

Risk and Audit Committee Agenda

Date: 22 September, 2021

Time: 9:00 am

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: John Isles (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Gavin Benney
Cr Vince Cocurullo
Cr Nicholas Connop
Cr Ken Couper
Cr Tricia Cutforth
Cr Shelley Deeming
Cr Jayne Golightly
Cr Phil Halse
Cr Greg Innes
Cr Greg Martin
Cr Anna Murphy
Cr Carol Peters
Cr Simon Reid

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

1. Declarations of Interest	
2. Apologies	
3. Confirmation of Minutes of Previous Risk and Audit Committee Meeting	
3.1. Minutes Risk and Audit Committee meeting 23 June 2021	3
4. Information Reports	
4.1. Financial Management Activity Update Report - September 2021	7
4.2. Pressures on Capital Projects	21
4.3. Health and Safety September 2021	51
4.4. Audit NZ - Verbal Update Report September 2021	61
4.5. External Audit Action Update - September 2021	63
4.6. Risk Report September 2021	67
5. Public Excluded Business	
5.1. Confidential Minutes Risk and Audit Committee Meeting 23 June 2021	
5.2. ICT Risks Report - September 2021 - Confidential	
6. Closure of Meeting	

Recommendations contained in the agenda are not the decisions of the meeting.

Please refer to minutes for resolutions.

Risk and Audit Committee – Terms of Reference

Membership

Chairperson Independent Chair - John Isles

Members Her Worship the Mayor Sheryl Mai

Councillors Gavin Benney, Vince Cocurullo, Nicholas Connop, Ken Couper, Tricia Cutforth, Shelley Deeming, Jayne Golightly, Phil Halse, Greg Innes, Greg Martin, Anna Murphy, Carol Peters, Simon Reid

Meetings Quarterly

Quorum 7

Purpose

To provide assurance to Council that robust, independent and operationally effective controls around operational and financial management practices are in place.

To provide oversight of the risk management of internal controls including but not limited to:

- Risk management framework
- Operational risk management
- Financial risk management
- Health and safety risk management
- Compliance with legislation

Key responsibilities

- Risk
 - Approve and review Councils risk management framework
 - Review and monitor Council critical risks
 - Receive and review Health and Safety reports
 - Oversight of the processes used to manage project risks
- Internal audit
 - Approve and review the internal audit programme
 - Receive and review the internal audit reports as they become available.
- External audit
 - Receive and consider audit management reports, monitor that appropriate action is being taken
 - Hold a confidential meeting with the external auditors at least once every year.
- Financial planning and control
 - Treasury – debt and interest risk management

- Procurement – major risks associated with procurement
- Overseeing and making decisions relating to an ongoing programme of service delivery reviews as required under section 17A of the Local Government Act 2002.
- Other assurance activities:
 - Receive and monitor Councils policy review program.
 - Receive and monitor Councils legislative compliance attestations
 - Receive renewal information to provide assurance that Council's assets are insured appropriately.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including:
 - (a) establishment of working parties or steering groups.

Item 3.1
Risk and Audit Committee Meeting Minutes

Date: Wednesday, 23 June, 2021
Time: 9:00 a.m.
Location: Council Chamber
 Forum North, Rust Avenue
 Whangarei

In Attendance	John Isles (Chairperson) Her Worship the Mayor Sheryl Mai Cr Vince Cocurullo Cr Nicholas Connop Cr Ken Couper Cr Tricia Cutforth Cr Shelley Deeming Cr Jayne Golightly Cr Phil Halse Cr Greg Innes Cr Anna Murphy Cr Carol Peters Cr Simon Reid
Not in Attendance	Cr Gavin Benney Cr Greg Martin
Also present	Carl Wessels (Audit New Zealand) Jaimala Singh (Audit New Zealand)
Scribe	C Brindle (Senior Democracy Adviser)

1. Declarations of Interest
2. Apologies

Crs Gavin Benney and Greg Martin (absent), Crs Tricia Cutforth and Jayne Golightly (late arrival)

Moved By John Isles

Seconded By Cr Phil Halse

That the apologies be sustained.

Carried

3. Confirmation of Minutes of Previous Risk and Audit Committee Meeting
3.1 Minutes Risk and Audit Committee meeting held 24 March 2021

Moved By John Isles
Seconded By Cr Ken Couper

That the minutes of the Risk and Audit Committee meeting held on Wednesday 24 March 2021, having been circulated, including the confidential section, be taken as read and now confirmed and adopted as a true and correct record of proceedings of that meeting.

Carried

Cr Murphy joined the meeting at 9.02am following Item 3.1.

4. Information Reports

4.1 Financial Management Activity Update Report - June 2021

Moved By Cr Greg Innes
Seconded By Cr Ken Couper

That the Risk and Audit Committee notes the financial management activity in relation to risk and audit matters.

Carried

Cr Golightly joined the meeting at 9.09am during discussions on Item 4.1.

Cr Cutforth joined the meeting at 9.13am during discussions on Item 4.1.

4.2 Health and Safety Report June 2021

Moved By John Isles
Seconded By Cr Vince Cocurullo

That the Committee notes the health and safety report.

Carried

4.3 Audit NZ Draft Interim Audit Report - June 2021

Moved By Her Worship the Mayor
Seconded By Cr Greg Innes

That the Risk and Audit Committee notes the Draft Interim Audit Report issued by Audit NZ for the year ended 30 June 2021

Carried

4.4 Internal Audit Action status update - June 2021

Moved By John Isles
Seconded By Cr Shelley Deeming

That the Risk and Audit committee notes the status of the outstanding internal audit actions.

Carried

4.5 Internal Audit for Airport - May 2021

Moved By John Isles
Seconded By Cr Ken Couper

That the Risk and Audit committee notes the internal audit report on the Whangarei District Airport.

Carried

4.6 Risk Report June 2021

Moved By Cr Vince Cocurullo

Seconded By Cr Greg Innes

That the Risk and Audit Committee notes the risk report.

Carried

4.7 Variations to Procurement Process Report - June 2021

Moved By Cr Shelley Deeming

Seconded By Cr Nicholas Connop

That the Risk and Audit Committee notes the variations to procurement process report.

Carried

5. Public Excluded Business

Moved By John Isles

Seconded By Her Worship the Mayor Sheryl Mai

That the public be excluded from the following parts of 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:

General subject of each matter to be considered		Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing this resolution
1.1	Confidential Minutes Risk and Audit Committee meeting 24 March 2021	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
1.2	ICT Risks Report – June 2021		
1.3	Oruku Landing – Risk Recommendations		

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 the relevant part of the proceedings of the meeting in public, are as follows:

Item	Grounds	Section
1.1	For the reasons as stated in the open minutes	

1.2	To prevent the disclosure or use of official information for improper gain or improper advantage	Section 7(2)(j)
1.3	To enable Council to carry on without prejudice or disadvantage commercial activities.	Section 7(2)(h)

Carried

6. Closure of Meeting

The meeting concluded at 11.39am.

Confirmed this 22nd day of September 2021

John Isles (Chairperson)

4.1 Financial Management Activity Update Report – September 2021

Meeting: Risk and Audit Committee
Date of meeting: 22 September 2021
Reporting officer: Delyse Henwood (Manager – Finance)

1 Purpose

To update the Committee on financial management activity in relation to risk and audit matters.

2 Recommendation

That the Risk and Audit Committee notes the financial management activity in relation to risk and audit matters.

3 Discussion

2020-21 Annual Report

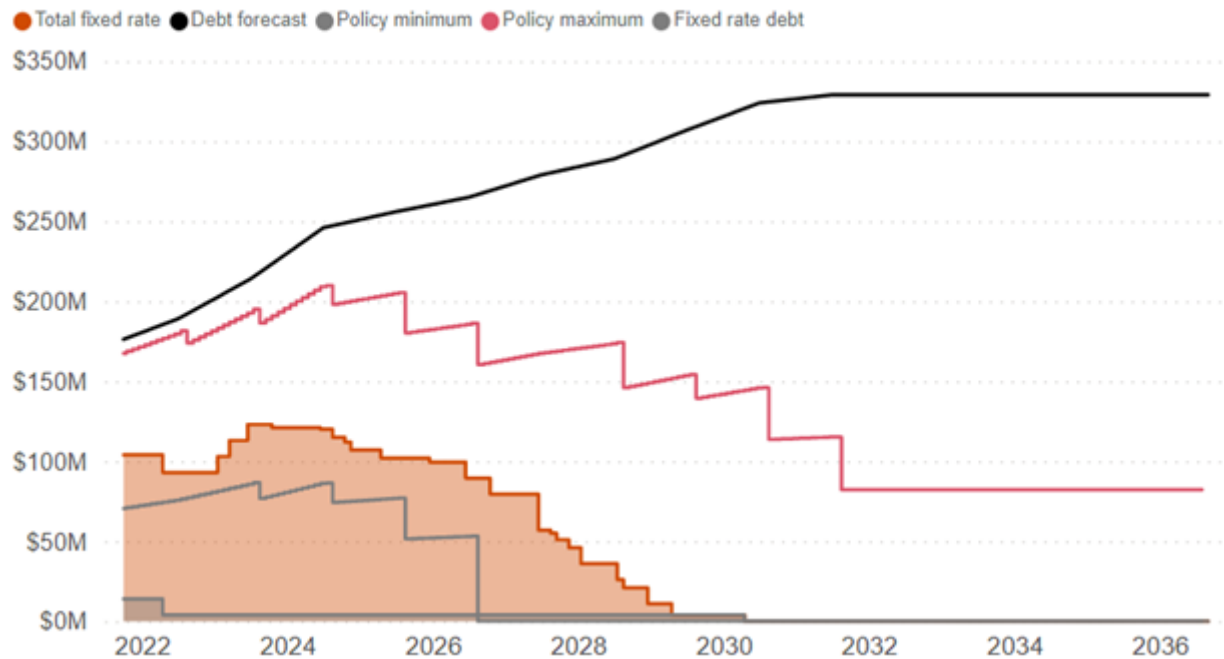
The audit of the 2020-21 Annual Report is currently in progress. The lockdown has resulted in a change to our normal process, with staff from Council and Audit NZ working remotely from their homes. This creates inefficiencies as we lose the advantages gained from face-to-face discussions and working through queries together.

We will continue to monitor progress and work with AuditNZ to resolve any queries. The Long Term Plan amendment may result in audit staff being redirected to focus on the LTP amendment as a priority. This may cause delays with the adoption of the Annual Report.

Treasury Risk Management

The graphs below show Council's compliance to the risk parameters set out in the Treasury Risk Management Policy.

