

Notice is given that an ordinary meeting of the Audit and Risk Committee will be held on:

Date: Thursday 3 October 2024
Time: 1.00pm
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street, Richmond
Zoom conference link: <https://us02web.zoom.us/j/87821822363?pwd=FuzdMfk68bTWSL0qPtRH9SpclpxwMw.1>
Meeting ID: 878 2182 2363
Meeting Passcode: 189526

Audit and Risk Committee

Komiti Tatari me te Tuponotanga

AGENDA

MEMBERSHIP

Chairperson Mr G McGlinn
Councillors Deputy Mayor S Bryant
Councillor C Butler
Ms A Elstob
Mayor T King
Councillor C Mackenzie
Councillor T Walker

(Quorum 3 members)

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AGENDA

1 OPENING, WELCOME, KARAKIA

2 APOLOGIES AND LEAVE OF ABSENCE

Recommendation

That apologies be accepted.

3 DECLARATIONS OF INTEREST

4 LATE ITEMS

5 CONFIRMATION OF [MINUTES](#)

That the minutes of the Audit and Risk Committee meeting held on Wednesday, 10 July 2024, be confirmed as a true and correct record of the meeting.

That the confidential minutes of the Audit and Risk Committee meeting held on Wednesday, 10 July 2024, be confirmed as a true and correct record of the meeting.

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8 CLOSING KARAKIA

6 REPORTS

6.1 2024-34 LONG TERM PLAN AUDIT REPORT UPDATE

Information Only - No Decision Required

Report To:	Audit and Risk Committee
Meeting Date:	3 October 2024
Report Author:	Matthew McGlinchey, Financial Performance Manager; Alan Bywater, Team Leader - Community Policy
Report Authorisers:	John Ridd, Group Manager - Service and Strategy
Report Number:	RFNAU24-10-1

1. Summary / Te Tuhinga Whakarāpoto

- 1.1 To table the interim Audit Report on the Long-Term Plan (LTP) Consultation Document and final Audit Report on the Long-Term Plan 2024-2034.

2. Recommendation/s / Ngā Tūtohunga

That the Audit and Risk Committee

1. receives the 2024-34 Long Term Plan Audit Report Update report; and
2. notes Audit New Zealand’s feedback on the Long-Term Plan 2024-2034 process; and
3. notes that staff will organise a workshop to discuss how the Audit and Risk Committee could best contribute to future Long-Term Plan and Annual Plan processes.

3. Audit Report on the LTP Consultation Document 2024-2034

- 3.1 On 12 April 2024, Audit New Zealand supplied its report on the audit the LTP 2024-2034 Consultation Document which is attached to this report (**Attachment 1**).
- 3.2 Audit New Zealand made several recommendations to the Council around its findings. These are listed below with Council’s response.
- 3.3 **Capital expenditure classification paragraph 4.1.** Audit recommended that we revise the process so that there is a consistent approach to classification in terms of growth, renewal of levels of service capital projects. Council agreed to revise the classifications going forward.
- 3.4 **Infrastructure asset management paragraph 4.2.** Audit recommended that we improve the level of integration of the Council’s processes and systems, for infrastructure asset management, as part of its Digital Improvement Plan. Council agreed to consider this.
- 3.5 **Levels of service for water supply – paragraph 3.3.2.** Audit recommended that we set a 100% target but include narrative to explain why it cannot currently achieve 100% and its plans/timeframe to achieve compliance; or set targets that reflect the planned compliance

but include narrative to explain why it cannot currently achieve the mandated 100% compliance and its plans/timeframe to achieve compliance

- 3.6 Council will look to set a 100% target but include narrative to explain why it cannot currently achieve 100% and its plans/timeframe to achieve compliance over the coming LTP cycle.
- 3.7 **Infrastructure Strategy (IS) paragraph 3.2.** Audit recommended we clarify in the IS, that most overall levels of service are unchanged and include examples of the reductions in services planned. Council comment on this point was that statements on the key points of focus around levels of service were included in sections for each activity
- 3.8 **National policy Statement on Urban Development (NPS-UD – paragraph 2.3.2.** Audit New Zealand did not make a recommendation, however the Council responded as follows to ensure that Audit understood its position. A letter about the NPS-UD with the content described above was sent to the Minister for the Environment on 1 July 2024. We felt it was inappropriate to pre-empt the final form of the LTP until it was adopted. The risk of development occurring over a longer period than expected is disclosed on our forecasting assumptions. We have established a growth governance board to closely monitor the level of development against our estimates and to recommend changes to the programme of growth infrastructure investment where necessary

4. Audit Report to Governors – Final LTP 2024-2034

- 4.1 The Audit Report to Governors on the Final LTP, received in August 2024, (**Attachment 2**) notes that Audit NZ issued an unmodified audit report with an emphasis of matter over the New Zealand Transport Agency, Waka Kotahi (NZTA) funding for roading programmes. The emphasis of matter drew attention to the assumptions and judgements made by the Council given the heightened level of uncertainty with this funding assistance.
- 4.2 We notified Audit NZ of a number of budget changes totalling \$8.3 million that we became aware of after the consultation commenced. Audit NZ reviewed these changes and satisfied themselves that the consequential impacts on various parts of the LTP were clear and consistent. They determined that the conclusions reached at the CD stage were still consistent with the conclusions reached at the final LTP. However, the forecast opening balances for the LTP were reforecast and consequential updates were made to the rates, revenue and expenses to address the flow on impacts.
- 4.3 Audit NZ noted in the report that the NZTA released its indicative allocations for continuous programmes on 6 June 2024. This is very late in the LTP process and we decided not to make adjustments to the LTP. Audit NZ was satisfied that neither the financial amount nor the consequential impact on service levels were material.
- 4.4 In paragraph 3.3, Audit indicated that the Asset information and the first set of overall financials for the Consultation Document were not delivered on time. TDC believes they were delivered on time.
- 4.5 In paragraph 6.1, Audit NZ noted that limited use was made of the knowledge and expertise of the Audit Committee in the LTP process and Council's deliberations. Audit NZ recommended we review the LTP preparation process with the aim of maximising the knowledge and expertise of the Audit Committee in the preparation and audit of the LTP.
- 4.6 We are conducting a review of the overall LTP process. Part of that will involve a discussion with our Independent Audit chair. We are also considering a workshop with the Audit and

Risk committee to better utilise the skill set it has. As always, the time required to loop in the Audit and Risk committee is a challenge.

4.7 In August 2024, Audit NZ notified the Council that it was commencing a process to confirm the costs of the LTP audit process. In this letter Audit NZ indicated that the costs above the \$114,000 audit fee in the letter of engagement, it was looking to recover \$87,850 (or 77% more) for additional work carried out on the LTP. Audit NZ specifically noted the following areas of additional work:

- Additional work auditing the impact the NZTA indicative funding announcement.
- Reviewing two drafts plus and final version of the consultation (compared with the two drafts anticipated) and ensuring that flow on impacts of changes were addressed.
- Lack of alignment between the rates affordability and service levels options in the Financial Sustainability key issue and uncertainty over the prudence of the Financial Strategy in terms of headroom to enable funding of future flooding events.
- Three matters in the performance framework relating to setting realistic targets for roading, targets for the different water supplies compliance with Drinking Water Standards and the measures and targets for active transport.
- Additional work carried out by their asset management specialist.
- End of 2023/2024 forecast projections not being available until after the consultation document was adopted requiring further Hot Review and Opinion Review Committee meetings.
- Additional work on the climate change strategy development and implementation.
- The approach to the community fundraising contributions towards the new community facilities planned in the LTP.
- Ensuring adequate disclosures for financial prudence in the Financial Strategy.
- Additional work on negative reserves.

4.8 Staff accept in some instances this additional work and costs are valid. In other instances we do not agree that there should have been additional work and/or that it was not included in the work planned in the letter of engagement.

4.9 A process to resolve the level of additional costs Council will pay is underway. A verbal update will be provided at the meeting.

5. Attachments / Tuhinga tāpiri

1. ↓	Report on the Audit of the LTP Consultation Document 2024-2034	7
2. ↓	Draft Governors' Audit Report - LTP stage	28

Report to the Council on the audit of

Tasman District Council's
long-term plan consultation
document 2024-2034

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Key messages

We have completed the audit of the Tasman District Council's (the District Council's) long-term plan consultation document (the LTP CD) for the period 2024-2034. The District Council plans to adopt its long-term plan (LTP) in June 2024. This report sets out our findings from the audit of the LTP CD stage. We will issue a further report following our audit of the final LTP.

Unmodified opinion

We issued an unmodified opinion on the District Council's LTP CD on 25 March 2024. This means that we were satisfied that the LTP CD meets its statutory purpose and provides an effective basis for public participation in the District Council's decisions on the proposed content of the 2024-2034 LTP.

