South Collective with Tasman District Council and Marlborough District Council which was formed 1 July 2011. The insurance broker is Jardine Lloyd Thomson (JLT) and Nelson City Council has various insurance policies including:

- Material Damage;
- Business Interruption;
- Motor Vehicle;
- Public and Professional Indemnity;
- Crime, Statutory and Employers Liability;
- Harbour Masters and Wreck Removal Liability;
- Hall Hirers Liability;
- Personal Accident;
- Forestry.

4.3 Local Authority Protection Programme

- 4.4 Separately, Council is a member in the Local Authority Protection Programme (LAPP) scheme which is a mutual scheme whose membership consists of 32 local authorities. It is aimed at providing insurance cover for damage to infrastructural assets from natural hazard

events. It only covers the 40% of damage costs not covered by the National Disaster Recovery Plan which currently covers 60%. Council has \$719 million of infrastructure assets covered by the Local Authority Protection Programme (\$696m 2015/16).

5. Discussion

Top of the South Collective

- 5.1 Material Damage premiums have decreased by \$48,000 (8%) for 2016/17. The Standard & Poor's Claims paying ability rating of the insurers continue to be A (strong) and above.
- 5.2 Changes to the insurance policies include:
 - 5.2.1 With the softening in the reinsurance market Council has seen also an increase in some of the Material damage and Business Interruption sub-limits in the policies.
 - 5.2.2 Motor vehicles – previously the policy operated with a burning cost adjustment ie the insurer estimates the premium for the year but it is adjusted at the end of the year retrospectively, depending on the number and size of claims. The Top of the South group have decided to move to a fixed price to provide some certainty for budgeting purposes.
 - 5.2.3 Public Liability – The Waimea Rural Fire Committee (WRFC) after taking advice, have determined that they are very unlikely to ever call on their Forest and Rural Fire Act insurance cover, as they have a number of ways to recover costs under legislation including levying stakeholders such as Council. They have advised stakeholders of their intentions to cease holding this cover. This will avoid the current situation where stakeholders are effectively paying twice for insurance (ie, as stakeholders and via WRFC). WRFC also requested Council check their limit to ensure it is sufficient. Officers have increased the limit from \$1m to \$2m, which more fairly reflects the costs of fighting large fires. This has a cost of \$3,500pa.
 - 5.2.4 Statutory liability – the policy includes defence costs; the limit has been increased from \$1m to \$2m per claim due to the new Health and Safety Act (although fines under the Act can't be insured, defence costs can). This has cost an additional \$2,000pa which is covered by savings in the material damage premiums.

Local Authority Protection Plan

- 5.3 A report was brought to the 31 March 2016 Sub-committee discussing whether to exit from the LAPP scheme from 1 July 2016 and the appropriate level of cover required for Councils infrastructure assets. The decision was delegated to the Chair of the Governance Committee, the Mayor and the Chief Executive at the 5 May 2016 Council meeting and the decision was made that it was appropriate to stay with the LAPP scheme for the 2016/17 renewal.

- 5.4 A further decision needs to be made about whether the shared loss limit of \$125m for LAPP is enough given the results of risk modelling work on Council's flood and earthquake risks using Tonkin and Taylor analysis and data on our infrastructure assets (including location and value).
- 5.5 A draft report has been received from Aon/Tonkin and Taylor on the earthquake loss estimate, however it is still being reviewed by Treasury, who commissioned the work on Councils behalf. The decision on the appropriate level of cover to purchase was also delegated to the Chair of the Governance Committee, the Mayor and the Chief Executive at the 5 May 2016 Council meeting and the decision will be made once the report is finalised.

Other matters

- 5.6 Treasury has not yet put out a consultation document on the current 40/60% cost sharing arrangement. This consultation document will include consideration of Central Government contributing a lower percentage for smaller more frequent events, introduction of risk management regulations etc.

6. Options

- 6.1 The recommendation is to receive the report.

7. Alignment with relevant Council policy

- 7.1 This recommendation is not inconsistent with any previous Council decision.

8. Assessment of Significance against the Council's Significance and Engagement Policy

- 8.1 This is not a significant decision.

9. Consultation

- 9.1 No consultation has been undertaken in preparing this report.

10. Inclusion of Māori in the decision making process

- 10.1 No consultation with Maori has been undertaken in preparing this report.

Nikki Harrison
Group Manager Corporate Services

Attachments

Nil

Corporate Report to 31 May 2016

1. Purpose of Report

- 1.1 To inform the members of the Audit, Risk and Finance Subcommittee of the financial results of activities for the 11 months ending 31 May 2016 compared to the approved operating budget, and to highlight and explain any permanent and material variations.

2. Delegations

- 2.1 The Audit, Risk and Finance Subcommittee has oversight of the management of financial risks.

3. Recommendation

THAT the report Corporate Report to 31 May 2016 (R6248) and its attachments (A1575438, A1582911, A1592842 and A1563107) be received.

It is recommended that the Governance Committee and Council

THAT unbudgeted expenditure of \$50,000 be approved for engaging external resource to assist delivering the Internal Audit Plan 2016/17.

4. Background

- 4.1 The financial reporting focuses on the 11 month performance compared with the year to date approved operating budget.
- 4.2 Unless otherwise indicated, all measures are against approved operating budget, which is LTP budget plus any carry forwards, plus or minus any other additions or changes as approved by Council throughout the year.
- 4.3 Budgets for operating income and expenditure are phased evenly through the year, whereas capital expenditure budgets are phased to occur mainly in the second half of the year.

5. Discussion

5.1 For the 11 months ending 31 May 2016, the activity surplus/deficits are \$3.7 million favourable to budget.

5.2 Financial information provided in attachment 1 to this report are:

- A financial measures dashboard with information on rates revenue, operating revenue and expenditure, and capital revenue and expenditure. A new icon has been added to each applicable measure, indicating whether the variance is increasing or decreasing (arrows) and whether that trend is favourable or unfavourable (green or red).
- A grouping of more detailed graphs and commentary for operating income and expenditure. The first set of charts and the commentary is by category (as in the annual report) and highlights significant permanent differences and items of interest. Variances due to timing will not be itemised unless they become permanent. The second set of charts are by activity.
- A treasury measures dashboard with a compliance table (green = compliant), a forecast of the debt/revenue ratio for the year, and a graph showing debt levels over a rolling 12 month period.
- High level balance sheet.
- A debtor analysis graph over 12 months, clearly showing outstanding debt levels and patterns for major debt types along with a summary of general debtors > 3 months and over \$10,000 and other debtors at risk.
- Two capital expenditure graphs – actual expenditure against operating budget for the financial year, and year to date expenditure against approved operating budget by activity.

5.3 Operating income and expenditure variances have decreased since the March report to this subcommittee. \$3.0 million of the variance has been requested to be carried forward to 2016/17 to fund work that has been delayed. \$1.5 million of that variance is loan-funded (grants for capital works).

5.4 Capital expenditure is \$18.4 million under budget. Potential carry forwards of \$14.3 million have been identified.

6. Guarantees

6.1 On the Audit Risk and Finance subcommittee work plan is an annual update on Council guarantees. These are disclosed in the Annual Report in the notes to the accounts.