Interest rate risk timeline



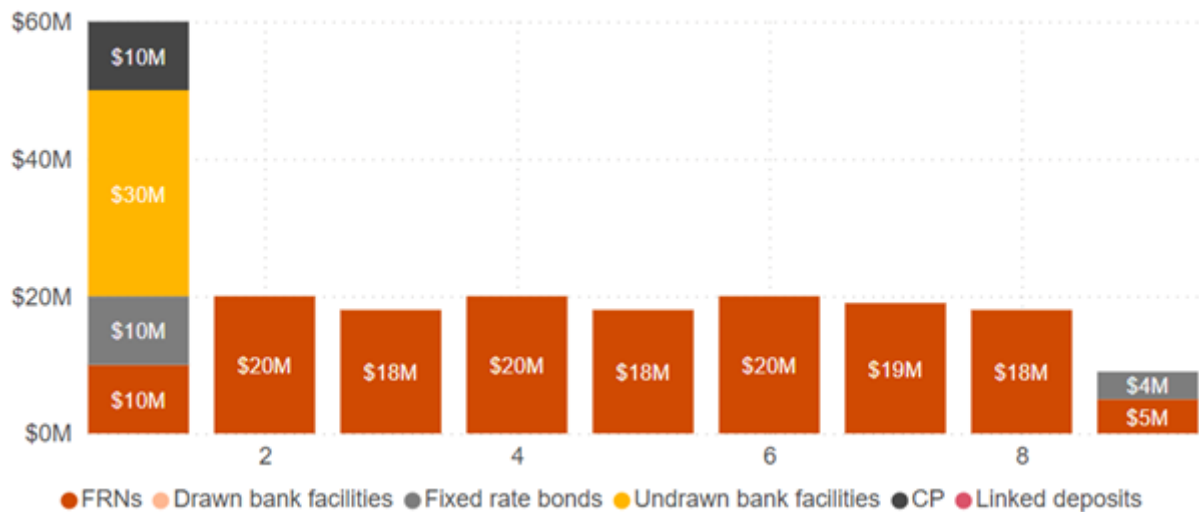
A 'blend and extend' strategy is currently being considered. This looks to increase medium-term interest rate hedging, protecting Council's planned and budgeted interest costs, whilst continuing to take advantage of low floating interest rates over the next few years.

A 'blend and extend' transaction works by lengthening the term of an existing borrower interest rate swap at a lower interest rate. Effectively, Council would make use of current low interest rate settings by 'blending' a new interest rate swap (at a lower interest rate) with an existing interest rate swap.

This will provide an immediate cash flow benefit as Council's borrowing costs are reduced immediately. The total of the existing swap cash flows, however, will be spread over a longer term. The execution of this is currently on hold while we see whether long term interest rates reduce.

Staff and treasury advisors will continue to monitor and review our treasury management as our environment continues to change.

Funding and liquidity risk timeline



Standard and Poors credit rating

In August 2021 S&P reviewed WDCs credit rating and revised the outlook on its long-term rating from stable to negative. This means that the rating may be downgraded within the next two years. A separate agenda item containing the Credit Rating Report is included within Septembers Council meeting agenda.

Last year Council completed a record amount of capital expenditure, with the recently adopted LTP assuming this level of expenditure will be sustained and even increased. However, the increase in capital expenditure has not been matched by a similar level of increase in operating revenue (e.g. by rates increases) meaning we are more reliant on debt funding than previously. This will put increasing downwards pressure on the credit rating if all planned work is completed.

Delta Outbreak

The Level 4 restrictions imposed due to the community case of Delta in Auckland has seen Council operations continue with staff working from home. The impact on Council's financial performance is yet to be seen. Our district showed great resiliency after the previous lockdown. While this recent lockdown was for a shorter period, the increased seriousness of the delta strain coupled with the fact Auckland remains in level 4 may mean a slower recovery this time around.

Treasury management can be challenging in this climate and change from day to day as the market grapples with impact of Delta at both a national and global level.

Operating within this uncertain climate will create new challenges and require significant financial discipline and trade-offs to be made, particularly with Council's planned debt increases.

Tax Compliance

Included as an attachment to this agenda is PwC's Annual Tax Update. This update is prepared by PwC as part of the Tax Risk Governance Framework. This framework assists Council to identify and manage tax risks in order to maintain our low risk profile.

Sensitive Expenditure

In order to improve transparency, and in accordance with best practice guidelines, Council's Sensitive Expenditure Policy requires the reporting of sensitive expenditure incurred by Elected Members and the Senior Leadership Team to the Risk and Audit Committee.

Below is a table showing sensitive expenditure for the two months ending 31 August 2021. This information has been summarised at a transactional level, therefore some items may include several individuals.

Details	GM / Elected Member	\$
Airport Parking	A Adcock	26.09
Councillors Refreshments	Councillors	2,590.93
Festival for Future - Accommodation	HWM and Raniera Paniora-Hepi	310.43
Festival for Future - shuttle bus	HWM and Raniera Paniora-Hepi	60.17
Festival for Future - Flights and Accommodation	HWM and Raniera Paniora-Hepi	1,595.22
LGFA and MBIE - Accommodation	A Adcock	163.74
LGNZ - additional accommodation due to flight disruptions	HWM	234.78
LGNZ - additional accommodation due to flight disruptions	A Adcock	277.79
LGNZ - Conference Taxi	HWM, Cr Cocurullo, Cr Peters, Cr Innes, A Adcock	184.53
LGNZ - Conference	HWM, Cr Cocurullo, Cr Peters, Cr Innes, A Adcock	6,456.50
LGNZ Conference - Accommodation	HWM, Cr Cocurullo, Cr Peters, Cr Innes, A Adcock	2,395.65
LGNZ Conference - Airport Transfer	HWM, Cr Cocurullo, Cr Peters, Cr Innes, A Adcock	39.13
LGNZ Conference - Flights	HWM, Cr Cocurullo, Cr Peters, Cr Innes, A Adcock	3,385.22
LGNZ Conference Dinner	Various x 7	198.26
Mayoral Forum - Refreshments	Various	254.35
National Lifeline Utilities Forum 2021	Simon Weston	1,090.99
Taituara Membership	S Boardman, D Kula, A Adcock, R Forlong	1,100.00
TUIA Wananga - Flights	Raniera Paniora-Hepi	507.96
Water NZ Conference and Expo 2021 - Conference	Cr Innes, S Weston	1,254.00
Water NZ Conference and Expo 2021 - Gala Dinner	Cr Innes, S Weston	278.26
Water NZ Conference and Expo 2021 - Pre Conference Workshop	Cr Innes, S Weston	410.00
Total		22,814.00
Note: \$1 per employee per week is paid as a contribution towards the WDC staff Social club to fund various social events and activities.		

This information has been extracted from our general ledger using specific account code criteria. In the event that transactions have been incorrectly coded elsewhere, they will not be included in the above information.

4 Significance and engagement

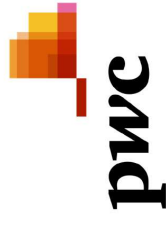
The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

5 Attachment

PWC Annual Tax Update

Whangarei District Council Annual Tax Update

By Phil Fisher & Josie Goddard
September 2021





- Tax governance framework
- Tax contribution
- Tax strategy
- Significant work undertaken

Introduction

Introduction

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

This document provides:

- A summary of the more substantive tax advice Council has sought from PwC during the period ended 31 August 2021.
- Council's tax strategy achieved and proposed for future years.
- A more general update on the wider tax environment which may affect Council – refer Part Two.

Tax Governance Framework

As previously discussed, Inland Revenue have highlighted the need for an increased focus on tax governance by all significant enterprises. When you combine this explicit reference with the fact that Inland Revenue have now started issuing organisations (albeit a small number to date) with tax governance review letters, it is appropriate that Council has responded to this development.

Inland Revenue guidance around good governance practice focuses on the need for organisations to develop an effective tax control framework. As we have worked through with you, we have developed this, along with a supporting tax risk management strategy. Please see a draft example of this strategy for Council to consider overleaf. The effectiveness of any strategy is only optimised once operationalised.

Council's tax figures

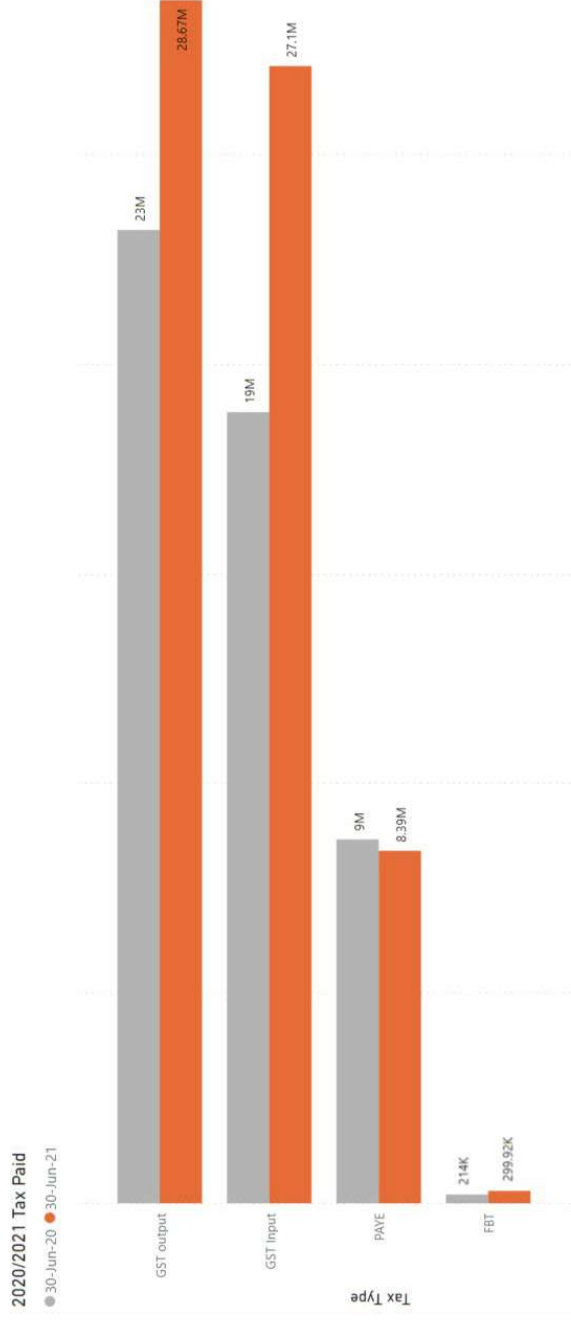
Council's tax figures

Council is largely exempt from income tax, with the main exception being income from CCOs. This position may change in future as discussed in the recent tax developments section of this report.