We included an emphasis of matter paragraph in the audit report drawing attention to the uncertainty over funding of roading and public transport projects from Waka Kotahi NZ Transport Agency's (Waka Kotahi).

Preparation of LTP CD and underlying information

The development of a LTP CD, together with the required underlying information, is a large and complex task. We assessed that, overall, the process to develop the LTP CD, and prepare the underlying information was well managed, and went well given the extent of the challenges to the process. We want to thank the District Council staff for the way they have constructively worked with the audit team to provide information, respond to queries and make improvements to the CD and the supporting documents. The draft documents were generally provided to us in a timely manner amidst major changes in the Local Government sector.

Audit of the final LTP

In addition to the opinion issued on the LTP CD, we will issue an opinion on the final LTP. The audited LTP is required to be adopted by 27 June 2024.

To ensure our audit of the final LTP is efficient, we ask the District Council to prepare and provide us with a schedule of changes to the financial forecasts and other underlying information from that which formed the basis for the LTP CD. The timing for this is agreed in our audit engagement letter dated 7 November 2023.

Thank you

We would like to thank the District Council, management and staff for their assistance during the audit which enabled the District Council to adopt an audited LTP CD when many other councils have struggled to achieve this.



John Mackey
Audit Director
12 April 2024

1 Our audit opinion

1.1 We issued an unmodified audit report on the CD



We issued an unmodified audit opinion on 25 March 2024.

This means we were satisfied the CD meets the statutory purpose and provides an effective basis for public participation in the Council's decisions about the proposed content of the 2024-2034 LTP. We also found the underlying information and assumptions used to prepare the CD are reasonable.

Without modifying our opinion, we draw readers' attention to the uncertainty over the funding of roading and public transport projects from Waka Kotahi.

1.2 Uncorrected misstatements

The LTP CD, and supporting forecast financial statements, are free from material misstatements, including omissions. During the audit, we discussed with management the misstatements that we found, other than those which were clearly trivial. All significant misstatements were amended prior to the District Council adopting the LTP CD.

1.3 Preparation of CD and underlying information

Late advice was received by Audit New Zealand on additional reporting requirements for funding under Waka Kotahi for the District Council. This required the District Council to prepare additional information to identify the key categories being funded by Waka Kotahi, confirm the funding assistance rate applied by Council (51%) and reconcile the proposed funding to the Regional Land Transport Plan (RLTP) over the 10-year LTP period. This required significant unplanned work for the audit team.

There was also additional unplanned work on the wording of the rates affordability service cut options, loan funding to initially finance compliance with the National Policy Statement on Urban Development, and on the disclosure of the District Council's approach to address the impacts of climate change.

Once we have analysed our time for the overall audit, we will seek approval from the Office of the Auditor-General to negotiate an additional fee recovery.

2 Significant matters of audit emphasis



During the planning stage of the audit, and our review of the content of the CD, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

2.1 Content of the consultation document

The key areas of the CD are focused on financial sustainability, expenditure on transport, the District Council's response to the impacts of climate change, and funding for community facilities.

Affordability is of paramount importance to the District Council because of its ageing population, and compared with similar local authorities, the District Council has a relatively high level of debt. The District Council plans to address these risks by keeping its capital and operating expenditure to the minimum necessary to maintain its assets and current overall levels of service and continue to focus on maintaining debt within manageable limits to limit rate increases. However, despite this strategy, the District Council's proposes rates increases of 9.6% in Year 1 and 7.1% in Year 2. Rates increases, decrease from Year 3 onwards, with the average increase 4.6% over the 10-year period.

Another key issue for the District Council is the challenge to fund maintenance of the roading and other transport infrastructure.

Overall, we concluded that the CD provides an effective basis for public participation in the District Council's decisions on the proposed content of its 2024-2034 LTP. The CD covers the main issues the community faces into the future. The information presented is consistent with the underlying information. The District Council discloses the preferred options, and the disclosures are now generally made in a way that the options, and the impact of them, can be understood by the community.

The audit team consulted with the Office of the Auditor-General (OAG) Opinion Review Committee (ORC) as to whether the options for the rates affordability consultation item met the requirements of section 97B of the Local Government Act. Following the ORC meeting, management updated the CD to ensure the options, for Choice 1, meet the requirements of section 97B of the Local Government Act. Therefore, we conclude that the CD is fit for purpose. We discuss the issues, covered in the CD, in detail below.

The Council has met all significant legislative requirements including provision of a summary of the critical parts of the proposed financial and infrastructure strategy.

2.2 Uncertainty over the Waka Kotahi funding assumption

Without modifying our opinion, we draw attention to pages 14 and 19 in the CD, which outlines the high level of uncertainty over Waka Kotahi expected funding for the roading and public transport projects.

The latest Draft Government Policy Statement (GPS), issued for consultation on 4 March 2024, includes potentially lower funding levels than anticipated through the LTP and this raises significant uncertainty with the funding assumption for the District Council.

If the Agency does not provide the funding or provides less funding than assumed, the Council plans to fund the shortfall through borrowing and rate increases or remove projects from the work plan. This may impact on levels of service. This has been disclosed in the CD and infrastructure strategy (IS).

The Council's preferred option includes subsidy expectations for:

- sealed road maintenance of \$76 million;
- public transport of \$13 million; and
- safety for pedestrians and cyclists of \$8 million.

Council is consulting on these funded projects, with a \$190 million total cost, with \$97 million of Waka Kotahi funding assumed over the plan period (as noted above). Council has fully disclosed this assumption in the CD, including the impact of higher rates funded debt.

Currently the District Council does not have specific approval for any of the projects because of the National Land Transport Plan development timeline which means the Regional Land Transport Plan will not be approved until after the final LTP is adopted. There are no significant new projects included in the LTP. Council proposes a business-as-usual approach (BAU) with the significant maintenance work needed to clear deferred maintenance work and increase resilience of the network.

The Council plans to proceed with the key projects even if the Waka Kotahi funding cannot be secured. The Council would have to use debt to fund the projects, and this will require an increase in rates to fund repayment and finance costs.

As the financial forecasts, which underpin the content of the CD, include funding, from Waka Kotahi, which is not confirmed and highly uncertain, we included an emphasis of matter paragraph in the audit opinion, to highlight this uncertainty to the reader.

2.3 Growth assumption

Tasman is a "moderate growth" district. Growth is a key rationale for the significant capital investment in projects proposed over the next 10-year period including the consultation issues contained in the CD. Growth is a key factor that informs forecast rate increases. In addition, the growth assumption also drives the forecasts for the development contributions (DCs) and vested assets revenue, which are a key source of funding for the District Council. Therefore, growth in the district is a key assumption underlying this plan. The District Council's assumptions include two growth assumptions: population growth, and growth in rating units.

2.3.1 Population growth assumption

The Council is “Tier 2” as described in the National Policy Statement on Urban Development (NPS-UD). Council engaged external consultants, DOT Consulting, to assist in development of its population growth estimates. The population growth model for the district has been internally developed using inputs from Statistics New Zealand growth projections, and DOT Consulting’s growth methodology, with adjustments made to reflect specific growth patterns within the district. The predicted rates of growth have been used to calculate growth for “Rollout Units”.

The Council applied the medium growth variant assumption as developed by DOT Consulting. This is consistent with the medium growth variant assumed in the previous 2021 LTP. The estimated population of the district is expected to be approximately 67,900 by 2034 and 78,800 people by 2054.

Council estimated there will be demand for an average of 399 new dwellings in the first three years of the LTP period, and 437 dwellings per annum over the remaining seven years of the LTP period. This is a total of 4,250 forecast new dwellings. We reviewed this assumption and concluded that it is reasonable and supportable. This was based on our review of the expert’s report, as well as our understanding of Tasman’s internal growth model and our review testing of the procedures.

We reviewed the asset management plans (AMPs), infrastructure strategy (IS), financial strategy (FS) and underlying documentation. They are aligned with the medium growth assumption consistently applied.

We concluded the District Council’s expert, DOT Consulting, is a suitably qualified expert with appropriate skills and experience to undertake this assessment. We also compared the growth assumptions to Statistics New Zealand estimates and confirmed that they are consistent.

Overall, we are satisfied that the stated growth assumptions are reasonable and supportable, with a stated “medium” level of uncertainty. We accepted this assessment based on the quality of Council’s underlying data and methodology, and their alignment with the external expert’s forecasts.

2.3.2 National Policy Statement on Urban Development (NPS-UD)

A key part of the requirements is that Tier 1 and Tier 2 councils must investigate the extent of the capacity enabled within their planning frameworks and the extent to which this capacity may be developed by the market. Councils are also required to assess the potential future community demands. The NPS-UD requires councils to plan for growth and ensure a well-functioning urban environment for all people, communities, and future generations. It ensures that rules do not constrain growth and supports intensification.

Council is a Tier 2 urban local authority under the NPS-UD with an anticipated population growth of 12% over the 10 years of this plan.