6.2 Council is a guarantor of the New Zealand Local Government Funding Agency Limited (LGFA) along with 43 other local authorities. Council

consulted on becoming a borrower and guarantor in the Long Term Plan 2012-22.

- 6.3 The LGFA was incorporated in December 2011 with the purpose of providing debt funding to local authorities in New Zealand. Standard and Poor's have given the entity a credit rating of AA+ which is equal to the NZ Government sovereign rating.
- 6.4 Council is a guarantor of all of LGFA borrowings in the event of a council default. At 30 June 2016 the LGFA had borrowings totalling \$6.490 billion (30 June 2015 \$4.955 billion).
- 6.5 In a default event, each guarantor would be liable to pay a proportion of the amount owing. The proportion to be paid by each guarantor is set in relation to each guarantor's rates income. The likelihood of a local authority borrower defaulting is extremely low and all of the borrowings by a local authority from the LGFA are secured by a rates charge. Attachment 2 provided by the LGFA shows the mitigations to NZ Councils facing financial distress and the cascade of impacts on the LGFA if this was to occur.
- 6.6 Council has been unable to determine a sufficiently reliable fair value for the guarantee and therefore does not recognise a liability.
- 6.7 There are no other guarantees given by Council.

7. Community Loans

- 7.1 On the Audit Risk and Finance subcommittee work plan is an annual update on Community Loans. These are disclosed at a high level in the Annual Report in the notes to the accounts. Attachment three shows the amounts outstanding at 30 June 2016.

8. Special housing areas

- 8.1 Council entered into a Housing Accord in June 2012 and considered eleven Proposed Special Housing Areas (including Bett Carpark) between December 2015 and March 2016. Of those, nine SHAs were gazetted. Costs associated with the work required to evaluate and report on those SHAs were low, primarily legal and met by existing budgets.
- 8.2 Council ran an Expressions of Interest and Request for Proposals process for Bett Carpark from March to May 2016. This process incurred legal, valuation, architectural and urban design consultant costs of \$27,000 + GST which were met by the existing Property Asset Review budget. Further legal costs of up to \$10,000 associated with the negotiation and signing of the sale and purchase agreement for Bett carpark will be met from the proceeds of the sale of the property.
- 8.3 In June and July 2017 Council received and reported on five other requests for additional SHAs, as well as amendments to the qualifying criteria for two existing SHAs. The work required to evaluate and report on those SHA's incurred architectural design (used to demonstrate the

permitted baseline), and legal costs associated with providing Council legal advice and for the preparation of Deeds. The need for this work was unanticipated and unbudgeted for. The costs to date associated with this work have totalled \$17,310 + GST. This is expected to be the end of work required on establishing new SHAs as HASHA is repealed on 16 September 2016.

9. Internal audit costs

- 9.1 At the 23 June 2016 subcommittee meeting the Internal Audit Plan 2016/17 was approved. It was noted that there will be unbudgeted expenditure required to engage external resource to assist with completing the 2016/17 program. An estimate was to be brought for approval through the next Corporate Report. It has been estimated that a budget of \$50,000 will be needed.

10. Rates rebates

- 10.1 Council administers the rates rebate scheme on behalf of the Department of Internal Affairs. Almost 90% of the rates rebate applications are processed between mid-July and mid-September each year. During this period three additional staff are employed on a temporary basis to carry out the interviews and process the applications. Staff also visit homes and some rest homes to assist ratepayers who are unable to make it into the Council.
- 10.2 The maximum rebate amount and income threshold are adjusted annually by the rate of inflation therefore reducing the likelihood of the scheme not being utilised due to inflation and increasing incomes.
- 10.3 For the 2015/16 year the maximum rebate was increased from \$605 to \$610 and the income abatement threshold was increased from \$24,250 to \$24,440. The amount of the rebate granted depends on the level of rates and household income as well as number of dependents.
- 10.4 The below table shows the uptake in rates rebates compared to previous rating years.

10.5

Rating Year	2015/16	2014/15	2013/14
Number of approved rebate applications	1,942	2,007	2,061
Dollar value of rebates granted	\$1,111,444	\$1,116,324	\$1,131,120
Maximum rates rebate	\$610	\$605	\$595
Income abatement threshold	\$24,440	\$24,250	\$23,870

11. Alignment with relevant Council policy

- 11.1 The financial reporting is prepared comparing current year performance against the year to date approved budget for 2015/16.

12. Assessment of Significance against the Council's Significance and Engagement Policy

- 12.1 There are no significant decisions.

13. Consultation

- 13.1 No consultation is required.

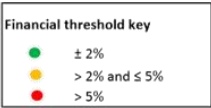
14. Inclusion of Māori in the decision making process

- 14.1 No consultation is required.