The period of this annual update covers the period 1 July 2020 to 31 August 2021. To provide an indication of the total amount of tax Council is responsible for, we have used figures for the 12 months ended 30 June 2021. During this period, Council has accounted for circa:

We expect FBT will increase in the upcoming year as a result of changes in the top marginal tax rate.

We note Council also has \$3,325,967.46 of tax losses available to be carried forward to the 2021 income year. This ability to offset may change in the future and we urge Council to keep abreast of developments in this area.



Tax Risk Management Strategy

		Actual		Proposed future strategy		
		2021	2022	2023	2024	2025
Financial Year to 30 June:						
PwC tax helpdesk facility		✓	✓	✓	✓	✓
PwC online tax policies & guides		✓	✓	✓	✓	✓
Independent tax evaluations:						
• GST				✓		
• PAYE/WHt/KiwiSaver* (incl. data analytics)			✓			
• FBT					✓	
Income tax return independently reviewed		✓	✓	✓	✓	✓
Tax disclosure notes independently reviewed		✓	✓	✓	✓	✓
Tax agency – income tax		✓	✓	✓	✓	✓
Report to Audit and Risk Committee on tax risk management		✓	✓	✓	✓	✓
External advice sought on major issues		✓	✓	✓	✓	✓
Tax function efficiency assessment						
Other tax training provided to staff		As required	As required	As required	As required	As required

*KiwiSaver - KiwiSaver in particular is a key area of concern for our clients generally as Inland Revenue have indicated that they are ramping up their data analytics in this area now that they have employee data available to them following the payday filing changes.

Tax advice provided during period

Tax advice sought – period ended 31 August 2021

Council set a Tax Risk Management Strategy for the year ended 30 June 2021. Council has been proactive in achieving its planned strategy.

For the most part, the tax compliance of Council has been 'business as usual' for much of the year with the various tax returns (income tax, GST, PAYE, FBT, etc.) being filed on time and without any major concerns being raised.

Relevant work undertaken throughout the year included:

GST advice in relation to the significant acquisition of strategic properties. This also included a review of the various property transactions to ensure the correct GST treatment was applied.

Council also sought assistance on a number of ad hoc queries to strengthen their business decisions with confirmation of the potential impact of the relevant tax issues. These included:

- Development contributions regarding the proposed vesting of land to Council
- The GST implications on importing art
- The FBT treatment of a transport service for employees
- The GST treatment of insurance proceeds
- The tax consequences of purchasing office equipment for staff working from home
- Assistance with administrative matters in relation to HAPT and Whangarei Airport

To support the ongoing risk management, Council:

- Continued to subscribe and actively use PwC's online indirect Tax Policies and Guides
- Received assistance with completion and filing of the income tax return for the year ended 30 June 2020
- Commissioned PwC to provide an annual update
- Continued to subscribe to PwC's Property Guide

We note that 2021 was a slightly 'unusual' year due to Covid-19, along with the various local government issues. However this has not significantly impeded on Council adhering to its Tax Risk management Strategy and there is a continued aspiration to pursue this with Council officers intent on continuing to focus on managing the tax risks of Council. This is positive, particularly given the likely increased 'upheaval' and distractions expected given 3 waters, the Resource Management Act reform, and the Future of Local Government Review.

2

- Tax Developments

Tax Developments

A brief overview of relevant tax developments

Tax Bill – Income tax changes for local authorities

Following Inland Revenue's draft paper entitled *Local Authorities – Dividends from council controlled organisations and loss grouping* in March 2021, the *Taxation (Annual Rates for 2021–22, GST, and Remedial Matters) Bill* was introduced on 8 September 2021.

This Bill includes a number of proposed amendments that would profoundly change local government taxation. The tone of these proposed amendments is also surprising, as the commentary states that these have come about as a result of wanting to improve the integrity of local government taxation, suggesting that the local government sector has had an unfair advantage through these rules in the past.

The proposed amendments included in the Bill are as follows:

- Treating dividends derived by a local authority from a wholly-owned council-controlled organisation (CCO), port company and energy company as exempt income.
- Denying local authorities a deduction for charitable or other public benefit gifts made to donee organisations (i.e. no deduction for donations).
- Limiting a local authority's ability to claim deductions in relation to finance costs to only finance costs incurred:
 - On loans made to a Council-controlled trading organisation (CCTO)
 - On borrowings to acquire shares in a group company that is a CCTO, and
 - On base price adjustments for financial arrangements involving CCTOs
- Denying local authorities the ability to convert unused imputation credits to a tax loss.
- Ensuring that a credit would not arise to a consolidated group's imputation credit account (ICA) for imputation credits attached to a dividend derived by a local authority.

These give rise to a number of questions that we will be digesting further, and PwC intends on making a submission on a number of points already. In general it is disappointing that these amendments appear to target local government, especially at this time, given the current burden and challenges already being faced by the sector.

Any Council with a group structure needs to be aware of these potential changes and care should be taken when planning for future use of any current losses. We also recommend care is taken if group restructuring or changes are planned to ensure there are no unexpected tax implications. So far, there has been no indication that historical losses currently held will be required to be forfeited.

The amendments are set to apply for the 2022-2023 and later income years. We will be discussing the implications for Council, should these proposed legislative changes be enacted, over the coming weeks.

Whangarei District Council
PwC

GST Changes

Along with a wide variety of other proposed changes, the Bill details a number of proposed GST amendments that may be relevant to local authorities. These include:

- Modernising the GST invoicing rules and information and record-keeping requirements, such as removing the requirement for taxpayers to obtain approval from Inland Revenue to issue buyer-created tax invoices (however, other requirements remain).
- Disposal of assets with a mix of taxable and non-taxable use
- Clarifications to the application of the GST grouping rules
- Improvements to the GST apportionment rules, including changes to the application of the apportionment rules to appreciating assets and providing smaller taxpayers to apply to Inland Revenue for approval to use an alternate apportionment method.
- Amendment to allow a second-hand goods input tax credit on supplies between associated persons.
- Amendments relating to the Compulsory Zero-Rating of land transactions

Other relevant points of note that potentially impact Council include:

Increase in the marginal tax rate to 39%

From 1 April 2021 the new top marginal tax rate of 39% was implemented. This applies to annual personal income over \$180,000. This has repercussions for other tax types to mitigate risk of potential distortions particularly around avoiding the new higher tax rate. A couple of the consequential changes that are immediately relevant for Council include:

- **FBT:** The FBT rate on amounts of all inclusive pay over \$129,681 will be increased to 63.93% to ensure consistent treatment of cash and non-cash remuneration. This also means that applying the single rate option means applying this new rate of 63.93% to all benefits provided. This is a notable increase from 49.25%. There are steps that can be taken to mitigate the impact of this, and it makes FBT a key focus area for 2021/22.
- **ESCT:** ESCT will rise to 39% on superannuation contributions made for an employee whose ESCT rate threshold exceeds \$216,000. Given a notable number of ESCT related issues across our client base, it will be even more important to ensure KiwiSaver and ESCT compliance obligations are met prospectively.

Mileage rate

Inland Revenue released Operational Statement 19/04: "KM 2021" on 27 May 2021. This increases the Tier One rates to 79 cents for all vehicle types and reduces the Tier Two rates to 27 cents for petrol or diesel vehicles and 16 cents for petrol hybrid vehicles, with electric vehicles remaining the same at 9 cents.

Tax Developments

A brief overview of relevant tax developments cont.

August 2021 Wage Subsidy and Resurgence Support Payment

The new COVID-19 Wage Subsidy (WS) and Resurgence Support Payments (RSP) were announced on 17 August 2021, and were intended to provide Government support for businesses and organisations in light of the recent nationwide move to Alert Level 4. The subsidy covered a two-week period, paying \$600 a week for each full-time employee, and \$359 a week for each part-time employee.

There are strict deadlines for applying for the WS, the first was 11:59pm on Thursday 2 September 2021 and for the second claim, two weeks hence, whilst the initial RSP deadline is one month after all of NZ returns to alert level 1 (with further RSP applications likely to be available). For the WS, businesses and organisations are required to show at least a 40% decline in revenue (30% for the RSP) over a relevant period which is a higher threshold compared to previous iterations of the WS which only required a 30% decline in revenue.

Whilst local authorities are not prohibited from applying for the WS and RSP schemes, in reality they will not meet the criteria. However, for businesses in the community, and any CCO, these schemes may prove critical.

Inland Revenue Activity

Recent discussions with senior Inland Revenue staff have confirmed that they will be moving to increase the use of data analytics of tax returns submitted, in particular in relation to payroll and GST. We have already seen evidence of the power of this with Inland Revenue cross checking payroll filings for wage subsidy reconciliations. Accordingly, we have developed a suite of data analytical tools that can check the payroll tax calculations along with providing a range of other insights over the workforce that can be useful as organisations increasingly focus on ensuring they have the appropriate staffing levels, there is pay equity etc.

In a separate meeting with Inland Revenue policy officials PwC heard about the Inland Revenue tax policy work program for the next 12-24 months. Amongst other issues the FBT regime was signalled as the next employment tax area to be considered. There have been no further details on this to date but we look forward to a full review of this area.

Flexible working arrangements

Inland Revenue has released Determination EE003 in relation to payments to employees for working from home and for using their own telecoms/usage plans. There is no substantive change from the previous iterations that this document builds on and combines (EE001, EE002, EE002A, EE002B). The same 'safe harbour' thresholds remain:

- \$400 for furniture or equipment purchases
- \$5/week for telecommunication usage plans
- \$15/week for other working from home costs (e.g. electricity).

Determination EE003 applies until 31 March 2023.

We are seeing a significant increase in queries from Local Government clients regarding flexible working arrangement particularly where in order to attract appropriate talent to roles Councils are engaging employees and contractors from distant locations. Some are working remotely from outside the region and some are travelling frequently to the region.

Inland Revenue released the Operational Statement 19/05: *Employer provided travel from home to a distant workplace income tax (PAYE) and fringe benefit tax* in December 2019 which provides some guidance in this area however there are some discrepancies between how travel is treated and how accommodation is treated. We recommend that all flexible and remote working arrangements Council is considering entering into are discussed with the finance team prior to agreeing with an employee. Failure to do so can add a considerable unexpected tax cost.

We note that Inland Revenue released OS 21/01 10 June 2021 Operational Statement on the Income tax treatment of accommodation provided to employees. While no substantial changes have emerged it does consolidate a number of the various tax rules that apply to accommodation payments. Again, this is very topical for those Council's with an increasingly remote workforce.