We reviewed the District Council's approach to meet the requirements of the NPS-UD in its plan. We note that the District Council does not meet the competitive margins, over and above its expected demand, to support choice in both the housing and business land markets in the medium term.

The District Council has future options for compliance in the longer term but, due to a lack of suitable available land and lack of funding for the infrastructure to support new developments, the District Council does not believe it can comply in the medium term. The District Council, along with Nelson City Council, adopted their Future Development Strategy in 2022 and this has been in place for the current LTP as required by the NPS-UD.

We recommend the District Council immediately notify the Minister for the Environment of its non-compliance with the policy, and that steps are in progress to ensure compliance, in the future, in line with section 3.7 of the NPS-UD.

We confirmed that the growth rates in the financial forecasts factored in constraints in the land available for development. We concluded that the District Council has adequately disclosed the non-compliance in its CD and underlying information.

We also noted that the District Council has negative restricted reserves principally due to its approach to fund its compliance with the NPS-UD. The District Council's approach is to borrow to fund the infrastructure required and subsequently repay the loans from DCs when the land is sold and developed. These loans are forecast to be \$60 million at 30 June 2034.

There are risks with this approach, including that the DCs are set too low to fully fund the infrastructure that is required, the properties are either not developed, or the process occurs over a longer period than expected.

Management comments

A letter about the NPS-UD with the content described above was sent to the Minister for the Environment on 1 July 2024. We felt it was inappropriate to pre-empt the final form of the LTP until it was adopted.

The risk of development occurring over a longer period than expected is disclosed on our forecasting assumptions. We have established a growth governance board to closely monitor the level of development against our estimates and to recommend changes to the programme of growth infrastructure investment where necessary.

2.4 OAG Opinion Review Committee (ORC) consultations

The audit team consulted with the OAG Opinion Review Committee (ORC) to consider five matters arising from review of the Consultation Document (CD) audit and whether any Emphasis of Matter (EoM) paragraphs needed to be included in the audit opinion, or whether another response was required.

The ORC's conclusion was that only one EoM was required, but changes to the CD were required for the other four:

The ORC reached the following conclusions:

- **Approach for consultation on rates affordability and service cuts** – original proposal did not comply with section 93B (b) of the Local Government Act because it did not clearly set out the choices being presented and the consequence of those choices. The alternative option, as drafted was not a “choice”. It highlighted possible actions that could be taken to cut services, but it did not provide specific options nor their impacts on costs, rates and services. The alternative option was reframed so it is clear what the Council proposes and the impacts of the proposal.
- **Uncertainty over funding of roading and public transport projects from Waka Kotahi** – an emphasis of matter paragraph was included in the audit report drawing the reader's attention to a suitable disclosure in the CD.
- **Uncertainty over external funding of proposed community facilities** – no qualification or emphasis of matter paragraph was required as the CD is now clear what the Council will do if the community funding is not raised.
- **Loan funding of expenditure to facilitate growth, as required by the National policy Statement on Urban Development, is forecast to result in an increase in borrowing of \$60 million over the period of the LTP** – the CD needed to explain that the borrowings are planned to be repaid from Development Contributions levied once the land is sold and developed. The major risk comes in the unlikely situation that the forecast growth does not occur and some of the land is not developed.
- **Climate change retreat** – no qualification or emphasis of matter paragraph was required as the CD now outlines its approach to address the impacts of climate change in the CD including retreat as a result of additional disclosure included.

2.5 Assumptions

The quality of the District Council's financial forecasts is significantly impacted by the assumptions on which they are based. We reviewed the assumptions used to prepare the LTP CD and draft LTP, tested the application of selected assumptions in the financial forecasts and checked that appropriate disclosures on the assumptions had been made in the LTP CD.

We are satisfied that the District Council has an appropriate system to determine these assumptions, that they are reasonable and supportable, and they are appropriately applied in the financial forecasts.

2.5.1 Capital expenditure “Do-ability”

The District Council’s capital programme delivery assumption was assessed as having a ‘moderate’ level of uncertainty.

We assessed that the Council has appropriately disclosed a capital expenditure “do-ability” assumption in the LTP with an uncertainty risk of “moderate”. We considered the Council’s delivery in the last three years, the expected annual level of the capital programme for each of the 10 years, expected contractor capacity, and Council’s ability to borrow. We concluded that the assumption is reasonable and supportable.

2.5.2 Response to climate change impacts

The Council acknowledges, in its IS, that the key issue, facing the district with the impacts of climate change, is to increase the resilience of the District Council’s infrastructure to natural disasters, including the effects of climate change. Risks posed by the impacts of climate change are becoming increasingly complex and uncertain. Resilience is a key factor to successfully negotiate this uncertain future environment. The District Council noted that some of the impacts are already clear, including sea-level rise, coastal erosion and rising temperatures.

The District Council engaged NIWA to perform a detailed review of the district’s climate change impacts and adopted the high-risk scenario, for planning purposes. The Council’s IS and asset management planning apply this information. The climate change assumption has been adopted with a risk rating of “high”.

Rain events that cause significant flooding, are likely to increase in intensity and frequency, stretching the capacity of drainage systems near the coast. Detailed flood modelling was undertaken to help inform where future development should occur and to identify the potential effects of large flood events on the District Council’s infrastructure.

The Council is consulting, on the assumption that it will progress the Tasman Climate Change Action Plan (TCAP) on mitigation and adaption initiatives.

We are satisfied that the Council’s assumptions are reasonable and supportable, with a stated “high” level of uncertainty. The District Council has been taking progressive steps to identify and mitigate the impacts of climate change. This is clearly set out for the reader as the assumptions for climate change are included in the IS and clearly set out in other supporting documentation to the CD, such as AMPs.

2.5.3 External funding expectation – Community facilities

The District Council forecasts that it will secure external funding to fund Community Facilities, that are being consulted on in Choice 4 of the CD. As part of this consultation, Council will also seek feedback on the Community Funding policy. It includes the guidance for the external funding being sought by the District Council.

The external funding is \$9.9 million across all four projects. There are no established plans or agreements in place, for this funding from the external parties.

The District Council has included this as a significant assumption, highlighting that the level of uncertainty as “high” and the potential impact of the uncertainty as “high”. The District Council may delay the projects, explore other funding options, or cancel the project as a last resort.

The District Council has included the impact of not securing the funding in the consulting options. The OAG ORC decided that there is no need to include an emphasis of matter paragraph as there will be no decreases in the levels of service should the projects not go ahead, and it is common practice for Councils to challenge their communities to fund raise in this way.

3 Adopting and auditing the underlying information

The District Council prepared and adopted the underlying information necessary to support the LTP CD.

3.1 Financial strategy

We developed an understanding of the Council's financial strategy (FS) and evaluated its compliance with the requirements of sections 100 and 101A of the Local Government Act 2002 (the Act), including the balanced budget requirements. The Council's FS is considered prudent and appropriate but three key matters need to be noted:

- the District Council is not replenishing its Emergency Reserve during the period 2024 to 2034. Instead, it is relying on a combination of re-prioritisation of its capital programme and increased borrowing to fund any necessary work required;
- the District Council does not meet, for five years, the Balanced Budget Benchmark based on the Financial Reporting and Prudence Regulations; and
- the District Council's approach to finance its compliance with the National Policy Statement on Urban Development (NPS-UD) is to borrow to fund the infrastructure required and subsequently repay the loans from DCs when the land is sold and developed. These loans are forecast to be \$60 million as at 30 June 2034.

The Council is very clear about its priorities in the FS. They are consistent with the IS. The linkages between the FS, AMPs, IS and CD are evident, with clear and consistent messages in all documents.

3.1.1 Balanced budget

The District Council has a balanced budget in all years of its plan based on s100 of the Act and its surpluses range from \$32 million to \$51 million. This means the District Council meets the s100 test of the Act and does not need to formally resolve whether any deficits are financially prudent. However, revenue includes significant funding for capital expenditure from Waka Kotahi funding, other government funding, and vested assets so this measure does not adequately assess the position.

The Council does not meet, for five years, the Balanced Budget benchmark based on the Financial Reporting and Prudence Regulations.

The operating deficits are primarily due to following:

- funding some operational expenditure with debt. This expenditure has enduring and multi-year benefits, such as the Digital Innovation programme and the review of Tasman Resource Management Plan. It should be noted that debt funding

operating expenses, with enduring benefits, spreads these operating costs to the current and future ratepayers, Hence, it meets the intergenerational equity principle, as provided under its Revenue and Financial policy;

- transition to fully funding depreciation. Fully funding depreciation by rates was deferred for another five years until 2030 to reduce the level of rates increases. Hence, the Council will still fund some renewals from borrowing; and
- balancing the rating demands and its expenditure along with the impact this has on community well-being.

The District Council has fully explained that, despite having an unbalanced budget for five years, it remains financially prudent. Additional disclosures have been made in the CD and we deem these to be adequate.