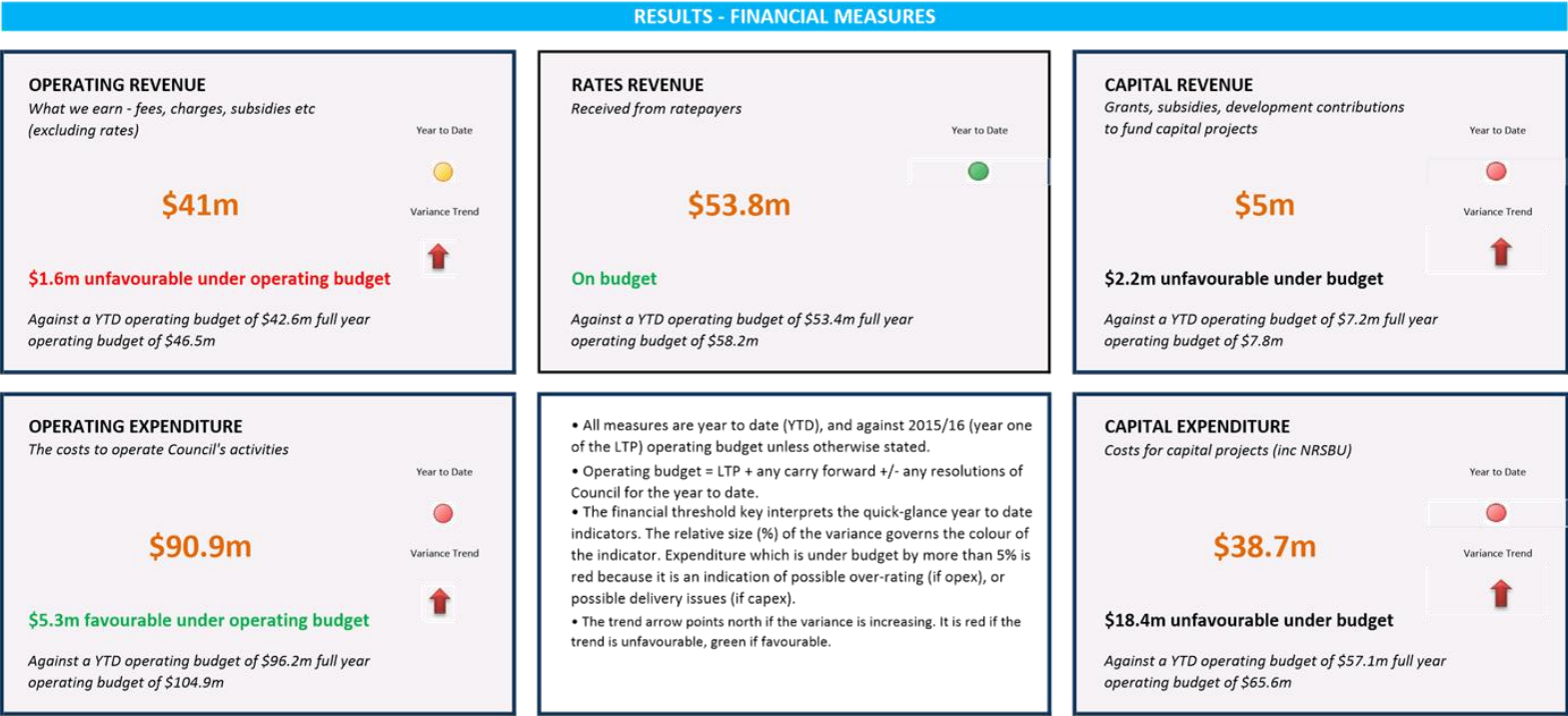
Tracey Hughes
Senior Accountant

Attachments

- Attachment 1: Financial reporting attachments (A1575438)
Attachment 2: LGFA information on risk of financial distress (A1592842)
Attachment 3: Intermediary and interest free loans (A1582911)
Attachment 4: Major projects summary (A1563107)



KEY INDICATORS
May 2016
Whole of organisation



May 2016

OPERATING INCOME AND EXPENDITURE BY CATEGORY

Commentary

Other operating revenue \$1.6m less than approved budget.

- Grants, donations and subsidies are \$766,000 less than operating budget - These are largely expected to be timing differences with \$282,000 related to NZTA claims (reflecting the timing of expenditure), \$114,000 for book fair proceeds due in June and \$509,000 relating to the claim lodged with the Ministry of Civil Defence and Emergency Management for the 2011 emergency.

- Fees and charges \$962,000 less than operating budget - landfill fees are \$198,000 less than budget due to volumes; this is likely to be a permanent difference. \$1.1 million relates to forestry with the Brook harvest not yet finalised but estimated at \$150,000. The forestry review has delayed planned harvests resulting in forecast full year unrealised income of \$900,000. Associated harvest costs will likewise not occur. Forestry is a closed account. Trade waste, the crematorium and marina casual use accounts are significantly ahead of year to date budget (total \$232,000). There are also many timing differences in both directions which are anticipated to smooth out by the end of the year.

- Regulatory income \$401,000 more than operating budget- \$83,000 relating to parking regulation will be a permanent difference as the reduction of income under the new parking policy is less than had been anticipated. Resource consents income is currently \$143,000 better than budget and \$188,000 better than 14/15 full year as more consents have been processed. Dog reistrations, rates penalties and petrol taxes collected have all been higher than expected.

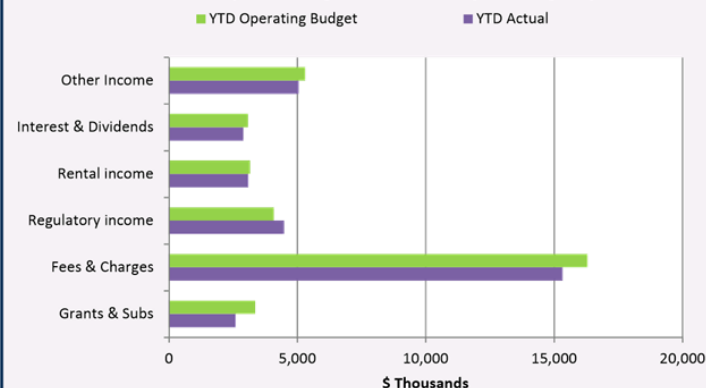
- Other income is \$188,000 less than operating budget - Internal income in the Solid Waste group of accounts reflects less than expected expenditure particularly in waste minimisation.

Operating Expenditure \$5.3m less than approved budget (\$2.5m carry forward requested)

- Total staff costs including overhead \$1.2 million less than budget - opex \$688,000 and capex \$517,000 less than budget. \$485,000 of the total is related to wages and salaries; the remainder is overhead including consultancy and training.

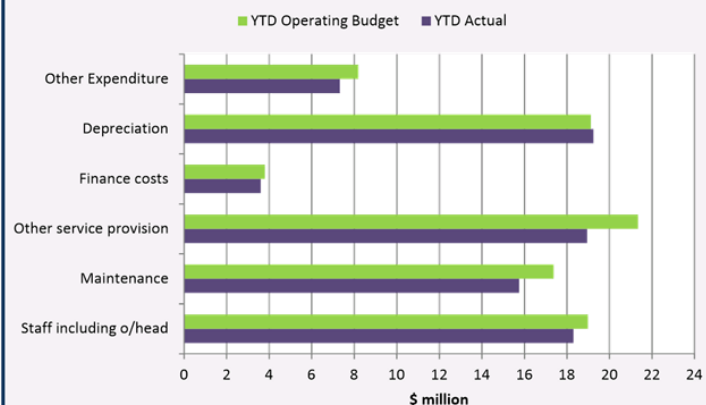
- Maintenance costs are \$1.6 million less than budget (\$363,000 requested as carry forward to 2016/17). \$633,000 of the total is reactive or unprogrammed maintenance. Of that, \$91,000 year to date is a provision for emergency work as required by NZTA. Otherwise, the nature of reactive budgets is that the expenditure is unable to be forecast with any accuracy and it is likely that there will be a permanent difference at year end. Programmed maintenance is \$540,000 less than budget. Some minor savings have been flagged but indications are that the majority of budgets are expected to be spent. Base maintenance is less than budget by \$446,000 with the Transport activity \$425,000 under budget. Much of this remains as programmed to be spent before the end of the financial year although we anticipate that there will be some underspend in subsidised roading that should be carried forward in order to access NZTA funding under their three year cycle. Water treatment expenses are \$236,000 over budget due to investigative work around a single source of water as required by the Maitai resource consent renewal process. Other utilities budgets are \$256,000 under budget which is expected to be a timing difference apart from