Miscellaneous updates

- Restoring depreciation deductions for non-residential buildings: Depreciation deductions at 2% has been reintroduced for commercial and industrial buildings from the 2020/21 income year. The depreciation deductions will be available to all sectors and will apply to both new and existing buildings on a permanent basis.
- Inland Revenue's prescribed interest rate has reduced from 5.26% to 4.50% from 1 July 2020.
- Inland Revenue's use of money interest rates remain static, effective from 8 May 2020. The debit rate is 7.00% and the credit rate is currently 0.00%.
- The Taxation (Annual Rates for 2020-2021, Feasibility Expenditure and Remedial Matters) Bill received Royal Assent on 30 March 2021. The Bill includes tax deductions for feasibility expenditure on new investments, tightening of the land tax rules for habitual buying and selling of land, purchase price allocation requirements for parties to agree on when buying and selling businesses, income tax treatment of leases subject to NZ IFRS 16 and remedial changes to GST.
- On 23 March 2021 the Government announced that it intended to extend the bright line test to 10 years (this was subsequently included as a Supplementary Order Paper to the Taxation (Annual Rates for 2020-2021, Feasibility Expenditure and Remedial Matters) Bill. In addition, the Government announced that it plans to disallow interest deductions on residential investment property (although draft legislation has not yet been released, Inland Revenue released a Discussion Document on this on 10 June 2021). Both measures are part of a wider package intended to help address housing affordability. As Council has recently transitioned its social housing to Kainga Ora this will have less impact for Council, however it is important to understand these changes should Council be entering into any agreements for sale and purchase of land.

Thank you

pwc.co.nz

4.2 Pressures on Capital Projects

Meeting:	Risk and Audit Committee
Date of meeting:	22 September 2021
Reporting officer:	Alan Adcock (General Manager – Corporate/CFO) and Simon Weston (General Manager – Infrastructure)

1 Purpose

To update elected members on issues arising from the effects of the COVID-19 pandemic and the pressures they are having on the delivery of capital projects.

2 Recommendation

That the Risk and Audit Committee notes the information in this report.

3 Background

COVID-19 has had numerous impacts over the last 18 months. While New Zealand has been affected less than other countries, global issues are now starting to have an increasing effect on capital projects.

This in turn will have impacts on the costs attributed to Council's capital works program. Potential responses at an individual project level include:

- Accepting higher costs
- Reducing project scope and/or benefit delivery
- Deferring the project until conditions improve.

In terms of the overall capital works program, consideration should be given to the effects of:

- The cumulative impact of project cost increases on Council's debt position
- Reduced service delivery if projects are not completed
- Extended project completion dates.

4 Discussion

There are several issues are relevant to this situation. While each one is arguably 'manageable' in isolation, their inter-connectedness and cumulative effects are proving to be challenging. They include:

Dependency on global suppliers – many products and component parts are sourced off-shore. As well as issues with the supply of complete products, there are increasingly issues with products that have been labelled as "NZ manufactured" actually being NZ assembled from (some) imported parts.

Global shipping disruption – there are significant issues with global supply chains, and due to our isolated geographic position NZ is significantly disadvantaged. Shipping lines have reduced (or in some cases stopped) delivery to NZ, meaning lengthy delays or having to arrange re-delivery from other ports. As well as long delivery lead times, this has led to major increases in freight costs as shown in the graph below.



Recent issues with container management at Ports of Auckland has also illustrated the reliance of efficient end to end supply chains.

Building and Construction boom – While there were initial views that there would be a prolonged economic recession post-COVID, the opposite has prevailed in NZ. As well as acceleration in new home builds in response to the housing crisis, stimulus packages from Central Government have seen unprecedented levels of construction activity across all sectors. Coupled with the freight issues, this has had a direct effect on supply chains.

Supply Chain Logistics – It is becoming increasingly difficult to source materials within 'normal' timeframes, with long lead times becoming the norm. Whereas most materials could be ordered on a 'just in time' basis previously, detailed planning is required to ensure goods are available when needed to meet a construction schedule. This has led to the stock-piling of some materials (e.g. framing timber) which in turn is exacerbating supply shortages. In many cases delays in a single product type can mean an entire project is delayed. This is also placing pressure on prices.

Material prices are escalating across many fronts. As well as the issues noted above, the impacts of trade tensions between the US and China are seeing some commodity prices increase rapidly, with steel the most notable. However, virtually all construction materials are increasing at rates well above consumer inflation.

Product substitutions are one way to mitigate some of these issues but can lead to lower performance or require amendments to Building Consents. There is likely to be considerable pressure on regulatory staff to treat these as on-site variations instead.

Lockdowns have an obvious and immediate effect on projects as sites are closed (Level 4) or have to operate under constrained procedures (Levels 2 and 3). However, there are also challenges when different regions are under different levels. For example, a large amount of specialised equipment that is only required for WDC projects sporadically is owned by Auckland companies and transported to local sites as needed. This is not possible if Auckland is at Level 4, meaning project delays for WDC.

Bitumen supply will also change with NZ Refining ceasing production of bitumen in early 2021. At this stage indications are that bitumen will be supplied via Tauranga in the future, meaning significant increases in freight costs for all WDC roading projects (as well as maintenance)

Contractors' risks have risen as result of these issues, and they are now responding. Very few (if any) will offer fixed price contracts, and those who do will probably include additional risk pricing. There will also be a reluctance to commit to fixed completion dates.

The report from EBOSS (attached) is a survey of senior managers from 240 building product and material suppliers to the construction industry in July 2021. These suppliers range from small to large companies, and across various construction components. It illustrates the concerns many have for the state of the sector and while the report focuses on the building sector, similar issues are being felt in the civil engineering space.

From a WDC perspective, the issues noted above will place pressure on the delivery of the current capital works program on time and on budget. Impacts are already being felt at an individual project level. Current observations include the following:

Issue	Current Observation
Scarcity of Product	Some products are hard to source and require significant lead time. Costs increases are partly due to product or component scarcity, and part due to risk associated with logistics of sourcing offshore, or components offshore
Scarcity of Skilled labour	Some trade and professional services are difficult to attract and maintain. With low unemployment and construction buoyant, we are seeing cost increase due to labour demand and project delivery dates dependent on when skills are available.
Plant	Specialist plant is either available or require long lead in waiting for availability.
Complexity	Complex projects attract less interest from tenderers during buoyant times. This requires either a premium paid or the project de-risked for those tendering, both costing the client and we are seeing some of this.
International Markets related risk	Anything related to offshore sourcing, or project requiring offshore skills is demanding a premium to cover the actual cost of offshore services, and risk associated with logistics.
General price escalation	Materials and labour are moving well ahead of council inflation cost indexes.

Time related risks	Providers are currently risk averse to time related constraints and as a result you pay for these constraints. This is an interesting mixed bag with some contractors refusing to price, or adding a premium, where other contractors require a gap in their works program to be filled, hence provide a competitive price.
Changes in supply	A current example of this is bitumen, where previously the NZ Refining Company provided the product locally as part of the refining process. This product now has to be shipped in via an importer. We understand that one or more roading contractors will be bringing in product, however this attracts all the offshore and onshore logistical risks.
Supplier market	We are observing issues between importers, distributors, and wholesalers. Some wholesalers cannot get product, due to the main national distributor dealing with either major clients or major wholesalers only.

Generally, we are seeing all of the above pressures to some degree on all projects. We try to minimise any cost escalation by matching what the market can provide, in terms of timeframes, material choices and installation techniques. From time to time we get a very competitive price that does not connect to observed market constraints, but that is usually associated with the commercial situation of a single contractor, rather than the market generally.

4.1 Financial/budget considerations

At this stage it is difficult to quantify the impacts on a single project until it is completed. While the expectation is that project contingencies will provide an adequate buffer, this may be unrealistic if these conditions continue.

Project Managers review costs regularly, with regular cost forecasts to completion now more important than ever. Where it appears that a project cannot be completed within the allocated budget the issue will be escalated through senior management and Elected Members as appropriate.

Where there are significant cost pressures, a decision may have to be made to accept the financial consequences (e.g. via increased debt funding), remove or delay other projects, or reduce project scope.

4.2 Risks

As well as financial risks, there is a high probability that projects will not be completed on time. This could adversely affect service delivery, disrupt other plans, and/or have a knock-on effect with delays in other projects.

5 Conclusion

Over the next 12-18 months there will be ongoing pressures on the delivery of capital projects, more than likely leading to cost increases and delays in completion.

While Project Managers will try to mitigate these issues, where this cannot be achieved consideration will have to be given to the direct impacts on Council's overall financial position and planned capital program set out in the Long Term Plan.

Elected Members will be kept apprised of the situation through existing reporting avenues, with additional measures taken (including bringing agenda items to Council) where appropriate.

6 Significance and engagement

The decisions or matters of this agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

7 Attachment

1. EBOSS – Construction Supply Chain Report

2021

CONSTRUCTION SUPPLY CHAIN REPORT



Funded by
Building Research Levy

THE SURVEY

240

**SUPPLIERS SURVEYED ACROSS
STRUCTURE, ENCLOSURE, INTERIOR,
FINISH, EXTERNAL, AND OTHER
CATEGORIES**

The construction industry is at a critical point of supply and demand, with supply constrained by the ongoing impacts of Covid, and a demand boom with residential and commercial consenting at record levels.

A perfect storm of factors has meant that the construction industry is battered weekly with price increases and delays in the supply of products.

This survey provides real data on the current and future state of the building product supply chain in a space dominated by media and word of mouth, data that can help specifiers and builders to better plan ahead.

We would like to acknowledge the support of BRANZ in making this report available.

Note: The ratings in some of the stacked bar charts may not add to 100%. This is due to rounding.

There has been so much talk in the media about the supply and pricing situation in the construction industry, yet to date there has been very little primary data to back up the reporting.

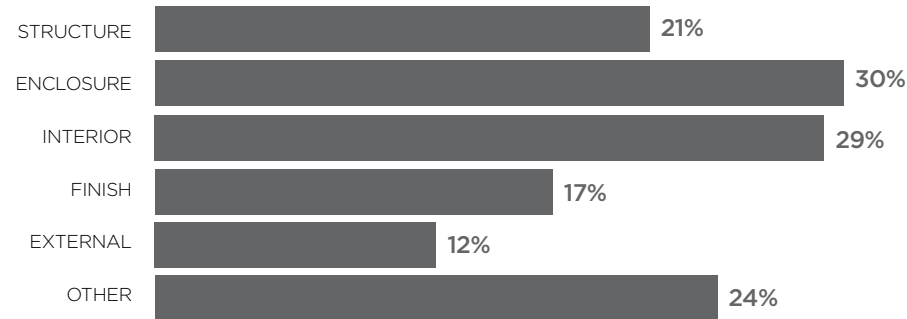
The focus of this work is to bring real data to the table so that we as an industry can start to talk about how we need to respond in a world still impacted by Covid-19.