3.1.2 Negative restricted reserves

We noted that the District Council will be holding negative restricted reserves (from Year 4 to Year 10 of its LTP) – the prospective financial statements show restricted reserves moving from positive \$20 million in Year 1 to negative (\$80 million) by Year 10. This is to account for the Council's expenditure to prepare for future development, such as for growth as required by the NPS-UD. This process recognises that there is a time lag between the Council's construction of infrastructure to prepare for development and when it receives the funding to support this.

The funding will come from future DCs) from developers which will not be received until a period after the Council has constructed the infrastructure. We referred this matter to the OAG Technical team which confirmed the accounting was acceptable. The OAG ORC was comfortable that the Council's approach was prudent, and with the enhanced disclosure of the process and the risk, nothing further was required.

3.1.3 Emergency reserves

Tasman District is susceptible to a wide range of natural hazards. It has, over time, experienced the impact of natural hazards such as earthquakes, landslides, floods, coastal erosion, inundation, drought, and wildfire.

Council has not planned to contribute to an emergency fund as a hedge against such future emergency/extreme weather events. However, Council plans to re-prioritise the capital programme and borrow (*call on additional funding from the LGFA above its self-imposed debt cap*) to support emergency recovery and response.

We confirmed that the Council will still be eligible for Central Government funding due to the insurance cover that it takes out annually.

3.2 Infrastructure strategy

We developed an understanding of the District Council's infrastructure strategy (IS) and evaluated its compliance with the requirements of the Local Government Act 2002. We also gained an understanding as to how it funds renewals and its overall approach to manage the assets laid out in the IS. The IS covers the significant issues related to infrastructure, in the strategic context of the environment that exists currently, and there is sufficient information to understand the most likely scenario in context.

The IS clearly outlines the Council's strategy is to maintain overall levels of service while it improves resilience and compliance with Drinking Water Quality rules (*no improvements overall are signalled*). However, there is also a clear implication that funding constraints may lead to reduced levels of service in future as the assets age and renewals requirements increase.

The District Council has appropriately considered forecast growth for each activity in the IS, highlighting the impact on assets and what the District Council has planned to address them.

We performed work to ensure that the:

- IS is aligned to the FS;
- information in the financial model reconciles with the IS;
- IS supports accountability;
- correlation between depreciation and renewals is reasonable; and
- content of the IS document is sufficient to achieve its statutory purpose.

Overall, we are satisfied that the IS is fit for purpose and its supporting underlying information is reasonable. However, improvements are required so its approaches, and risks with them, to funding emergency events, and the preparation for decisions on climate change retreat, are clear to the reader. Although the changes to overall levels of service (as opposed to reductions in services) are not material to the audit opinion, some are of real public interest so it would be helpful if the IS was clear that most overall levels of service are unchanged and identify examples where there are reductions in services planned. Subject to these improvements being made, it fulfils the legislative purpose and meets our expectations of such a document and is consistent with our knowledge of activity management planning for the District Council.

Recommendations

- Clarify, in the IS, that most overall levels of service are unchanged.
- Include examples of the reductions in services planned.

Management comment

Statements on the key points of focus in terms of levels of service were included in sections for each activity.

3.3 Quality of asset-related forecasting information (including condition and performance information of critical assets)

Based on review of AMPs and discussion with the District Council's management, the data held by the Council appears sufficient to inform its decisions about the operation, maintenance and renewal of its assets.

The District Council has assessed the reliability of data including accuracy, completeness, condition, and performance.

The AMPs provide a description of the assets and the issues arising; and will enable the District Council to form evidence-based decisions about its approach to the operation, maintenance and renewal of these networks.

We are satisfied that, through the AMPs, and other documentation, the District Council can document its approach to asset renewals.

The renewals strategy comprises approaches appropriate to each asset group (that is the AMP sets out the approach at a granular level with a good rationale as to why it is appropriate). The sophistication of the approach appears to match the complexity of the assets described. We are satisfied that Council has sufficient knowledge of asset information to reasonably inform its renewals forecasts.

3.3.1 Smooth travel exposure performance measure

We noted, per the latest performance reporting in the 2023 annual report, that the District Council indicated that it is likely that the arterial targets for road smoothness, will not be achieved until the late 2020s. Therefore, during the upcoming period of increased investment in the roading network, we recommended that the District Council adopt a step-change in the targets to reflect the likely level of service (LOS), which management has accepted.

The revised targets for arterial roads reflect the timing of the proposed upgrade of Lower Queen Street to be completed in 2026/27.

3.3.2 Levels of service for water supply – compliance with Drinking Water Standards (DWS)

OAG/Audit NZ have worked with the Department of Internal Affairs and Taituarā to determine whether the mandatory drinking water measures (for bacteria and protozoa) will be reworded or changed. However, the District Council has a binding requirement to achieve 100% compliance with the relevant DWS.

The District Council has planned remedial works, for all its water schemes, to achieve full compliance with the DWS.

Recommendations

- Set a 100% target but include narrative to explain why it cannot currently achieve 100% and its plans/timeframe to achieve compliance; or
- set targets that reflect the planned compliance but include narrative to explain why it cannot currently achieve the mandated 100% compliance and its plans/timeframe to achieve compliance.

Management comment

We proceeded with the first option.

4 Other matters

4.1 Capital expenditure classification

Audit NZ noted instances where the Capex classification between the infrastructure strategy (IS) and financial model are inconsistent. Although the totals are similar, the Council has classified the sub-categories of “Level of service”, “Renewals” and “Growth” differently.

Recommendation

- Revise the process so that there is a consistent approach to classification.

Management comment

We agree and will revise the process.

4.2 Infrastructure asset management

Infrastructure is the primary driver of the Council’s expenditure. However, the Council’s information systems and tools for infrastructure asset management, as is common across the sector, have limited integration.

In our assessment, there is not currently a cost-effective option available for the Council to modify its existing processes and systems to achieve greater integration. However, there is an opportunity, as a minimum, to improve the level of integration as part of TDC’s Digital Improvement Plan.

Recommendation

- Improve the level of integration of the Council’s processes and systems, for infrastructure asset management, as part of its Digital Improvement Plan.

Management comment

We will work on improving the level of integration of our processes and systems for infrastructure asset management as part of our Digital Improvement Plan.

5 Audit of the final LTP

Our next step in the LTP audit process will be the audit of the final LTP. This audit is scheduled to commence in June 2024.

To ensure our audit of the LTP is efficient, we ask the District Council to prepare a schedule of changes to the financial forecasts, draft LTP and performance framework that formed the basis of the LTP CD. This will enable us to assess the extent of changes, as a result of community consultation, and tailor our audit work accordingly.

We will gain assurance that appropriate consequential changes and disclosures have been made. We will also check the consistency of the updated documents that support the LTP.

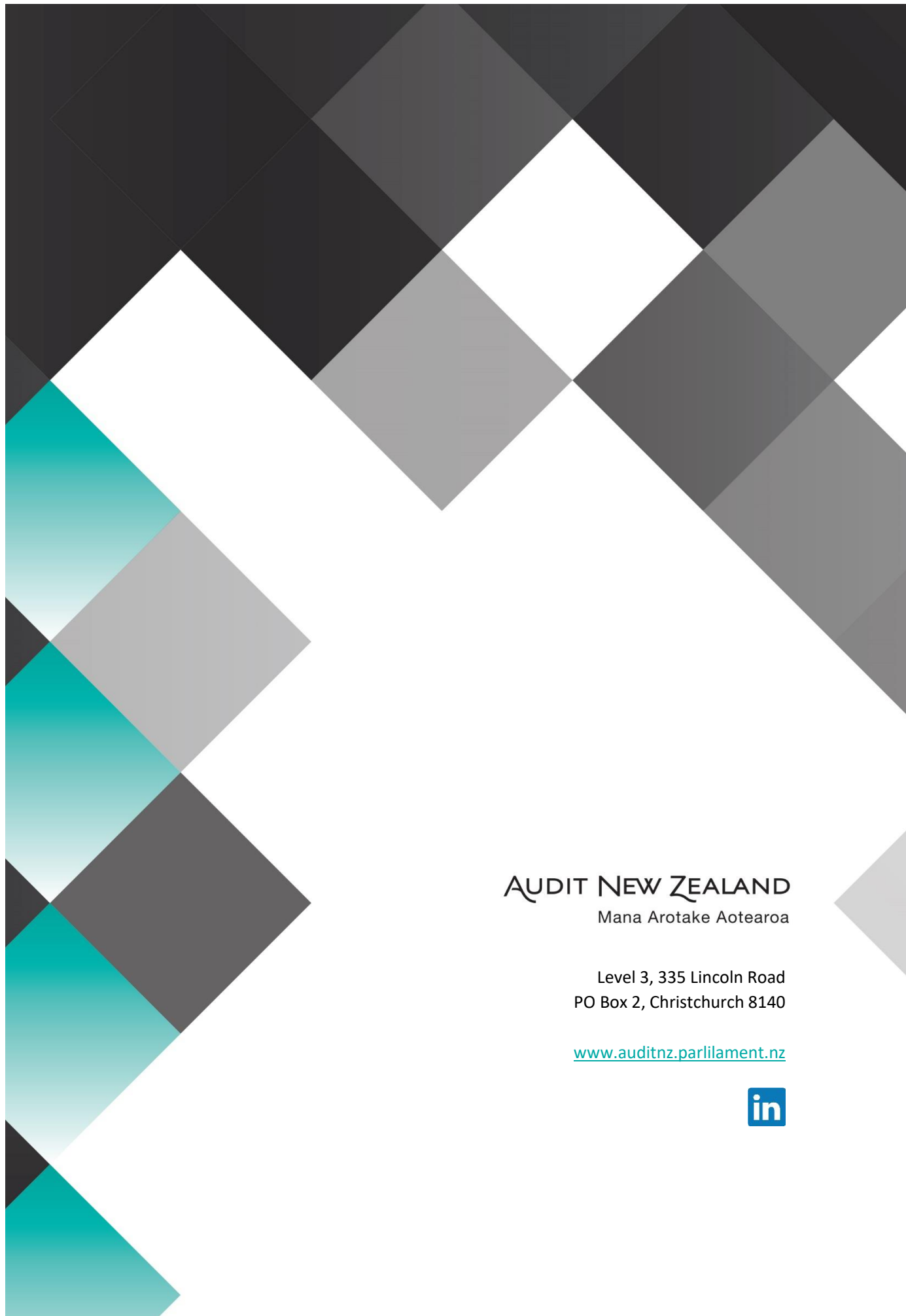
Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the District Council is required to adopt before 1 July 2024 (section 93(3)). The agreed timeframes, if met, will enable us to issue our audit report in time for the District Council's meeting on 27 June 2024, at which time the 2024-2034 LTP will be formally adopted.