Other Operating Revenue by Category



Excludes internal interest

Operating Expenditure by Category



Excludes internal interest

Attachment 2

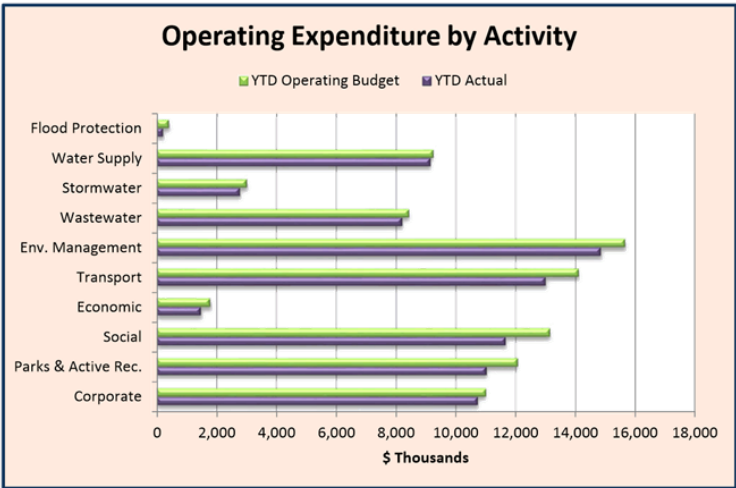
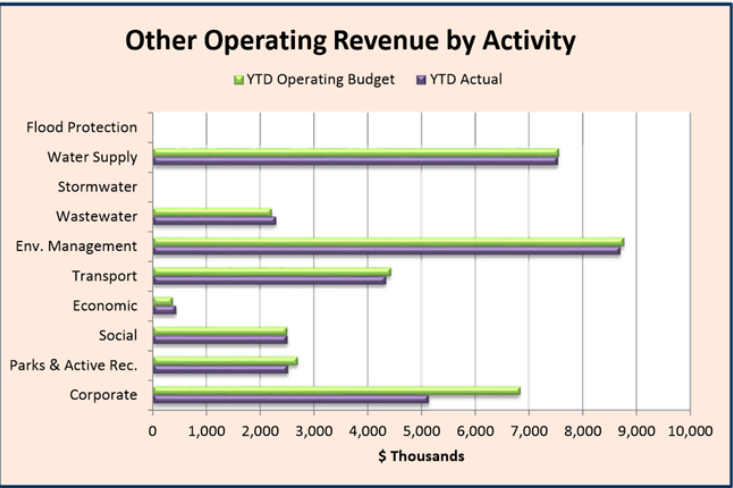
\$110,000 year to date (\$120,000 full year) which was budgeted after signalling from central government that there would be some transitioning between the Building Act and the RMA, however no standards or guidance has yet been available to progress this. Some small savings are now also being identified.

- Other service provision \$2.4m less than budget (\$1.8 million requested as carry forward to 2016/17). \$349,000 identified permanent differences including savings in Total Mobility operations and the water metering contract along with unused provision for weathertight homes claims. The grant for the School of Music earthquake strengthening and refurbishment is running \$969,000 behind budget year to date and a carry forward in the region of \$1 million is anticipated. Variances totalling \$333,000 in the solid waste group are partly permanent (volume related internal expenditure offsetting internal income) and partly timing (toe embankment maintenance likely to slip into 2016/17). Emissions Trading Scheme levies have been paid and provisions made, together totalling \$182,000 more than approved budget as the unit price has increased sharply this year. Environmental monitoring/programmes such as Nelson 2060, Project Maitai/Mahitahi and Nelson Nature are behind budget \$306,000 year to date as some projects had a late start and the timing of planting and river works is seasonal. Much of this variance is expected to be spent by June. Grants budgeted for work at Saxton Field and on the Bank Lane canopy totalling

\$467,000 are not expected to be paid until 2016/17. Unspent budget (currently \$207,000) for the Events Contestable Fund will be transferred to a reserve at year end.

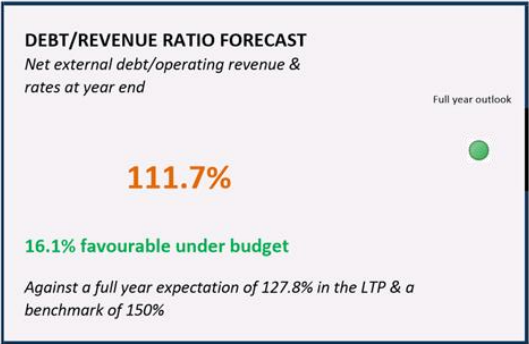
- Other expenditure \$867,000 less than budget, \$607,000 in consultancy and \$278,000 in base operating expenditure. Strategy and policy budgets within consultancy are under budget by \$389,000 including the Tahuna Erosion Study (\$180,000 YTD) which had a delayed start and will continue into 2016/17. Some savings are expected from this group of accounts. Legal consultancy is \$131,000 less than budget, much of this is likely to be a permanent saving as the requirement for legal services in the regulatory activities has been modest. In base expenditure there is \$247,000 of savings year to date in electricity and insurance costs. These savings are likely to be permanent (notwithstanding seasonal demand for electricity), and have come about as actual pricing for these contracts was not available early enough for the LTP and estimates were conservative. Further savings (\$76,000) have been identified in engagement costs and the costs for producing Live Nelson. Water by meter is \$85,000 overspent due to the purchase of water from TDC for Champion Rd which was unbudgeted (offset in income).

OPERATING INCOME AND EXPENDITURE BY ACTIVITY



RESULTS - TREASURY MEASURES

- All treasury parameters measured remain compliant.
- Full year debt expectation (outlook) based on the Annual Plan is \$111.3m.