SETTING THE SCENE

We surveyed senior managers from 240 building product and material suppliers to the construction industry in July 2021. These suppliers range from small to large companies, and across construction components: structure, enclosure, interior, finish, external, and other categories. On the right is the profile of businesses who responded to the survey:

SURVEY SAMPLE PROFILE

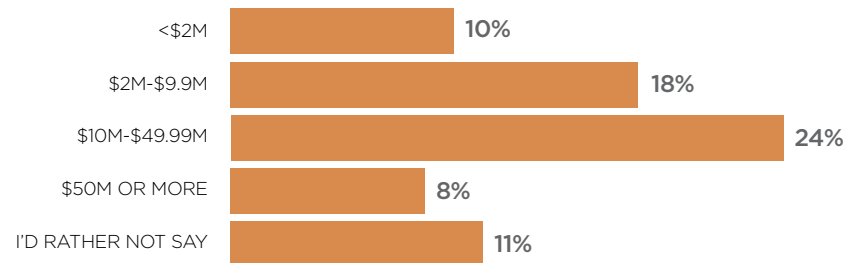
CATEGORY



NUMBER OF EMPLOYEES



REVENUE



BASE: Total Sample n=240

The categories are described as:

Structure: Aluminium, Composite Panels for Floors and Walls, Concrete, Fasteners and Connectors, Masonry, Plastics, Site Safety and Roof Access Equipment, Stainless Steel, Steel, Structural Systems, Structural Timber

Enclosure: Awnings and Canopies, Enclosure Adhesives, Sealants and Fasteners, Enclosure Balustrades and Stairs, Exterior Decorative Items, Flashings and Expansion Joints, Glazing, Insulation, Roofing and Decking, Tanking and Pre-Cladding, Wall Cladding, Windows, and Doors

Interior: Ceiling Systems, Floors, Furniture, Hardware, Joinery Fixtures and Appliances, Partitions and Interior Doors, Signs and Features, Wall, and Ceiling Linings

Finish: Applied Coatings, Carpeting, Flooring Ancillaries, Flooring Underlays, Overlay Flooring and Wall Panels, Painting, Decoration and Coating, Resilient Surfacing, Tiling

External: Engineering Works, External Heating, Landscaping, Roads and Paving, Stretched Fabric Systems

Other: Services, Central Vacuum Systems, Communications and Controls, Fire Safety, Heating and Cooling, Lighting and Electrical, Plumbing and Drainage, Sanitaryware, Tapware, Transport, Ventilation and Air Conditioning

SUPPLY AND PRICING ISSUES ARE AS WIDESPREAD AS THE MEDIA SUGGESTS

We asked suppliers if they were currently experiencing any issues supplying the market, and eight in ten suppliers said they were.

"NZ CONSUMERS, BUILDERS, AND SPECIFIERS NEED TO UNDERSTAND THAT SUPPLIERS ARE DOING EVERYTHING POSSIBLE, BUT THE MARKET HAS SEISMICALLY SHIFTED, AND UNLESS DEMAND DECREASES, WHAT WE SEE IN CURRENT LEAD TIMES IS LIKELY TO BE THE "NEW NORMAL" FOR THE FORESEEABLE FUTURE."

"TO DATE WE HAVE NOT BEEN ABLE TO BUILD ANY ADDITIONAL STOCK OR COVERAGE, DUE TO LOCAL DEMAND CONTINUOUSLY EXCEEDING OUR ABILITY TO SUPPLY. TO PUT ADDITIONAL PERSPECTIVE ON HOW BAD THE SITUATION IS, WE HAVE TAKEN ON NO NEW BUSINESS NOW FOR OVER A YEAR. THE GROWTH WE HAVE IS ALL WITHIN OUR EXISTING CUSTOMER BASE."

Larger businesses are more likely to be experiencing issues supplying the market. Among those with under \$2m in revenue 61% are having issues with supply, compared to 85% of those with revenue of \$50m or more.

These larger businesses are somewhat more reliant on imports (95% of those with revenue between \$10m and \$49m rely on imports or imported components, while 90% of \$50m+ revenue businesses do so). This compares to 83% of businesses with under \$2m revenue relying on imports or imported components.

The key point here is that supply issues are widespread; regardless of product category, business size or revenue level, the majority of suppliers are experiencing supply issues. Our aim here is not to add to the panic in the market but to take this data and understand what we as an industry can do to mitigate these issues, and work with suppliers to ensure we maintain productivity and supply over trying times.

Our survey has highlighted four key areas of concern that we need to address as an industry. These issues are:

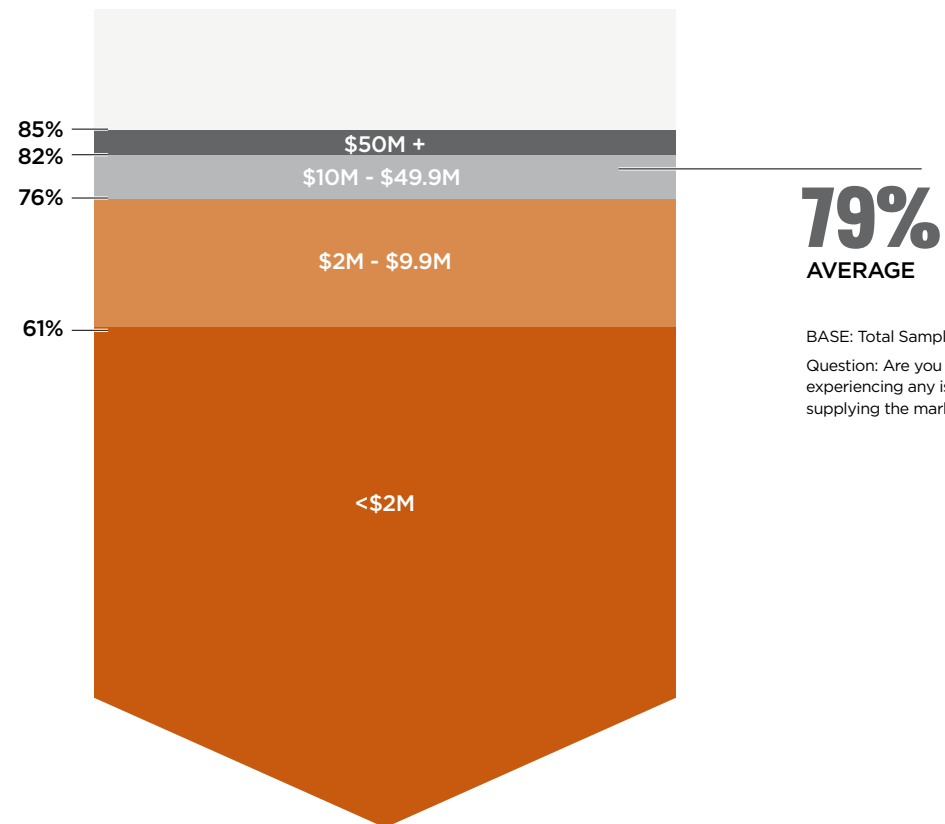
1. Dealing with the logistics situation
2. Considering the potentially hidden price impacts and sustainability of our supply chain
3. Operating in a context of a global market that is forecast to grow further
4. Appropriate staffing for the supply side of the construction industry

The solution for this is not stockpiling of product or fear mongering. It needs to be a concerted effort from stakeholders across the construction industry, including suppliers, architects, specifiers, builders, clients, industry stakeholders and government.

This report will take the reader through each of these four areas of concern, paint a picture of the forecasts for supply over the next six months, and finish with what is needed as a cross-industry response to these issues.

% HAVING ISSUES SUPPLYING THE MARKET

BY REVENUE



BASE: Total Sample n=240
Question: Are you currently experiencing any issues supplying the market?

1. SHIPPING & LOGISTICS ARE OUR BIGGEST HINDRANCE TO SUPPLY RIGHT NOW

The supply of construction materials to New Zealand is at the mercy of imported product. Even products manufactured in NZ have a high reliance on imported components that cannot feasibly be replaced by domestic product. **It is clear from our survey that we have a logistics issue that drives the supply issue, and this is not simply a supply issue on its own.**



“FREIGHT COSTS, PARTICULARLY SHIPPING, HAVE INCREASED ALMOST 100% IN THE LAST 6 MONTHS.”

BASE: n=240

Question: Do you manufacture any final products in NZ or is the final product supplied complete from offshore?

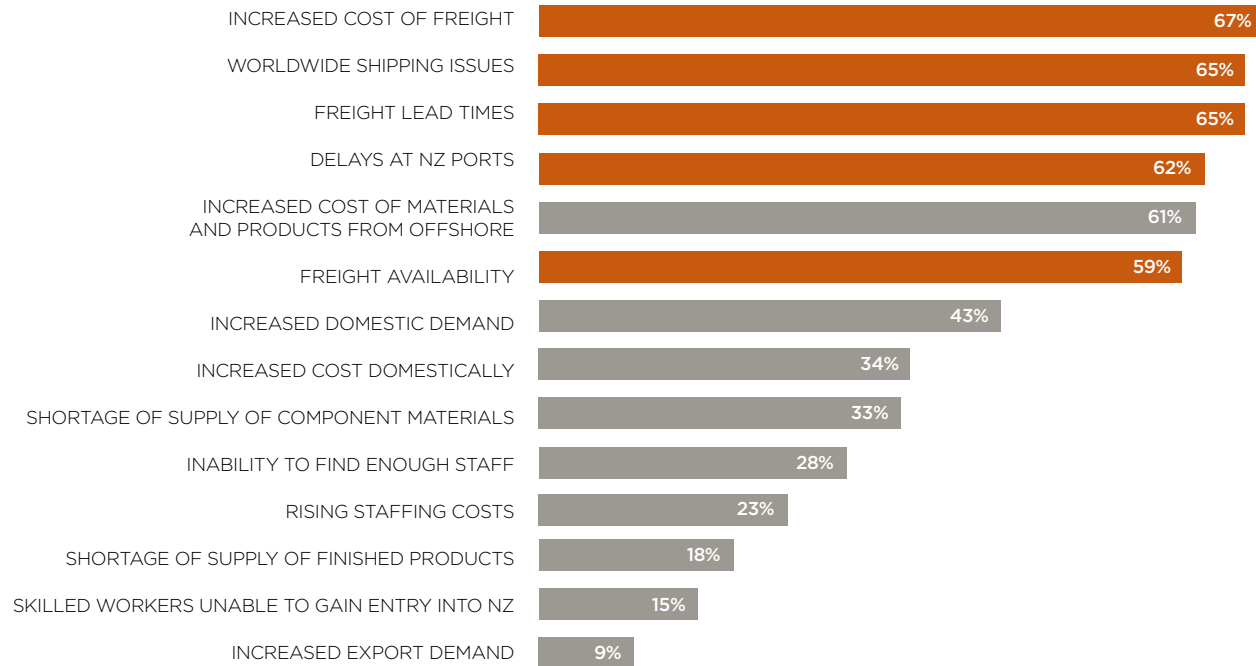
Question: Do you currently rely on imported components to manufacture your final products?