We are responsible to report as to whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision making by the District Council, and accountability to the community. We also provide an opinion as to whether the information and assumptions, underlying the financial forecasts, are reasonable. We will provide our opinion as to whether the disclosures in the LTP meet the requirements of Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 and accurately reflect the information drawn from the LTP.

At the conclusion of the LTP audit, we will ask the District Council to provide us with a signed representation letter on the LTP. The audit team will provide the letter template during the LTP audit.

Appendix 1: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor -General. We are responsible for expressing an independent opinion on the 2024-2034 long-term plan consultation document (LTP CD) and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the LTP CD does not relieve management or the District Council of their responsibilities.</p> <p>Our audit engagement letter dated 7 November 2023 contains a detailed explanation of the respective responsibilities of the auditor and the District Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's auditing standards</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to this report on the District Council's LTP CD and all legally required external audits, we have provided an assurance report on certain matters in respect of the District Council's Debenture Trust Deed. These assignments are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the District Council.</p>
Fees	<p>The fee for auditing the consultation document and the LTP is \$114,000 (excluding GST and disbursements), as detailed in our audit engagement letter dated 16 February 2024 but noting that we may seek a recovery of additional costs as outlined in section 1.3 of the report.</p> <p>The audit fee for the audit of 2023 Annual Report was \$139,312.</p> <p>Other fees to be charged in the period are \$7,500, for the assurance review of the Debenture Trust Deed.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the audit.</p>



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**Report to the Council on
the audit of**

Tasman District Council's
long-term plan 2024-2034 for the
period 1 July 2024 to 30 June 2034

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Key messages

Audit report

We issued an unmodified audit report dated 27 June 2024.

We included an emphasis of matter paragraph in our audit report with the high level of uncertainty over the Waka Kotahi NZ Transport Agency's (the Agency's) funding for roading programmes. This draws attention to the assumptions and judgements made by the Council given the heightened level of uncertainty with this funding assistance.

Matters identified during the final audit of the plan

Council's underlying information

We reviewed and tested the Council's underlying information at the Consultation Document (the CD) stage and concluded that the underlying information was reasonable. At the final long-term plan (LTP) stage, we considered new information that had become available and confirmed that the Council has taken this into account.

We reviewed the consequential changes in the current financial statements, infrastructure strategy, financial strategy, key assumptions, and service performance framework. The linkages between the documents are still clear and consistent. The conclusions reached at the CD stage are still consistent with the conclusions reached at the final LTP stage as there have been no material fundamental changes to these key documents. However, the forecast opening balances for the LTP were reforecast and consequential updates were made to the rates, revenue and expenses to address the flow on impacts as noted below.

Waka Kotahi NZ Transport Agency's (the Agency's) indicative allocations for continuous programmes

The Agency released its 2024-2027 indicative funding allocation for continuous programmes, on 6 June 2024.

Council has not made any adjustments for its LTP. We are satisfied that neither the financial amount nor the consequential impact on service levels are material. We concluded they are immaterial misstatements, refer to Appendix 1.

Reforecasting expenditure and related impact

During the consultation process, Council identified cost increases and revenue shortfalls that were not taken into account when it prepared the financial forecasts that Council consulted on. This had an overall negative impact of \$8.3 million from the financial forecasts that underpinned the consultation document.

This resulted largely in the higher rates revenue increase, in the 2024/25 year increasing from 9.6% in the CD to 11.1% in the final LTP. In addition, the debt cap increased from 150% (at CD stage) to 160% of revenue in the final LTP. More detail is provided in section 2.2 below.

Thank you

We thank the Council, management and staff for the assistance they provided during the audit.

John Mackey
Appointed Auditor
XX August 2024

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1 Our audit report

1.1 We issued an unmodified audit report

We issued an unmodified audit report on 27 June 2024. This means we were satisfied that:

- the plan provides a reasonable basis for:
 - long-term, integrated decision-making and co-ordination of the Council's resources; and
 - accountability of the Council to the community; and
- the information and assumptions underlying the forecast information in the plan are reasonable; and
- the plan includes a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) and accurately reflect the information drawn from the plan.

Emphasis of Matter – uncertainty over funding of roading projects

Without modifying our opinion, we draw attention to pages 252 and 253, which outline the high level of uncertainty over the Agency's expected funding of sealed road maintenance, public transport, and safety for pedestrian and cyclists roading programmes. If the Agency's does not provide funding or provides less funding than assumed, the Council may need to consider increasing rates and/or debt/or reducing its programme of transport infrastructure investment. This may result in levels of service being reduced,

1.2 Uncorrected misstatements

The forecast financial statements, performance information, strategies and disclosures are free from material misstatements, including omissions.

During the audit, we have discussed with management the misstatements that we found, other than those which were clearly trivial. Unadjusted audit differences, for the Agency's funding assistance, are noted in Appendix 1.

2 Matters arising from the audit of the plan

2.1.1 The Agency's 2024-27 indicative funding allocations for continuous programmes

On 6 June 2024, the Agency released its indicative allocations for several continuous programmes as part of developing the 2024-27 National Land Transport Programme (NLTP).

This included Local Road Pothole Prevention, Local Road Operations, and Local Road Improvements - Bridge and Structure Renewals continuous programmes but excluded funding for footpath and cycleway maintenance and renewals, and regional road safety promotions which were expected to be confirmed in August 2024.

From our review, the Agency will not fund \$4.6 million of the forecast funding for projects (Local Road Pothole Prevention and Local Road Operations) over the first three years of the LTP. The actual shortfall (based on a Funding Assistance Rate of 51%) over the three years is \$2.3 million.

Management decided not to make any adjustments to the forecasts because the variance, between the Council's forecasts and the funding allocation released for Years 1 to 3, was immaterial. In addition, Council resolved to fund its share of the programmes at 49% and this will result in minimal impact on the related level of service (LoS).

We reviewed management's reconciliation, of the indicative funding allocation to the LTP financial model and the underlying supporting information and concluded that the financial assumption for the Agency's funding assistance is reasonable and appropriate.

2.2 Reforecasting expenditure and related impacts

During the consultation process, Council identified cost increases and revenue shortfalls that were not taken into account when it prepared the financial forecasts that Council consulted on. This had an overall negative impact of \$8.3 million from the financial forecasts that underpinned the consultation document. Below is a summary table with projected deficit amounts:

Group of activity	Forecast deficits
Transportation	\$3,800,000
Building assurance	\$1,800,000
Water	\$1,200,000
Wastewater	\$700,000
Reserves and facilities	\$800,000
Total	\$8,300,000

Council included disclosures in the LTP, on pages 28 and 29, to provide readers with context for these cost increases and revenue reductions and the impact on rates and debt. We are comfortable that the disclosures made provide transparency as to why this information was not taken into account when Council consulted on its CD, and the impact it has on ratepayers.

We submitted this matter to an OAG Opinion Review Committee (ORC) which confirmed that the impacts of the deterioration of the deficit were immaterial, Therefore, no emphasis of matter paragraph nor any other modification, of the audit opinion, was required.