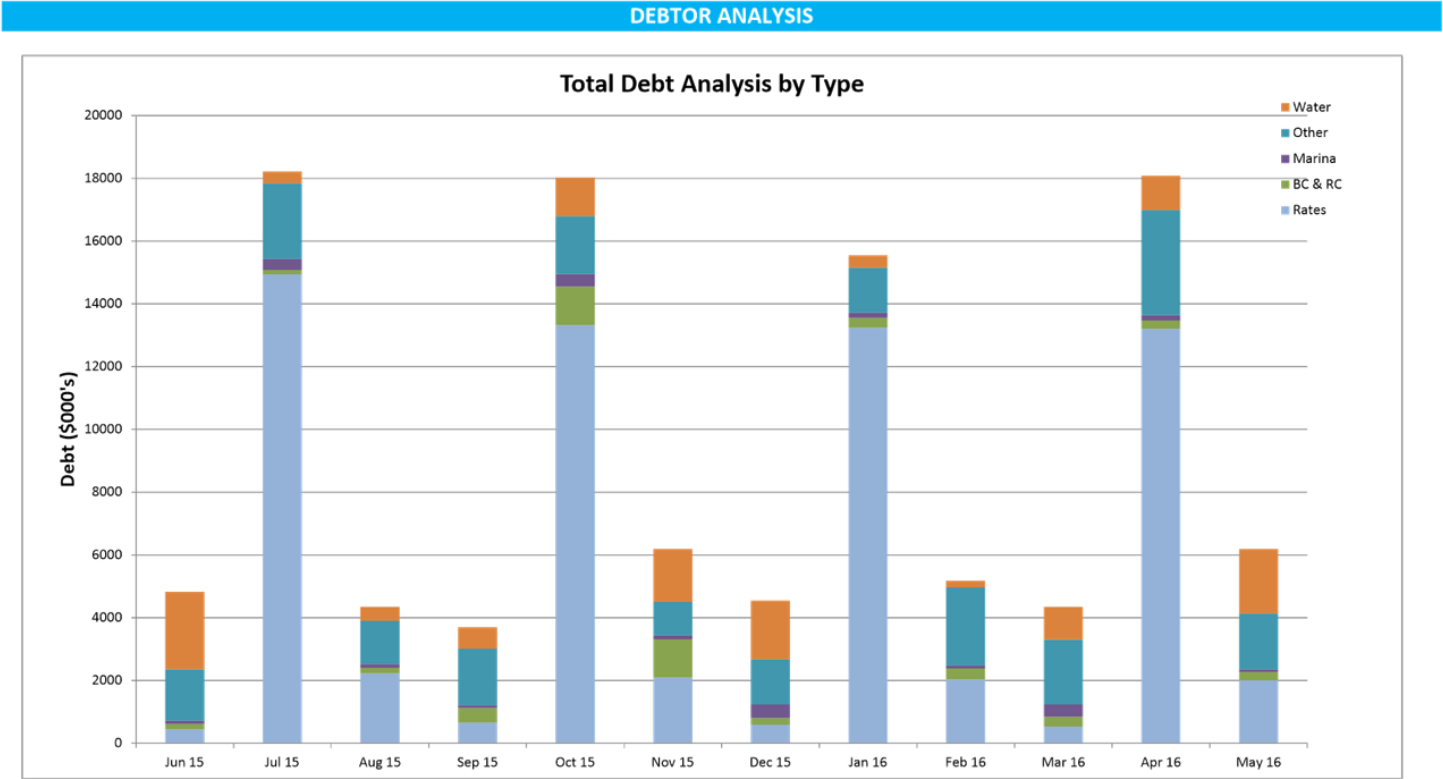


Borrowing Compliance					
	Compliance	Actual	LTP	Minimum	Maximum
Fixed:floating mix	◆	80.0%	n/a	55%	90%
Net interest:total revenue	◆	4.7%	5.4%	0%	15%
Net interest:rates revenue	◆	7.3%	7.7%	0%	20%
External debt:revenue	◆	88.4%	127.8%	0%	150%
External debt:equity	◆	6.3%	8.9%	0%	20%



May 2016

ABBREVIATED BALANCE SHEET				
	May 2016 YTD	Apr 2016 YTD	June 2015 YTD	
Includes call deposits				
Current Assets				
Cash	5,005,621	80,868	194,315	
Receivables	9,445,345	21,814,385	10,092,405	
Other Current Assets	1,489,953	1,860,593	1,137,499	
Total Current Assets	15,940,919	23,755,845	11,424,219	
Shares in subsidiaries and associates				
Non Current Assets				
Fixed Assets	1,355,534,962	1,352,757,987	1,336,528,479	
Investments	28,101,404	28,101,404	27,941,404	
Other Non Current Assets	11,814,040	12,000,701	12,666,826	
Total Non Current Assets	1,395,450,406	1,392,860,093	1,377,136,709	
Term loans due within 12 months				
Current Liabilities				
Payables	(12,166,952)	(10,399,589)	(11,563,669)	
Borrowings: Current	(14,710,000)	(17,610,000)	(9,916,191)	
Other Current Liabilities	(1,713,406)	(1,558,967)	(1,715,483)	
Total Current Liabilities	(28,590,359)	(29,568,556)	(23,195,342)	
Current portion of employee benefit liabilities				
Non Current Liabilities				
Payables: Non Current	(877,500)	(877,500)	(877,500)	
Provisions	(1,301,481)	(1,278,858)	(1,184,780)	
Borrowings: Non Current	(65,000,000)	(65,000,000)	(62,860,000)	
Other Non Current Liabilities	(4,115,994)	(4,115,994)	(4,115,994)	
Total Non Current Liabilities	(71,294,976)	(71,272,352)	(69,038,274)	
Net Assets	1,311,505,990	1,315,775,030	1,296,327,311	
Equity				
Accumulated Funds	(376,518,671)	(380,943,600)	(360,729,808)	
Reserves	(934,987,319)	(934,831,430)	(935,597,503)	
Total Equity	(1,311,505,990)	(1,315,775,030)	(1,296,327,311)	
<ul style="list-style-type: none"> The balance sheet remains strong, with the usual funding movement in equity. April rates invoicing has been paid, reducing receivables. Net debt has decreased \$7.7m due to cash received for rates payments. 				

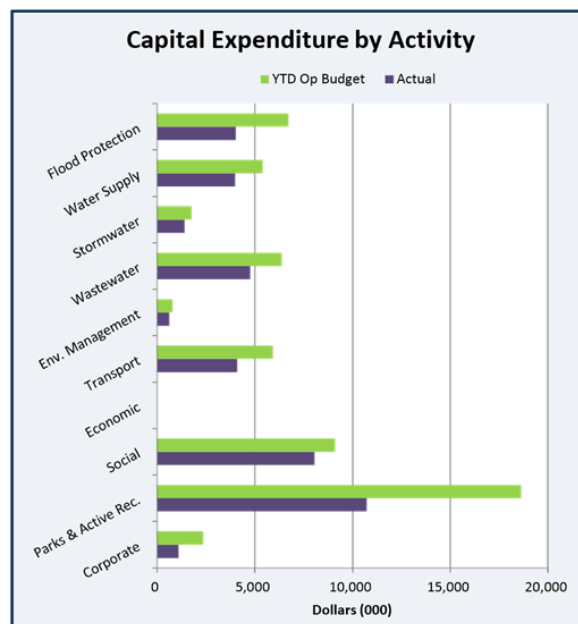
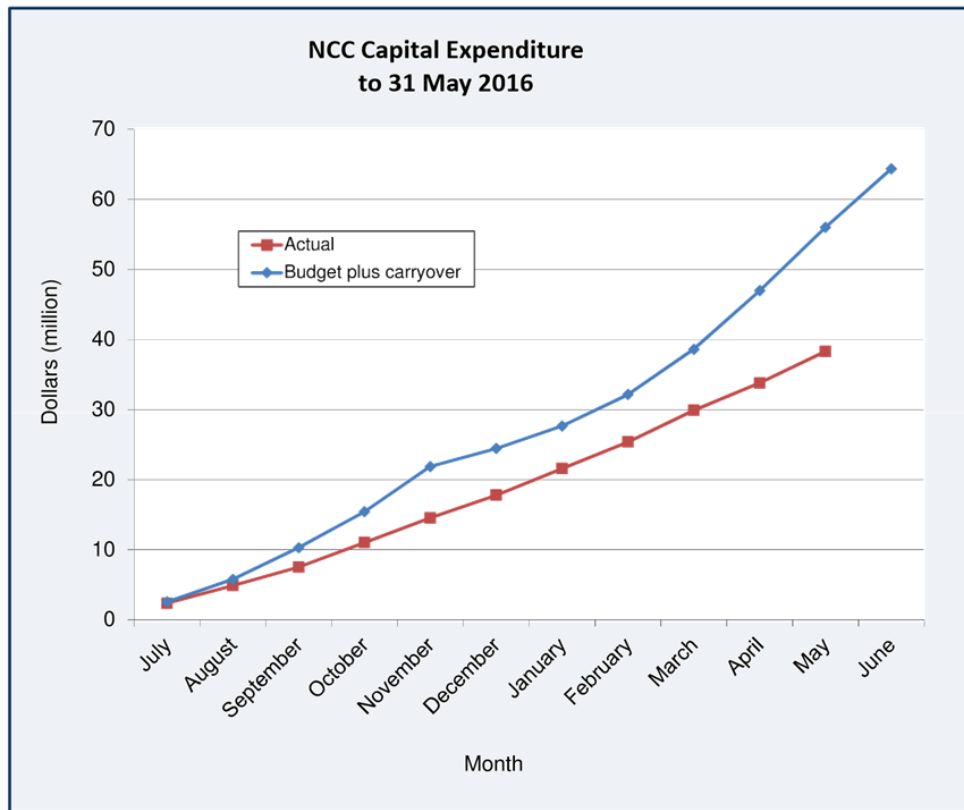


General debtors 3 month plus over \$10,000 or at risk

Account No	3 Mths Overdue	Notes
1215179	\$ 13,830	Payment plan in place \$3,000 p/m
1215180	\$ 9,146	Payment plan in place \$3048.72 p/m

May 2016

RESULTS - CAPITAL EXPENDITURE

**Major variances (projects)**

More detail on major capital projects can be found in the major projects status report.