A full 90% of construction products sold in New Zealand are either imported finished product or manufactured locally from imported components. The position around supply is quite different for those who rely on imports vs. domestic product. 91% of those who rely on imports say they're experiencing issues supplying the market, compared to just 58% for those wholly reliant on domestic supply.

The challenges surrounding imports are multi-faceted. They include:

- The cost of freight and insurance
- The availability of freight
- The lead times of freight – getting out of ports
- The delays at NZ ports

FREIGHT ISSUES ARE EXPERIENCED BY FOUR IN FIVE SUPPLIERS



FREIGHT RELATED ISSUES

OTHERS

BASE: n=240

Question: Which (if any) of the following factors are impacting your business and ability to supply right now?

79%
ARE EXPERIENCING AT
LEAST ONE OF THESE
FIVE ISSUES RELATED
TO FREIGHT

These issues are then exacerbated by increasing demand from the NZ market, effectively giving the construction industry a one-two punch to the stomach: constrained logistics cutting supply and increased demand spreading what supply we do have ever-thinner.

We asked businesses what issues they felt were impacting their ability to supply the market, their responses were dominated by freight and logistics issues.

The cost of materials from offshore is certainly an issue, but freight stands out as four in five of all companies are dealing with at least one issue concerning freight. Companies are doing their best to respond, some of the initiatives they are trying specifically related to freight include:

Maintaining higher stock levels	"We are currently buying larger quantities than before to bolster stock. Airfreighting where possible if demand is high and increasing our lead time expectations for custom orders."
Increasing freight volumes	"We have committed to more regular shipments to maintain volumes of freight in transit."
Building power in scale	"Coordinated purchases with other branches around the world, consolidating air freights and sea freights."
Shifting shipping strategy	"We are looking at changing shipping lines we normally use and instead of FCL shipments doing more LCL shipments as it seems a little easier to book LCL. But LCL costs a lot more in freight!"

Airfreight where appropriate	"Larger investment in inventory, larger expenditure for air freight, longer planning lead times. Working closely with suppliers and freight providers to mitigate cost increases and delays."
Increasing ordering lead times	"The issues with global logistics as a whole, have forced us to place orders 2-3 months earlier. The risk in doing so is increased pressure on cash flow and the possibility that freight arrives earlier than expected and we sit on excess stock."

The concern that becomes apparent in the supplier response to freight issues is that businesses are putting themselves in a riskier position. Higher stock holdings, more product on the water at any given time, and increased freight cost all impact cash flow. Alongside issues around staffing (where attracting good staff requires higher salaries) and other costs, this creates a risky situation. Business failures are a risk any time we see a boom in demand – both on the supply and demand side of the construction industry. We need to consider how suppliers can be supported not only with logistics but with cash flow through these global freight issues.

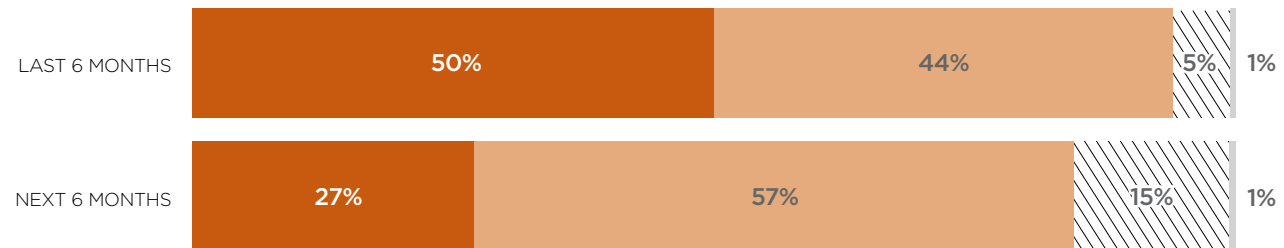
2. HIDDEN PRICE IMPACTS AND SUSTAINABILITY OF OUR SUPPLY CHAIN

As noted, cost pressures due to increased freight cost and management of freight are having a big impact on supplier cash flow. However, further data within the survey suggests that while the demand aspect of the industry has been hit with substantial price increases in the last six months, the full impact of supplier cost increases have not been realised by the market.

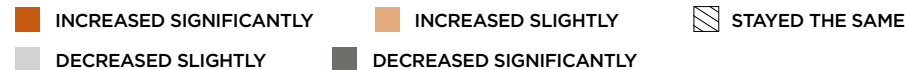
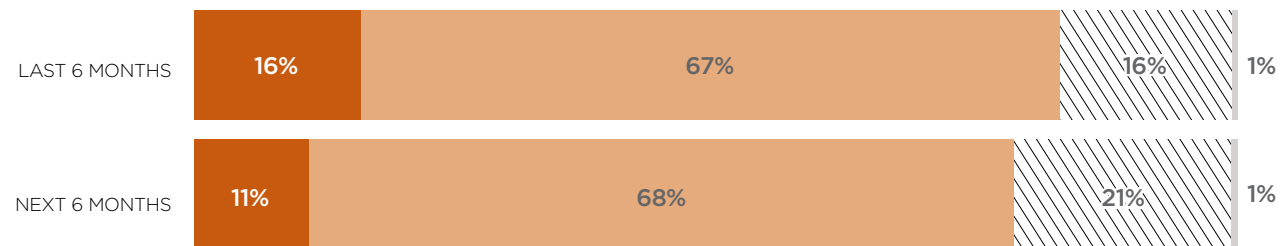
We asked suppliers to rate how much their cost to buy in and their cost to sell at had changed over the last six months. While over half say that their buy-in costs have increased significantly, only 16% say that the cost they sell at has increased significantly. What's more, only 11% predict that they'll increase their cost to the market significantly in the next six months.

THERE IS A DISCREPANCY IN THE INCREASES FOR COST TO BUY IN VS. COST TO THE MARKET

COST YOU BUY IN AT



COST YOU SELL TO MARKET AT



BASE: n=240

Question: Thinking about the market and your supply over the last six months, please rate your experience with...

Question: Based on your experience of how the market is performing, what do you expect in terms of...?

What this suggests is that margins are being squeezed for suppliers. Many do not seem able to pass on the full cost of increases to the market, so they're taking a hit themselves. This might be a short term trend based on commitments to historical fixed price contracts, however, this needs to be monitored. If this trend continues this might start to mean the viability and sustainability of businesses to supply will be impacted, and again could contribute to the closure of these businesses if not managed well. Another potential scenario the market could be faced with is price increases over a longer term as companies try to recoup some of the lost margin (or in fact, losses) faced over the immediate lockdown and recovery period.

"UNFORTUNATELY, WE ARE HAVING TO PASS ON PRICE INCREASES DUE TO SIGNIFICANT RISE IN RAW MATERIAL COSTS AND SHIPPING INCREASES. CURRENTLY, WE HAVE NOT PASSED ON THE FULL IMPACT AND WILL HAVE FURTHER INCREASES IN 2022."

We asked suppliers whether they anticipated the prices they buy and sell at to remain stable, reduce, or increase – and if increase, by what margin. Accounting for those who thought prices would remain stable or decrease, the anticipated average price to market increase in the next six months is still below the anticipated buy-in cost increase (see chart on next page).

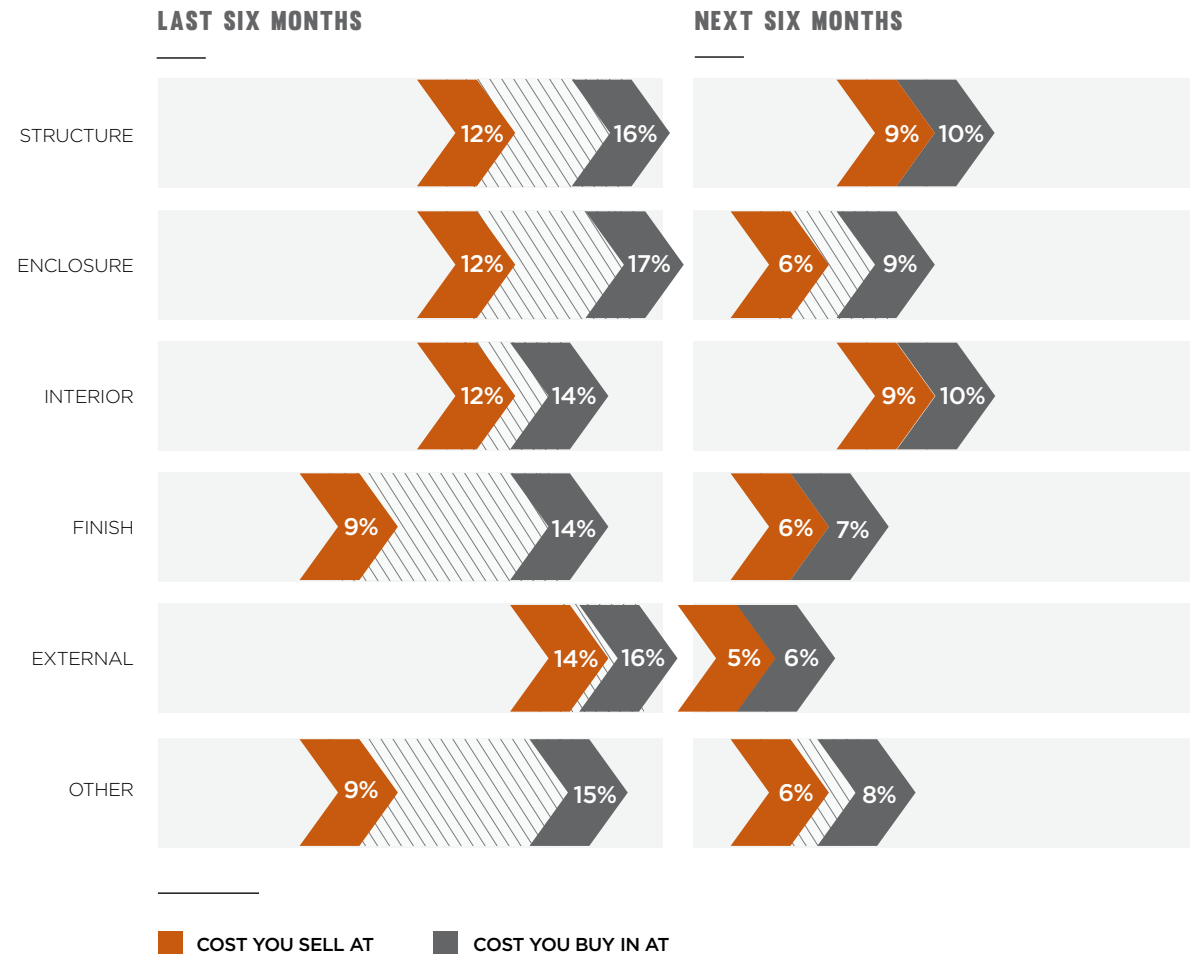
What this means is that suppliers have taken a hit already, and don't expect to pass on the full hit over the next six months, and may in fact take even more of a hit in the future. It's also worth noting that the chart shows only the average increase; the range varies greatly within each category. We are unable to show that data due to commercial sensitivity for our survey participants. However, it is further evidence of just how much pressure suppliers are under now.