Council plans to recover the deficit over the first five years of the LTP. We reviewed management's modelling, of the recovery of the shortfall over the five years, and confirmed appropriate adjustments were made in the financial forecasts.

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3 LTP preparation and audit process

3.1 Process to develop the LTP

The process to develop the LTP is a significant and complex project. Overall, the process to develop the LTP and prepare the underlying information was well managed. We saw positive aspects of project planning and management, clear direction from elected members and senior management, internal co-ordination, and quality assurance reviews. We acknowledge that management was open to audit feedback during the process and there was a good level of dialogue with management on improvements to the LTP.

We fully recognise the pressures that the Council was under with its preparation of the LTP with the late clarification of the future of Three Waters infrastructure; the Government's significant change in direction with transport, and the challenging fiscal environment. Therefore, it was a significant achievement to adopt an audited CD and then adopt the final LTP before 30 June 2024.

3.2 Planning and budgeting process

We obtained an understanding of the budgeting process through discussions with the relevant staff members and corroboration to supporting documentation where appropriate.

Overall, we found that the Council had a reasonable process with controls in place which provided an appropriate basis to prepare the underlying information and ultimately both the LTP consultation document (CD) and the LTP. The main exception was the non-completion of the financial forecasts for the year ended 30 June 2024 prior to the adoption of the CD.

3.3 Preparation and audit of CD and LTP including underlying information

The change of Government, coupled with its signalled intention to reverse the previous Government's planned Three Waters reforms slowed the progress of the preparation of the LTP as the sector waited for clarification as to the extent Three Waters infrastructure needed to be incorporated into the LTP. This in turn contributed to asset information not being available for audit as planned, before Christmas 2023. It also contributed to the LTP financial forecasts being provided later than originally planned. These factors adversely impacted on the efficiency of the audit and made the achievement of the statutory deadlines more challenging.

The Council is required to prepare the LTP in compliance with the accounting standard, PBE FRS 42, *Prospective Financial Statements* (PBE FRS 42). A key requirement of PE FRS 42 is that the Council is to "... use ..." the best information that could reasonably be expected to be available at the time prospective financial statements are prepared in determining the assumptions and information used in the preparation of the prospective financial

statements”. This requires the Council to evaluate whether the CD or LTP needs to be updated for new information that is received.

With the change in Government in November 2023, and the challenging economic environment the Council needed to evaluate the impact of significant new information that became available during the preparation of both the CD and final LTP. The audit team needed to review the Council’s assessment of this new information and determine its impact and whether the LTP needed to and was appropriately, updated for it. Updates on the Agency funding are examples of this.

Both the Government’s initial announcement on the Agency’s funding assistance priorities, and the Agency’s indicative funding letter in June 2024 were both significant new information that we reviewed, and assessment needed to be taken into account in the preparation of the CD and final LTP, respectively. Most of this work was greater than was originally planned.

There was also additional unplanned work on the CD’s wording for the rates affordability service cut options, and on the disclosure of the Council’s approach to address the impacts of climate change.

We have subsequently analysed our time and sought approval from the Office of the Auditor-General to negotiate an additional fee recovery.

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4 Areas of audit emphasis

We reviewed the financial strategy, financial model, infrastructure strategy and significant forecasting assumptions, and major changes in the LTP following the consultation process. We determined that the underlying documents were reasonable and supported in the LTP.

The following assumptions required further consideration at the LTP stage:

4.1 The Agency funding assumption

In June 2024, the Agency provided Council with its indicative 2024/27 funding proposal for local roads maintenance, road safety promotion and public transport service. The indicative funding of \$5,015 million was less than the forecast in the LTP. The Council chose not to adjust for the difference. We accepted this approach on the basis of materiality.

The reduction in indicative funding does not impact the Nelson Future Access project budget as the change relates to operational expenditure and not capital expenditure.

4.2 Delivery of capital programme assumption

The total LTP capital programme is \$1.014 billion compared to the budgeted capital programme, at the CD phase, of \$1.001 billion. There is a risk that the cost of the capital programme may be more or less than the 90% budgeted for. If more is spent, Council's debt will be more than forecast with an associated increase in costs. Increased flexibility in the capital works programme with timing of the projects could mitigate this risk. Council plans to ensure adequate consultation and analysis is completed prior to work commencing so that it has the best information available to adjust the work programme as needed. Council will consider the impact on rates, debt and levels of service when making any adjustments to the work programme. Priority will be given to adjustments which reduce rates and debt increases but which are also least likely to have a negative impact on the planned levels of service.

Due to the relatively small value of capital expenditure carried forward into the 2024/25 year, and no changes to the other assumptions, we reaffirmed the conclusion, from the CD phase, that the capital programme remains achievable.

4.3 Impact of the growth assumption

We also reviewed the Council's current actions to comply with the National Policy Statement on Urban Development (NPSUD). They include:

- development of the housing and business development capacity assessment (HBA);
- development of the Nelson and Tasman combined future development strategy (FDS); and

- evaluation of population growth forecasts in the LTP, that are based on Statistics New Zealand forecasts. The Council has supplemented these forecasts with low/high growth scenarios developed by Infometrics that also take potential Covid-19 pandemic effects into account.

4.4 Other changes

The most significant change, to the LTP, from the CD stage, was addressing the overall negative impact of the \$8.3 million forecast shortfall from the financial forecasts that underpinned the consultation document as outlined in section 2.2 above.

The other significant changes, to the LTP, from the CD stage, were the correction of the unadjusted misstatements, at the CD stage. They included adjustments to interest expense to reflect updated forecasts of the interest rates that would apply over the LTP. The other adjustments were for the timing of infrastructure asset revaluations which also impacted on depreciation expense.

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5 Publication of the plan on the Council's website



We examined the final electronic file version of the plan incorporating the audit report before it was uploaded onto the Council's website.

We provided clearance on 27 June 2024 for the final long-term plan document to be published on the Council's website.

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6 Quality and timeliness of information provided for audit

6.1 Audit Committee involvement in LTP

Finding

We noted that limited use was made of the knowledge and expertise of the Audit Committee, in the LTP process and Council's deliberations.

Recommendation

Review the LTP preparation process with the objective to seek to maximise the knowledge and expertise of the Audit Committee in the preparation and audit of the LTP.

Management comment

DRAFT

Appendix 1: Unadjusted audit differences

Unadjusted financial differences

Waka Kotahi NZ Transport Agency (the Agency) funding variance

Council has not recognised the funding shortfall within its LTP arising from the Agency's 2024-27 NLTP indicative reduced allocations for funding assistance for continuous transport programmes.

As a result, the year-on-year impact for Years 2 and 3 of the LTP are as below:

Dr/(Cr)	2024	2025	2026
Revenue	–	1,068,139	1,279,959
Expenditure	–	(428,669)	(486,045)
Operating surplus	–		
Current assets	–		
Current liabilities	–		
Non-current assets	–	(639,470)	(793,914)
Non-current liabilities	–		
Equity	–		

<i>Dr. Grants and Subsidies (operational and capital)</i>	<i>\$1,068,139</i>
<i>Cr. PPE</i>	<i>\$639,470</i>
<i>Cr. Expenditure</i>	<i>\$428,669</i>