Hampden St East/Little Go, York Stream, Orphanage Stream, flood mitigation

Maitai Pipeline, Roding resource consent, water loss reduction programme

Pvt/public drains, Fifeshire, St Vincent/Hastings culvert

Corder Park, Ngawatu Valley TM, Beatson Rd renewal

Rocks Rd, Todd Bush Rd, Sub roading renewals, Walk/cycle to schools

Stoke Community Centre, art works programme, cremator relining

Land purchases, modeller's pond, Rutherford Park, Trafalgar Centre, Marina Hardstand

Strategic land purchases, IT, EQPB remediation

COUNCIL FINANCIAL DISTRESS - MITIGANTS



- Local Government Framework reduces risk of financial distress – no historical default by a council
- Council have own Treasury Management and borrowing policies – most have independent advice
- Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs
- Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 Act required to report annually on performance against six benchmarks



Six step intervention process possible by Central Government



- Council required to comply with LGFA lending covenants
 - Annual attestation by council
 - LGFA credit watch-list in place
 - LGFA credit analysis and monitoring performed through the year
 - LGFA not obligated to lend to council members
- Covenant breach is an Event of Review – after 30 days LGFA can seek repayment of loans



COUNCIL FINANCIAL DISTRESS – LGFA IMPACT



- 21 LGFA member councils have credit ratings (A+ to AA range)
- LGFA undertakes detailed credit analysis of each council if they apply to join LGFA (and ongoing) - not every council has been accepted as a member
- A council default becomes a timing issue for LGFA
 - LGFA lends secured against rates revenue under Debenture Trust Deed
 - Unlikely to be other claimants on rates revenue given LGFA is the dominant lender to councils
 - Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet obligations (interest + principal) when due
 - Property taxes unavoidable and first ranking security over property
 - If council in financial difficulty you would expect some degree of Central Government intervention
- Sources of LGFA liquidity and additional capital

\$1 billion standby facility from NZ Government	Liquid Assets Portfolio
Issuance of additional LGFA Bills and Bonds	Conversion of Borrower Notes into equity
Uncalled capital of \$20 million	
- LGFA Board can call upon the guarantee from councils
- **Central Government does not guarantee obligations of either LGFA or council members**

10. Corporate Report to 31 May 2016 - Attachment 3 - Intermediary and interest free loans (A1582911)

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Nelson City Council – Intermediary and Interest Free Loans as at 30 June 2016				
Name of party	Balance	Expected Repayments 2016/2017	Scheduled fully repaid date or remaining term	Interest Bearing Y/N
Gymnastics Nelson	\$3,498	\$250/month	August 2017 ¹	Y
United Bowling	\$1,450	\$200/month	February 2017 ¹	Y
Tahuna Camp	\$1,133,900	\$7,000/month	January 2030 ¹	Y
Tasman Bays Heritage Trust	\$1,025,000	\$100,000/year ³	35 Years	N
Theatre Royal	\$1,500,000	\$60,000/year ²	25 Years	N
Rainbow Ski	\$12,857	\$12,857/year	June 2017	N
Nelson Enterprise Loan Trust	\$50,000	n/a	n/a	N

Note: For those loans incurring interest, the rate is as charged to Nelson City Council by Westpac for the total funds outstanding 3.25% at 30 June 2016.

¹ Can make voluntary repayments during the period of the loan.

² No repayments made to date

³ Reverting to \$25,000 per year from 2018/19

M2027

Major Projects Summary

Green = on track against baseline, no major issues or risks. >90% confident in delivery against plan.
 Yellow = moderate issues &/or risks exist but are manageable. 50 to 90% confident in delivery against plan.
 Red = high or extreme issues &/or risks requiring corrective action(s). Less than 50% confident in delivery against plan.

Status vs current year plan								
Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	budget	Time	Budget	Scope/ Benefits	Issues & Risks Reasons
Flood Protection Activity								
Hampden St East Little Go Stream: Stage 2	Installation of a large stormwater pipe from Franklyn Street, through Boys College, Waimea Road through to Rutherford Street.	Complete Construction in Waimea Road	Dec-16	2,542,658	Y	Y	G	Work underway. Multiyear project and carryover required as Contractor has changed the sequence of work following delay to start as requested by Council.
Saxton Creek Upgrade	Upgrade stream channel and undertake associated landscaping.	Complete Construction of stage 1.	Jun-16	1,700,000	G	G	G	Stage 1 including gravel trap due for completion by June end.
Orphanage Stream Upgrade	Investigate options for increasing capacity of bridges and culverts plus channel break out points from Ngawhatu Valley to Whakatu Drive	Construction finished on-site	Jun-16	591,544	G	G	G	Work on schedule for June end completion.
Flood Mitigation - Gravel Traps & Intake Structures	Construction of gravel traps and upgrading intake structures in Poormans Stream (near 150 Marsden Road) and Orphanage Stream (near Suffolk Road culvert).	End of Defects Liability Period	Nov-16	867,496	Y	Y	G	Multi-year project. Gravel Traps completed. Approx. \$280k to be transferred into 16/17 to continue intake structures.
Water Supply Activity								
Maitai Pipeline Upgrade (WTP - Westbrook Tce)	Construction of a trunk main from WTP to Brook Street.	Completion of works.	Mar-17	2,118,000	G	G	G	Contractor established on site and pipes ordered - on track.
WTP membranes - New train	Provision and Installation of new membranes for Train 5	End of Defects Liability Period	Aug-16	1,119,244	G	G	G	Project completed.
Stormwater Activity								
Wastney Terrace STW Upgrade	Upgrade of the public stormwater system to serve the future development potential - Harris sub-division on Sunnybank Rise	Completion of detail design	Aug-16	118,426	Y	Y	G	Multi-year project. Delay due to ongoing landowner negotiations. Carryover required.
York Stream Channel upgrade	Install large stormwater pipe from Caltex at Bishopdale to Tipahi St via Waimea Road and Boundary Road.	Complete Construction	Jun-16	745,214	G	G	G	Work on schedule for June end completion.
Stanley/Beachville stormwater	Upgrade stormwater discharge to Nelson end of Stanley Cresc.	End of Defects Liability Period	Nov-16	275,436	G	G	G	Project completed.
Wastewater Activity								
Neale Park sewer pump station upgrade	Redevelopment and upgrade of Neale Park Sewer pump station to reduce odour and provide peak flow pumping requirements.	Detail Design Approval	Aug-16	373,199	Y	Y	G	Multi-year project. Minor delay during detail design. Carryover required.
Corder Park Sewer Pump Station Upgrade	Construction of new pump station at Corder Park including a section of Atawhai rising main replacement. Replaces existing pump station and pushes out need to replace sections of Atawhai rising main.	Construction finished on-site	Jul-16	4,145,007	Y	G	G	Delay due to commissioning and O&M improvements. Carryover required.