Ultimately, we believe that the true impact of price increases has not been felt by clients and property owners. Suppliers are squeezing margins and looking for cost efficiencies elsewhere to try and keep price increases to a reasonable level. At some point, these efforts will start to impact supply. We need to work together with suppliers to ensure we have a sustainable and competitive supply chain beyond the next 6 to 12 months.

"WE HAVE QUADRUPLED OUR NORMAL STOCK ORDERING/ HOLDINGS IN AN ATTEMPT TO COMBAT INCREASED SHIPPING TIMES. THIS, ALONG WITH INCREASED SHIPPING COSTS (MORE THAN DOUBLE) HAS MEANT WE HAVE HAD TO PASS ON A PRICE RISE. CIRCA 5% AT THIS STAGE BUT SEE US HAVING TO DO THIS AGAIN SHORTLY."

"INCREASED COSTS ARE BEING PASSED ON BUT WE HAVE ABSORBED SOME TO MINIMIZE THE IMPACT OF PROJECTS THAT ARE CLOSE TO STARTING BUT PRICED AT OLD RATES."

AVERAGE PRICE INCREASES BY CATEGORY



BASE: n=240

Question: For each material where the cost you buy at has increased, what has the proportion of cost increase been compared to six months ago?

3. WE'RE OPERATING IN A HOT GLOBAL CONTEXT

We cannot look at the New Zealand construction industry and supply in isolation from the global context. Freight has been our biggest issue to date, but we have been in a somewhat sheltered position in that demand internationally has been subdued due to the Covid crisis playing out in the major markets of USA, UK, Europe, China and India.

With vaccination uptake levels reaching critical milestones and nations opening back up from lockdowns, we are seeing a surge in construction demand globally. The US is working on the basis of a 15-year housing boom, and both China and India expect construction demand to grow by around 12-13%.

RESOLVING FREIGHT IS PART OF THE STORY, THOUGH WE ALSO NEED TO CONSIDER SUPPLY IN A WORLD WHERE OTHER SIGNIFICANT NATIONS ARE BOOMING



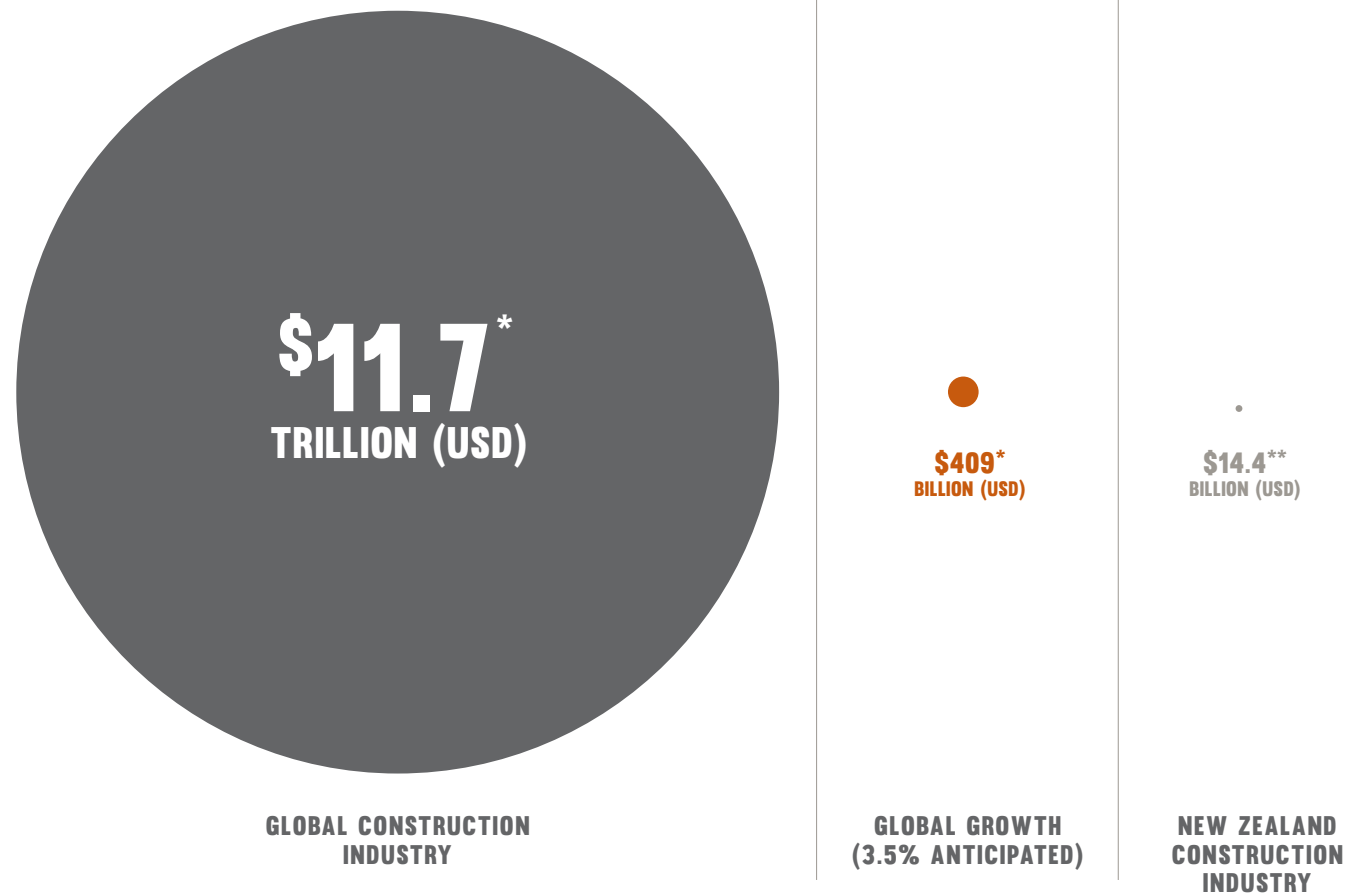
WHAT DOES THIS MEAN FOR THE ABILITY TO GET THE SUPPLY WE NEED?

The issue this creates is that New Zealand is a small market in the global context, in fact just 0.1% of the global construction industry in 2020.

The global construction industry has been forecast to grow at a CAGR (cumulative average growth rate) of 3.5% during 2021-2026 to \$14.4 trillion (USD) by 2026*. This annual growth is 28 times the size of the total NZ construction industry, every year, for the next 4 years.

As these nations come back online, we'll be competing for product and shipping availability.

NEW ZEALAND IS A RELATIVELY SMALL MARKET IN THE GLOBAL PICTURE (2020)



* Source: <https://www.expertmarketresearch.com/pressrelease/construction-market>

** Source: Stats NZ, converted to USD

EXPERIENCED SIGNIFICANT INCREASE IN CONSTRUCTION WORKLOAD TO THE END OF Q1 2021*

NEW ZEALAND

AUSTRALIA

EGYPT

EXPECT A SIGNIFICANT INCREASE IN CONSTRUCTION WORKLOAD NEXT 12 MONTHS (TO Q1 2022*)

NEW ZEALAND

AUSTRALIA

EGYPT

CHINA

INDIA

USA

CANADA

UK

IRELAND

NETHERLANDS

SWITZERLAND

POLAND

GREECE

SAUDI ARABIA

SRI LANKA

NIGERIA

PHILIPPINES

BRAZIL

Freight will likely continue to be tight for the next 12 to 18 months as shipping companies shift their focus elsewhere, making it harder to achieve increased imports to meet demand.

The recent 2021 Q1 report from Rider Levett Bucknall states:

“We do not expect that supply issues and shipping costs will revert to some sort of normality for the next 12 to 18 months once the effects of the pandemic reduce. As governments stimulate other economies and as borders open, we expect that commodity prices, however, will remain high.”

What this all points to is that New Zealand is a small part of a larger global market that is struggling to cope with forecast growth. In June Reuters reported that the US has the highest number of housing consents issued that are still yet to be built since 1999. There is a huge amount of pressure in the US market alone. New Zealand will struggle to get supply in the face of this, let alone shipping – unless we can start to protect some supply and shipping capacity.

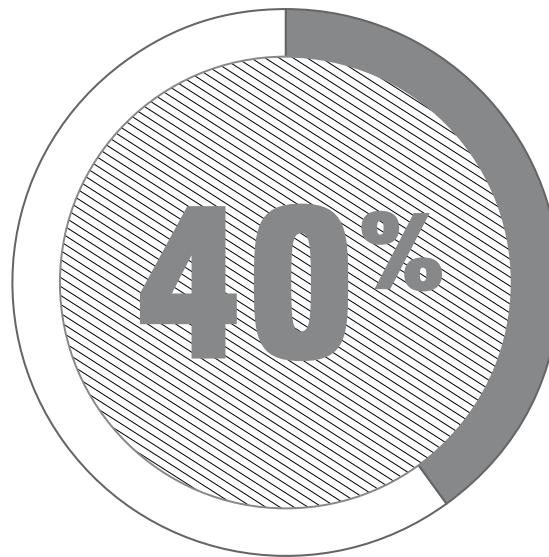
*Source: RICS Q2 2021 Global Construction Monitor – Expected workloads next 12 months

4. STAFFING ISSUES ARE IMPACTING COMPANY SERVICING ABILITY

When asked what issues are impacting servicing ability, around a quarter talked about the inability to find enough staff (28%), rising staffing costs (23%), and skilled workers unable to gain entry to NZ (15%).

As it stands, 40% say they don't have enough staff to meet current demand. The situation worsens when we look at future demand, with over half (56%) saying they don't have enough staff to meet future demand.