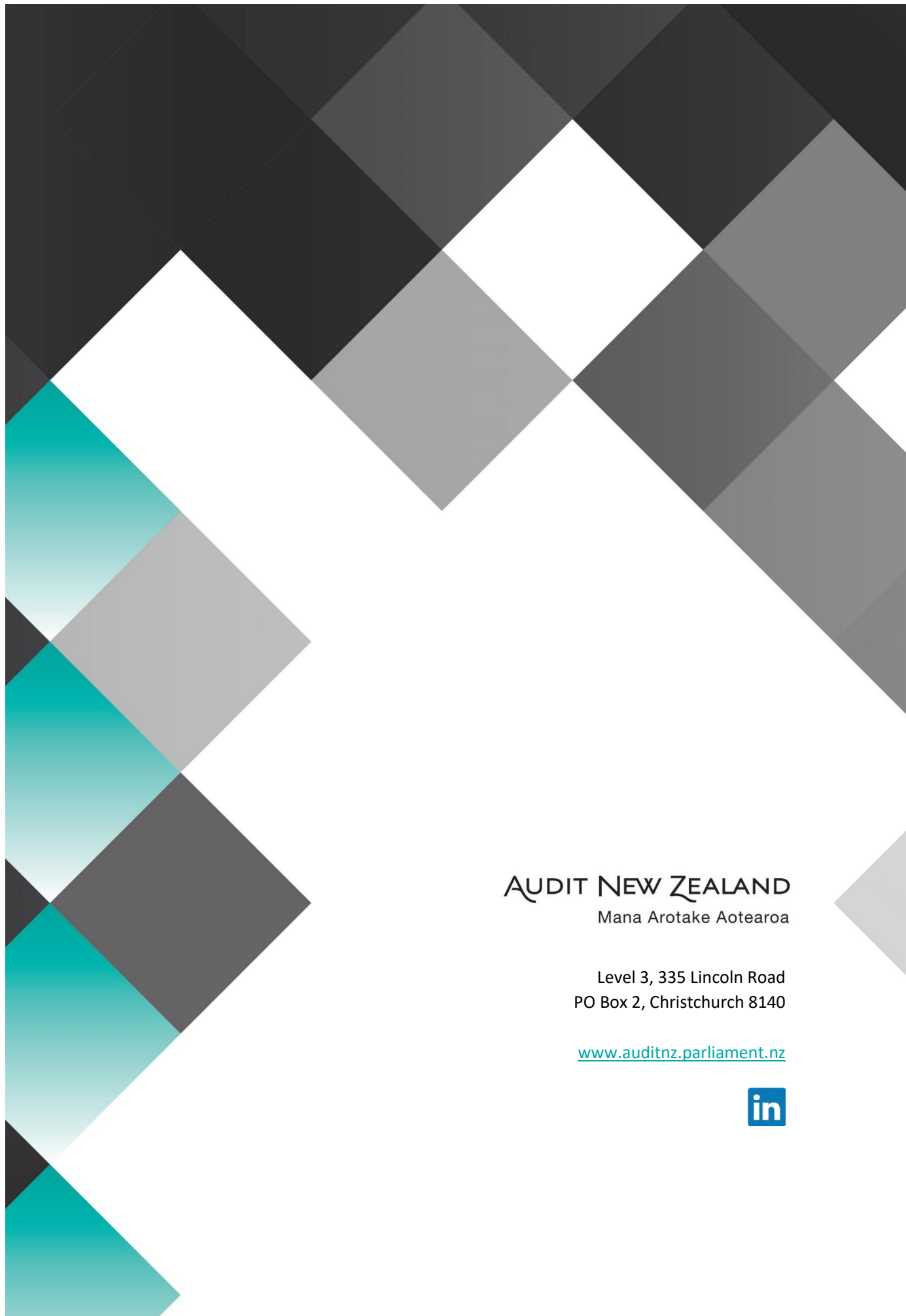
Being the overstatement of the NZTA subsidy and overstatement of the work programme in Year 2.

<i>Dr. Grants and Subsidies (operational and capital)</i>	<i>\$1,279,959</i>
<i>Cr. PPE</i>	<i>\$793,914</i>
<i>Cr. Expenditure</i>	<i>\$486,045</i>

Being the overstatement of the NZTA subsidy and overstatement of the work programme in Year 3.

Appendix 2: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor General. We are responsible for expressing an independent opinion on the long-term plan and reporting that opinion to you. This responsibility arises from sections 94 and 259C of the Local Government Act 2002.</p> <p>The audit of the long-term plan does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Assurance and Auditing standards	<p>We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>. In meeting the requirements of this standard, we considered particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i> that were consistent with those requirements.</p> <p>Our work cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity, or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the Council's long-term plan and all other legally required external audits, we completed an assurance engagement pursuant to the Council's debenture trust deed. These engagements are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the Council.</p>
Fees	<p>The audit fee, as detailed in our audit engagement letter, is \$114,000. However, we will be seeking an additional recovery due to the matters raised in the report.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the audit.</p>



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6.2 RISK APPETITE

Information Only - No Decision Required

Report To:	Audit and Risk Committee
Meeting Date:	3 October 2024
Report Author:	Amy Clarke, Risk & Assurance Advisor
Report Authorisers:	Steve Manners, Chief Operating Officer
Report Number:	RFNAU24-10-3

1. Summary / Te Tuhinga Whakarāpoto

- 1.1 A Risk Appetite Statement (**Attachment 1**) has been drafted based on information from Councillors.
- 1.2 The Audit and Risk Committee is invited to provide feedback before the Risk Appetite Statement is presented to the Council for adoption.

2. Recommendation/s / Ngā Tūhunga

That the Audit and Risk Committee

1. **receives the Risk Appetite report RFNAU24-10-3; and**
2. **recommends to Council the adoption of the Risk Appetite Statement.**

3. Risk Appetite Statement

- 3.1 The Risk Appetite Statement describes the amount and type of risk that Council is willing to pursue or retain in the execution of its strategic and business objectives.
- 3.2 The Risk Appetite Statement is a guide from Council to staff. While the Risk Appetite Statement provides a framework for staff to respond to in most circumstances, there remains an expectation that staff act with prudence, good judgement and be open to pursuing opportunities outside of the risk appetite where appropriate.

4. Developing the Risk Appetite Statement

- 4.1 Two workshops were held with Councillors to develop the Risk Appetite Statement.
- 4.2 At the first workshop, Councillors provided individual assessments of each risk type. These individual assessments were consolidated into a draft risk appetite statement.
- 4.3 At the second workshop Councillors had the opportunity to discuss if the consolidation of the risk appetite was a fair representation of the views of Council as a whole. Feedback from this workshop has been incorporated into the draft Risk Appetite Statement (attached).

5. Risk Appetite Statement

- 5.1 The Risk Appetite Statement covers the categories of risk as described in the Risk Framework (Financial, Relationships and Reputations, Operational, Legal and Regulatory Compliance, People & Wellbeing/ Health & Safety, Environmental, Project Performance).
- 5.2 A pictorial summary is provided as well as descriptions for each category.

6. Attachments / Tuhinga tāpiri

1. [↓](#) DRAFT Risk Appetite Statement

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Risk Appetite

Risk Appetite Summary									
		Low Appetite			Moderate Appetite			High Appetite	
		<i>Accept little or zero risk; taking a cautious approach towards taking risk</i>			<i>A balanced and considered approach is adopted to taking risk</i>			<i>A more assertive or aggressive approach to taking risk is accepted to realise strategic objectives</i>	
Financial									
Relationships and Reputation									
Operational									
Legal and Regulatory Compliance									
People & Wellbeing / Health & Safety									
Environmental									
Project Performance									

Risk Appetite Statement

For Governance and Management to know the degree of risk they are prepared to accept, the Council risk appetite statement is as follows:

1. Council has an expectation of financial prudence and adherence to good financial practice for managing operational budgets. To enable growth and asset sustainability, Council expects a moderate amount of risk may need to be taken in relation to funding and investment strategies. Council emphasises the need to balance affordability for existing ratepayers with long term sustainability and equity for future residents.
2. Council does not expect the community to agree with all decisions, however there is an expectation that the community understands and agrees with the direction of the Council over the long term. Council expects that staff will demonstrate manaakitanga, but also to take a reasonable and considered approach when managing complex relationships and situations. Relationships with iwi are highly valued and prioritised by Council.
3. Council has a broad operational scope, and the approach to risk will be balanced across the operational functions. Council is open to creativity and innovation and is willing to take some level of risk to deliver efficiencies, enhance capabilities and provide a service to be proud of to our community. Council takes a moderate approach to infrastructure maintenance and growth to ensure the balance between cost and sustainability.
4. Council has low to moderate appetite for breaches of legal obligations or contractual agreements that result in fines, penalties or reputational damage for Council. Council is committed to enforcing legislated and regulatory requirements in a consistent and fair manner.
5. Council has low appetite for practices, actions or inactions that compromise the safety of the community or the wellbeing and safety of staff, contractors and volunteers and community. Council recognises the benefit of providing flexibility to employees, to enable reciprocal flexibility to deliver to a fast-changing environment. Council expects employees to undertake duties in a manner that is consistent with the organisational values and performance commitments.
6. Council recognises the importance of conserving and enhancing our environment and understands that sustainability considerations in council decisions is important. Council takes a moderate approach to risk in recognition of the high cost of mitigations and is open to innovation to deliver environmental value.
7. Council expects a high standard of governance in its projects and programmes. Council has a low to moderate appetite for placing additional financial pressure on budgets and is open to taking innovative approaches where they can be undertaken without exceeding budgets or exposing council to future liability.
8. It is expected that the Council will be sufficiently flexible and nimble from time to time to step outside the parameters set by this risk appetite statement in pursuit of a desired outcome but always ensuring that a high standard of delivery quality is maintained and that actions align with the legislative functions and purpose of the Council. It is also the case that risk appetite may be prescriptive at the strategic and operational levels of the Council.

**Each risk is rated against the appropriate Risk Appetite Statement category.*

6.3 AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

Information Only - No Decision Required

Report To:	Audit and Risk Committee
Meeting Date:	3 October 2024
Report Author:	Amy Clarke, Risk & Assurance Advisor
Report Authorisers:	Steve Manners, Chief Operating Officer
Report Number:	RFNAU24-10-2

1. Summary / Te Tuhinga Whakarāpoto

- 1.1 An amendment to the Audit and Risk Committee (ARC) Terms of Reference (TOR) is proposed to allow for continuity of membership in extraordinary circumstances.
- 1.2 The opportunity has also been taken to consider the entirety of the TOR, and additional changes are proposed to clarify the responsibilities of the committee and amend an error in elected member numbers.
- 1.3 With ARC endorsement, the TOR will be submitted to the Council for approval.