10. Corporate Report to 31 May 2016 - Attachment 4 - Major projects summary (A1563107)

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Major Projects Summary

Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	budget	Time	Budget	Scope/ Benefits	Issues & Risks Reasons
Transport Activity								
Maitai Shared Path (Collingwood St to Nile St)	Widening of existing path to allow shared use. Includes associated landscaping and planting.	Project Start Up	2017/18	5,000	G	G	G	W&I Committee approved to defer project to start in 2017/18.
The Brook Area Cycling and Walking Improvements	Upgrade of cycle connections between the Maitai Walkway and Brook Street.	Construction starts on site	Aug-16	40,457	G	G	G	Project to align with construction requirements of Maitai Pipeline traffic management on Westbrook Terrace. Expected completion of this portion of contract is September 2016.
Bridge St Enhancement	Enhance urban environment through lighting, seating and landscape aesthetics. Work includes under veranda lighting along Bridge St and lighting along Alma and Fiddler Lane.	Begin Construction	Aug-16	19,461	Y	G	G	Construction will commence once the Owner of the western building has completed maintenance on the wall. This is estimated to be in August 2016.
Railway Reserve to CBD Cycleway via St Vincent (Stage II)	Two way separated cycle lanes along the eastern side of St Vincent Street, from Gloucester St to Haven Rd.	Begin Construction	Jun-16	202,002	Y	G	G	Contract awarded. Works will be delayed to align with NEL transformer relocation. Carryover Required.
St Vincent to CBD cycle connection	Shared path beside ANZAC Park	Report to W&I Committee	Aug-16	15,000	G	G	G	Targeting approval of concept design at the W&I committee meeting in August 2016.
Days Track Recovery	Reinstate/Remediate Days Track following landslide in Dec 2011 rainfall event.	Completion of detail design	Sep-16	53,000	G	G	G	Council approved on 24 March additional funding required in 16/17. Construction scheduled to begin by end of December.
Bishopdale to the Ridgeway shared path	Construct shared path to tie in with sewer upgrade works in Beatson Road.	Completion of Defect Period	Nov-16	384,938	G	G	G	Project completed.
Whakatu Drive / Beatson Road	Widen existing path at roundabout to remove pinch point. Works to tie in with sewer upgrade in Beatson Road.	Completion of Defect Period	Nov-16	21,866	G	G	G	Project completed.
Parks and Active Recreation Activity								
Rutherford/Trafalgar Park Development	Development of Rutherford park in line with Development Plan.	Complete Construction	Oct-16	2,449,785	Y	Y	G	Project completion delayed as work is being coordinated with the Trafalgar Centre Reopening. Carryover required.
Trafalgar Centre Reopening	Complete upgrade to allow reopening & safe public use of the Centre.	Complete construction of the northern extension	Oct-16	12,289,000	Y	Y	G	Scope adjusted following Council report on 14 April 2016. Carryover required.
Modellers Pond Solution	Improve Water quality and amenity of the pond.	Council Approval	Dec-16	650,110	Y	Y	G	Report to Council in December 2016 confirming the amount of money to be raised by community fundraising. Carryover required.
Stoke sports & community facility	New sports and community facility in Stoke.	Tender close	Jun-16	1,740,000	Y	G	G	Multi year project. Tenders to be evaluated. Carryover required.
General Reserves land purchase programme	Purchase of land for Parks and Reserves	Marsden Park - Dependent on agreement between valuers	Jul-16	1,044,818	Y	G	G	Delay with Marsden Park agreement.

M2027

Major Projects Summary

Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	budget	Time	Budget	Scope/ Benefits	Issues & Risks Reasons
Saxton Cycle Track (Regional Velodrome)	Design and build a 330m outdoor cycling velodrome. This is a TDC lead project.	Begin Stage 2	Oct-16	827,020	G	G	G	NCC are a key stakeholder and contributing funds. Project being managed by TDC. Multi year project, approx. Carryover required.
Marina Maintenance Dredging	Dredging of Marina in accordance with port dredging Resource Consent.	Commence work	Oct-16	64,936	G	G	G	Port Nelson will complete dredging operation in October 2016.
Environmental Management Activity								
York Valley Landfill Weighbridge	Procurement and construction of new weighbridge at York Valley Landfill.	Complete landscaping	Jun-16	492,643	G	G	G	New Weighbridge in operation and trial period completed.
Social Activity								
Suter upgrade	Full upgrade of the Suter gallery	Completion of physical works	Oct-16	3,000,000	G	G	G	Physical works progressing. On Track.
NSOM upgrade	Strengthen auditorium, finalise and implement refurbishment brief	Complete tender evaluation	Jul-16	1,500,000	G	G	G	Tenders under evaluation.
Transportation and Stormwater Combined Activity								
Tasman St upgrade(Nile to Bronte)	Road upgrade and Stormwater Upgrade undertaken in conjunction with Manuka Street Intersection Upgrade and Brook walk/cycle connections.	End of Defects Liability Period	Oct-16	500,000	G	G	G	Project completed.

Bad Debts write offs for the year ending 30 June 2016

1. Purpose of Report

- 1.1 To inform the Subcommittee of the bad debts being written off for the year ending 30 June 2016.

2. Delegations

- 2.1 The Subcommittee has responsibility for the management of financial risk.

3. Recommendation

THAT the report Bad Debts write offs for the year ending 30 June 2016 (R5510) be received.

4. Discussion

- 4.1 There are no debts over \$2,500 to be approved and written off for the year ending 30 June 2016.
- 4.2 A number of accounts under \$2,500 per debtor have been written off by the Group Manager Corporate Services under Delegation F12. These totalled \$9,295 excluding GST. \$6,383 for 28 separate debts for dog impounding fees and \$2,020 for the Monster slide resource consent and water charges (Trill Productions Limited is in liquidation).
- 4.3 The decision is an administrative one and although the debts are written off from an accounting point of view, a record is still kept and if an opportunity to recover the debt arises, action will be taken. \$9,052 of this balance is with Creditmens, our debt recovery agency, which we will continue to try to recover. Every possible effort has been made to locate and obtain payment from these debtors.
- 4.4 A summary of this year's write-off compared to last year's provision is as follows:

	Write-off 2016 \$	Write-off 2015 \$
Over \$2,500	-	-
Under \$2,500	9,295	12,185
Cost for year	9,295	12,185

5. Options

5.1 The recommendation is to receive the report.

6. Alignment with relevant Council policy

6.1 This recommendation is not inconsistent with any previous Council decision.

7. Assessment of Significance against the Council's Significance and Engagement Policy

7.1 This is not a significant decision against the Council's significance and engagement policy.

8. Consultation

8.1 No consultation has occurred in preparation of this report.

9. Inclusion of Māori in the decision making process

9.1 No consultation with Maori has occurred in preparation of this report.

Nikki Harrison
Group Manager Corporate Services

Attachments

Nil

Internal Audit Report to 30 June 2016

1. Purpose of Report

To update the Subcommittee on the Internal Audit activity relative to the Internal Audit Plan to 30 June 2016.

2. Recommendation

It is recommended that the Subcommittee

Receive the report Internal Audit Report to 30 June 2016 (R6205) and its attachment (A1575455).

It is recommended that the Governance Committee and Council

Note the internal audit findings, recommendations and status of action plans up to 30 June 2016 as detailed in report R6205.

3. Background

- 3.1 The Audit, Risk and Finance Subcommittee require a periodic update on the progress of internal audit activities relative to the Internal Audit Plan to 30 June 2016 and to be informed of any significant risk exposures and control issues identified from internal audits completed.
- 3.2 The Internal Audit Charter was approved by the Audit, Risk & Finance Subcommittee on 12 November 2015 and on 23 June 2016 subsequently approved an increase in the response time for corrective action for high risks from 7 Days to 10 working days.
- 3.3 Under section 9.4, the Charter requires that the Internal Audit Analyst report periodically to the Senior Leadership Team and Audit, Risk & Finance Subcommittee on performance relative to the Internal Audit Plan. A table summarising activity is attached.

- 3.4 Under section 9.1 of the Charter, the Audit, Risk & Finance and the Governance Committees are to be informed of internal audit results where appropriate.

4. Discussion

- 4.1 Audits shown on the attached Internal Audit Report to 30 June 2016 reflect those approved by Council and the Governance Committee for the Audit Plan to 30 June 2016 together with audits in the approved Audit Plan for the year ending 30 June 2017, due for completion in the month of July 2016.

The Audit Report includes audit objectives as requested by the Audit, Risk and Finance Subcommittee on 23 June 2016.

5. Options

- 5.1 The recommendation is to receive the report and note the internal audit findings, recommendations and status of action plans.

Option 1: Accept the recommendation	
Advantages	<ul style="list-style-type: none">• Auditing helps identify areas of risk and supports reduction of them
Risks and Disadvantages	<ul style="list-style-type: none">• There is a cost associated with the provision of auditing services
Option 2: Reject the recommendation	
Advantages	<ul style="list-style-type: none">• There would be no cost for the provision of auditing services
Risks and Disadvantages	<ul style="list-style-type: none">• There is less identification and transparency of risks that Council may be exposed to

Lynn Anderson
Internal Audit Analyst

Attachments

Attachment 1: A1575455 - Internal Audit - Quarterly Report to 30 June 2016

Important considerations for decision making	
1. Fit with Purpose of Local Government	The Council has chosen to undertake internal audits to help meet its purpose to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.
2. Consistency with Community Outcomes and Council Policy	Internal auditing assists Council in the achievement of goals as set out in its strategic documents.
3. Risk	In general, auditing identifies areas of risk and supports reduction of them. Please refer to the attachment for identified risks for the areas which have been assessed.
4. Financial impact	The recommendation will not have any significant financial impact. Any financial impact identified through internal audit processes would be notified through appropriate channels or in future internal audit updates.
5. Degree of significance and level of engagement	This matter is of low significance because it does not affect the level of service provided by Council or the way in which services are delivered.
6. Inclusion of Māori in the decision making process	There has been no consultation with Maori in the preparation of this report.
7. Delegations	The Audit Risk & Finance Subcommittee has the responsibility for the oversight of internal audit and the audit process. The Audit, Risk & Finance Subcommittee has the power to make a recommendation to the Governance Committee on this matter.

Audit Plan – All Audits on 30 June 2016	Audit Objective	Recommendations Agreed with Manager	Progress		Findings Risk Ratings from Finalised, Approved Audits		Date Reviewed by SLT	Audit Conclusion	Audits Proposed July 2016
Electronic Purchase Orders – controls	Audit effectiveness of existing controls for proper authorisation, maintenance and operation of the EPO and manual purchasing systems	Yes	Entered in InControl		Significant High Moderate Minor	0 0 21 18	20/6/16	The EPO has added layers of controls to purchasing however there are still areas for improvement such as better aligning the organisational business unit model to the EPO system's authorisation configuration design. This would increase control of budgets by budget managers.	
Segregation of Duties & IT Access	Audit the preventative, process and detective internal controls relating to segregation of duties, including access to MagiQ modules	Yes	Entered in InControl		Significant High Moderate Minor	0 0 6 6	4/7/16	There are some excellent IT controls in place, some of which exceed Audit NZ standards. Access controls for MagiQ were tested and will be tested periodically for the important control of segregation of duties (SoD). The development of clear guidelines to aid managers would ensure that SoD is considered before change is made to access permissions.	
Cash Handling – Civic House	Audit the preventative, process and internal controls relating to collection, handling and processing of	Yes	Open Overdue (Actions - InControl)	20 9 (No overdue actions are high)	Significant High Moderate Minor	0 2 26 7	2/5/16	Cash handling controls are variable but in the areas where the largest volume of cash is collected there are many effective controls. Improvements primarily relate to cheque security, and increased awareness of risks	

Audit Plan – All Audits on 30 June 2016	Audit Objective	Recommend -ations Agreed with Manager	Progress		Findings Risk Ratings from Finalised, Approved Audits		Date Reviewed by SLT	Audit Conclusion	Audits Proposed July 2016
	cash in the Customer Service Centre & Finance			risk)				relating to cash handling. Inadequate segregation of duties relating to low staffing at external sites will be addressed in separate audits.	
Accounts Payable – new suppliers, master-file maintenance, GST validity	Audit processes and controls for requesting, setting up and verifying new suppliers (creditors), for the maintenance of the creditors' master-file and for the validity of GST numbers provided	Yes	Entered in InControl		Significant High Moderate Minor	0 0 12 8	11/7/16	There is a system control to ensure GST numbers are legitimate – no creditors may be added unless the algorithm applies. However this does not of itself ensure the creditor is legitimate - improvements to new supplier due diligence testing, to the new supplier decision process, and other standard validations will enhance confidence in the purchasing process.	
Founders Heritage Park – cash income (including separate Book Fair audit)	Ascertain whether retail stock and cash received is property managed, recorded and accounted for; correct calculations & commission payments for "tenant" sales		Book fair audit field work and draft report complete and with Group Managers; other cash revenue audit field work and reporting nearing completion						In progress

Audit Plan – All Audits on 30 June 2016	Audit Objective	Recommendations Agreed with Manager	Progress	Findings Risk Ratings from Finalised, Approved Audits	Date Reviewed by SLT	Audit Conclusion	Audits Proposed July 2016
Privacy Act	Identify current practice through discussion and survey and report on non-compliance		Audit field work completed, report with Group Manager Corporate Services				In progress
Waahi Taakaro Golf Course (contractor)	Audit income recording and reporting controls		Scoping and audit plan development underway				Due 31 July
Liability Management Policy	Audit compliance in key areas (following discussions with Audit NZ)		Not yet started				Due 31 July
Investment Policy	Audit compliance in key areas (following discussions with Audit NZ)		Not yet started				Due 31 July