2. Recommendation/s / Ngā Tūtohunga

That the Audit and Risk Committee

1. **receives the Audit and Risk Committee Terms of Reference report RFNAU24-10-2; and**
2. **recommends to Council the adoption of the revised Audit and Risk Committee Terms of Reference.**

3. Terms of Reference

- 3.1 It has been identified that some flexibility in the membership of the committee would be valuable to allow for more than two terms (or six years total) in extraordinary circumstances. This would allow for elected or independent members to be reappointed if required to provide continuity of support to Council. Situations this might apply to include the need for a specific skill set, significant change in the organisation (e.g. change of leadership), or a significant event impacting Council or the region. The draft TOR (**Attachment 1**) includes the following:
 - 3.1.1 “Any member of the committee, either elected or independent, may serve no more than six years (the equivalent of two terms of three years) on the committee. In extraordinary circumstances, Full Council may approve an additional term for a member of an appropriate length to ensure the committee is able to provide continuity of support to the Council.”
- 3.2 The opportunity has been taken to consider the entirety of the TOR and several amendments are recommended:

- 3.2.1 widening the scope of ARC to include Health and Safety, Governance and Integrity.
These areas are already included in principle, but specific detail is not provided within the TOR.
- 3.2.2 providing more specific detail on the responsibilities of ARC.
- 3.2.3 specifying what information should be included in the Chair's annual report to Council.
- 3.2.4 amending the number of elected members to reflect the appointments.
- 3.3 Feedback and endorsement of the TOR (**attached**) is sought from ARC prior to submission for Council approval.

4. Attachments / Tuhinga tāpiri
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1. [↓](#) ARC TOR 2024 DRAFT

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Audit and Risk Committee (ARC)

1.0 Purpose and Areas of Responsibility

The purpose of the Audit and Risk Committee is to assist the Council and the Chief Executive to discharge their responsibilities for internal control systems, and risk management. This includes the active oversight of all areas of Council's control and accountability in an integrated and systematic way.

In carrying out its responsibilities, the Audit and Risk Committee must at all times recognise that primary responsibility for management of the Council rests with the Chief Executive.

Where the Committee finds it appropriate, any matter may be referred to full Council for consideration.

The focus of the committee is:

- Ensuring that the Council has appropriate controls consistent with the public interest, and
- Overseeing good financial and cultural governance.

2.0 Responsibilities

The Audit and Risk Committee's responsibilities are to provide oversight of:

2.1 Internal Audit (financial and non-financial matters)

2.1.1 Review and recommend the annual internal audit plan; such plan to be based on the Council's risk framework.

2.1.2 Monitor performance against the plan at each regular meeting.

2.1.3 Monitor all internal audit reports and the adequacy of management's response to internal audit recommendations.

2.2 External Audit

2.2.1 Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. This includes the adequacy of the nature and scope of the audit, and the timetable and fees.

2.2.2 Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.

2.3 Risk Management

2.3.1 Review and consider the risk management framework in line with Council's risk appetite – which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.

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- 2.3.2 Assist the Council to determine its appetite for risk.
- 2.3.3 Review the principal risks that are determined by Council and consider whether appropriate action is being taken to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework. Consider emerging significant risks and report these to Council, where appropriate.
- 2.3.4 Annually review Council's Business Continuity plan(s) and consider whether a sound and effective approach has been followed in establishing Council's business continuity planning arrangements.
- 2.3.5 Review the effectiveness of the approach being followed in developing strategic risk management plans for significant projects, programmes of work and high profile procurement.
- 2.4 Health and Safety
 - 2.4.1 Review key risks of the Council in the areas of safety, occupational health and environmental issues.
 - 2.4.2 Review management's approach to maintaining and continual improvement to providing a safe working environment is sound and effective.
 - 2.4.3 Monitor compliance of relevant laws, regulations and operational policies and standards.
 - 2.4.4 Monitor the establishment and tracking of measurable workplace health, safety and environment key targets.
- 2.5 Governance
 - 2.5.1 Monitor Council's performance in responding to LGOIMA requests within the legislative timeframes.
 - 2.5.2 Review the adequacy and effectiveness of internal controls for overseeing privacy and cyber security.
 - 2.5.3 Consider regular reports on the status of investigations by the Offices of the Ombudsman and of the Auditor General into decisions by the Council.
 - 2.5.4 Monitor Council's performance in managing and responding to high priority complaints.
- 2.6 Integrity and investigations
 - 2.6.1 Review annually the Council's whistleblowing procedures and ensure that arrangements are in place by which staff and others may, in confidence, raise concerns about possible improprieties involving Council or its CC(T)Os in matters of financial reporting, financial control or any other matters, and that there is proportionate and independent investigation of such matters and appropriate follow-up action.
 - 2.6.2 Review management's approach in relation to the prevention, detection, reporting and investigation of bribery and fraud.
 - 2.6.3 Review and monitor policy and process to manage conflicts of interest amongst elected members, community board members, management, staff, consultants and contractors.
 - 2.6.4 Review and monitor policy and process to manage sensitive expenditure activities across Council.
 - 2.6.5 Review and monitor policy and process to manage legal proceedings.

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3.0 Powers

The Audit and Risk Committee has no decision-making ability. It has no other powers other than those related to its risk and assurance mandate below.

The Audit and Risk Committee, within the scope of its role and responsibilities is authorised to:

- 3.1. obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- 3.2. discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);
- 3.3. request the attendance of any employee, including the Chief Executive, at committee meetings;
- 3.4. obtain external legal or other professional advice, as considered necessary to meet its responsibilities, at the Council's expense;
- 3.5. the exercise of the powers in 3.3 and 3.4 above is limited to situations where the performance of the Committee's functions would be constrained if the resources of the organisation were not available;
- 3.6. recommend to the Council action on any matter in relation to Audit and Risk activities.

4.0 Limitations

The Audit and Risk Committee has no executive powers and is directly responsible to Council.

5.0 Governance

5.1 The Audit and Risk Committee Chair is responsible for submitting an annual report to the Council covering the Committee's operations and activities during the preceding year. The report should include;

- 5.1.1 A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- 5.1.2 A summary of the Council's progress in addressing the findings and recommendations made in internal and external audit reports, and the Auditor-General's reports (if applicable);
- 5.1.3 An overall assessment of the Council's risk, control, and compliance framework, including details of any significant emerging risks or legislative changes; and
- 5.1.4 Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- 5.1.5 The Committee may, at any time, report to the Chief Executive or the Council any other matter it deems of sufficient importance to do so.

6.0 Administration

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6.1 Meetings

6.1.1 The expectation is that members of the public wanting to speak to a matter on the Agenda should be given that opportunity.

6.1.2 Meetings are quarterly.

6.1.3 The Audit and Risk Committee may meet between the quarterly meetings at the discretion of the chair to attend to urgent business.

6.1.4 A special meeting may be held to review Council's annual report and long term plan audits.

6.1.5 The Audit and Risk Committee will meet separately with the external auditors at least once a year.

6.2 Membership of the committee shall comprise:

6.2.1 Four elected members appointed by Council.

6.2.2 Up to two external members appointed in accordance with Council's Policy on the Appointment and Remuneration of Independent Members on Council Committees and Business Units. The independent member is appointed for a term of three years from the date of appointment or such other terms as Council resolves.

6.2.3 The Chair shall be appointed by Council and will be an independent member.

6.2.4 Any member of the committee, either elected or independent, may serve no more than six years (the equivalent of two terms of three years) on the committee. In extraordinary circumstances, the Council may approve an additional term for a member of an appropriate length to ensure the committee is able to provide continuity of support to the Council.

6.2.5 The Chief Executive or any Council staff member may not be a member of the committee.

6.2.6 The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council. At least one member of the committee should have accounting or related financial management experience, with an understanding of accounting and auditing standards in a public sector environment.

6.3 A quorum comprises three members, two of whom must be elected members.

6.4 Reports to the Council.

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A special meeting may be held to review Council's annual report and long term plan audits. ¶
The Audit and Risk Committee will meet separately with the external auditors at least once a year. ¶

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7 CONFIDENTIAL SESSION

7.1 Procedural motion to exclude the public

The following motion is submitted for consideration:

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

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

7.2 Risk and Audit Report

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

7.3 Cybersecurity Update

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(j) - The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

7.4 Draft Annual Report 2024

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution

<p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>	<p>s7(2)(b)(ii) - The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>In particular, financial information for Waimea Water Ltd, and Infrastructure Holdings Ltd has not yet been made publicly available. The attached Marsh Valuations report contains personnel details</p>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>
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7.5 Legal Services Report

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
<p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>	<p>s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege.</p>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>