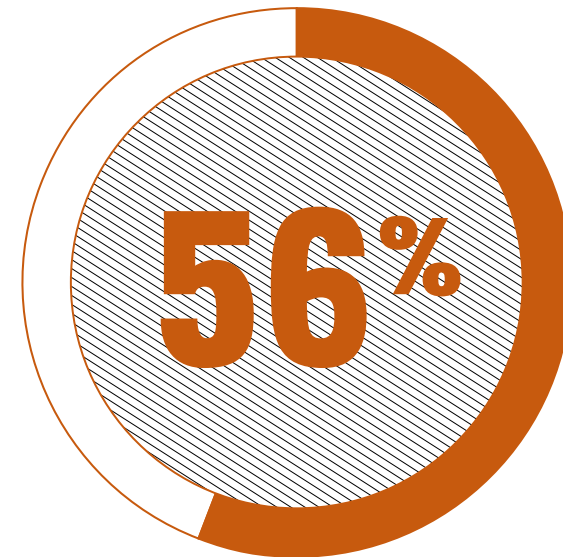
OVER HALF ANTICIPATE THEY WON'T HAVE ENOUGH STAFF TO MEET FUTURE DEMAND



NOT ENOUGH STAFF TO MEET CURRENT DEMAND

BASE: n=240

Question: Which of the following best describes your staffing situation with regards to both current and forward market demands?



NOT ENOUGH STAFF TO MEET ANTICIPATED FUTURE DEMAND

50% of all suppliers surveyed say they're looking for staff now, and a third (34%) said they'd be looking in the next six months. Worryingly, of those looking for staff or planning to do so, 53% said they weren't confident they could find enough skilled staff to meet demand.

We frequently hear conversation about the lack of skilled staff available for trades, less so for the lack of staff supplying these trades. Given the increased demand, many are asking more of their staff – working longer hours, more productivity and cost efficiencies. Employees are feeling overwhelmed as a result, resulting in increased turnover, or leading to increased wages to keep staff happy.

In addition, the lack of qualified staff available means suppliers are having to take on staff who aren't optimal, further placing strain on production and costs.

"WE INITIALLY INCREASED HOURS OF PRODUCTION TO TRY AND KEEP UP WITH DEMAND, BUT OUR STAFF ONLY ALLOWED THIS FOR A SHORT PERIOD. WE HAVE NOW SEEN INCREASED STAFF TURNOVER AND HAVE REDUCED HOURS, OFFERED BONUS STRUCTURES AND INCREASED WAGES – ALL THIS RESULTS IN INCREASED SELLING PRICES AS WE PASS ON THE COST INCREASES."

"[WE ARE] NEGOTIATING SALARY INCREASES TO RETAIN STAFF, [AND] WORKING WITH IMMIGRATION NZ TO RETAIN EXISTING STAFF WHO ARE ON WORK VISAS."

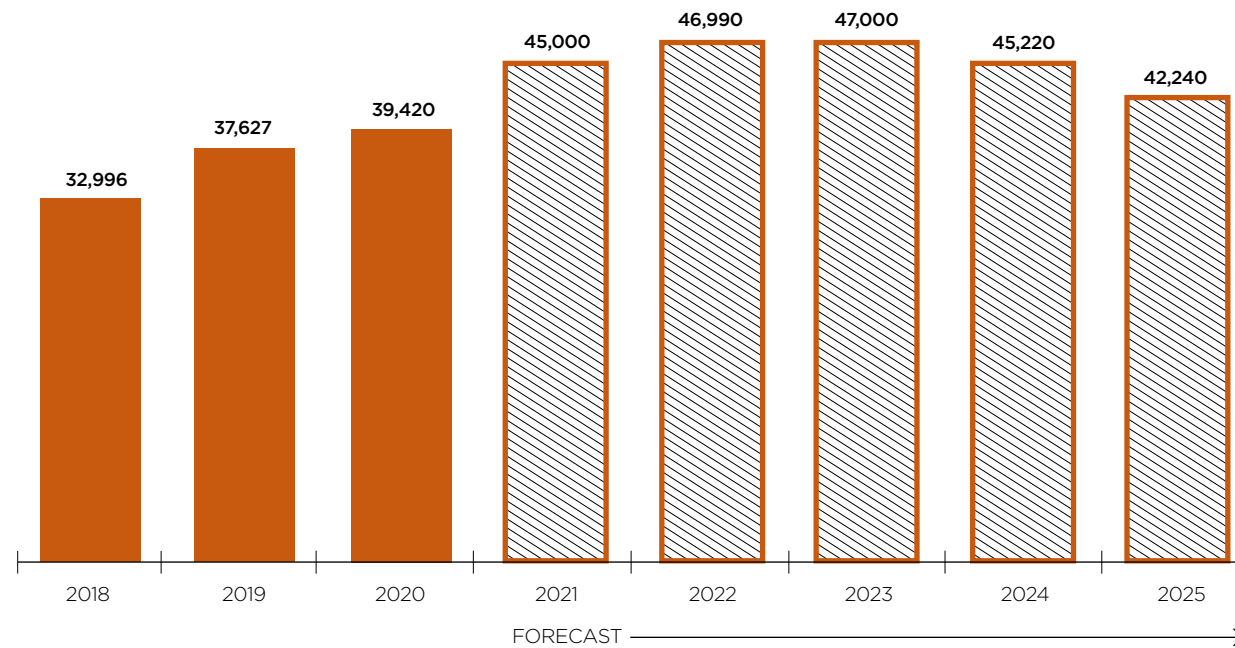
"WE ARE EMPLOYING STAFF THAT WE WOULD RATHER NOT BUT HAVE LITTLE CHOICE (THIS IS LOWERING OUR PRODUCTIVITY), PAYING CURRENT STAFF MORE TO ENSURE WE KEEP THEM."

What this means is that businesses that supply products are further constrained by the ability to hire good staff. Even if we can achieve a smoother flow of imports, we still need capacity in NZ to be able to manufacture and dispatch domestically. Suppliers have expressed a desire for assistance from the government in freeing up immigration barriers and easing the cost burden. Recent increases in the minimum wage and sick pay have impacted costs, further adding to increases in the cost to supply to the market.

THE NEXT SIX MONTHS

The issues with supply and pricing don't look like they'll ease soon. Given the global context and the strong New Zealand forecasts for new dwelling consents, this is a situation that could continue for years. When we look at the BRANZ residential building consent forecast, we see elevated consents levels for at least the next four years, which suggests demand won't ease any time soon.

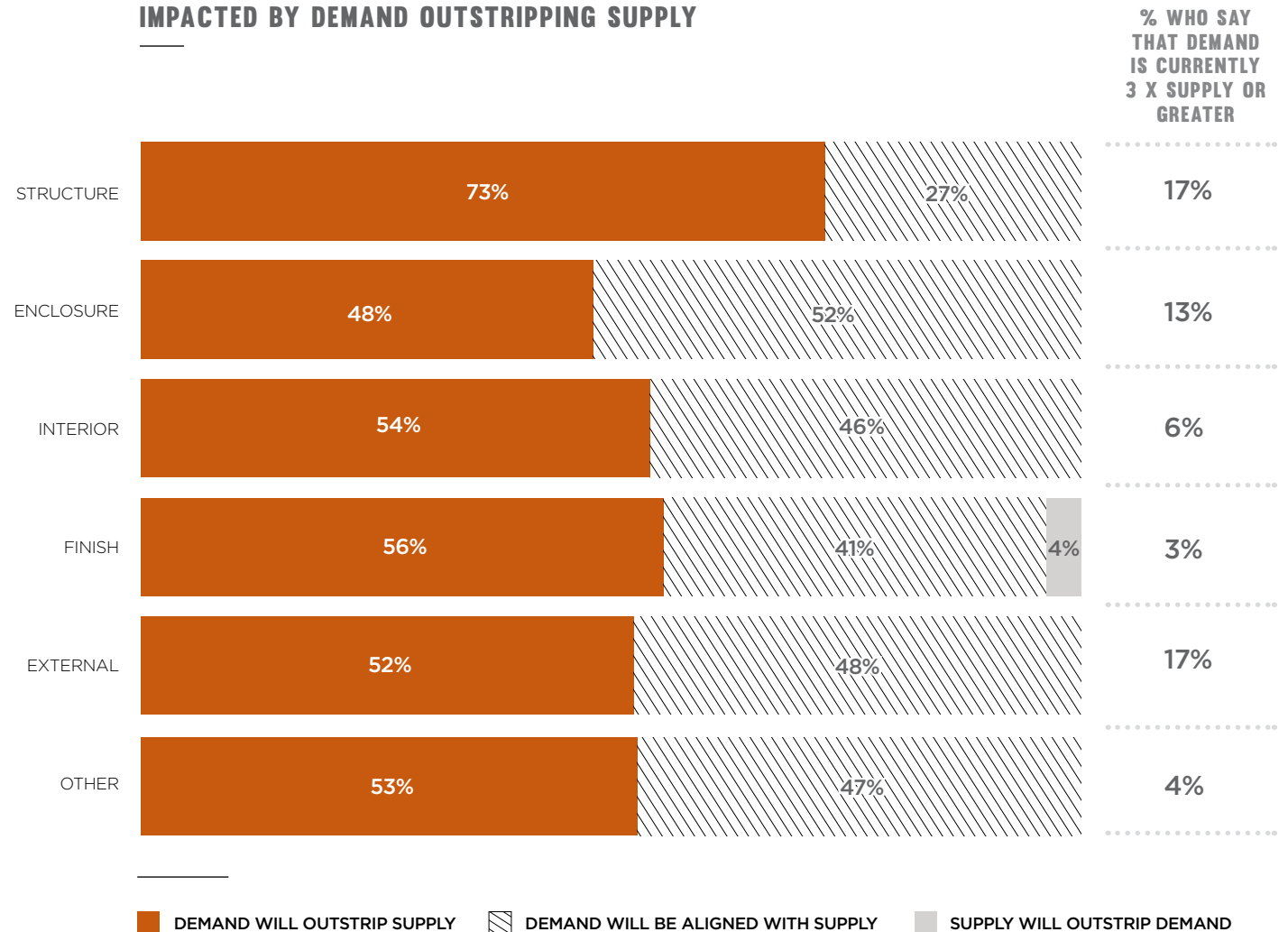
BRANZ RESIDENTIAL BUILDING CONSENT FORECAST (JULY 2021)



At the very least, when we look to the next six months, 83% anticipate that suppliers will continue to be negatively impacted. Looking at the anticipated supply and demand balance by category, structure is the category most at risk of a continued supply deficit in the coming months.

Suppliers were asked by what factor they believed demand will outstrip supply. For both structure and external categories 17% of suppliers believed that demand would outstrip supply by a factor of three or greater (three times the demand against the supply available).

STRUCTURAL PRODUCTS ARE THE MOST IMPACTED BY DEMAND OUTSTRIPPING SUPPLY



BASE: n=240

Question: For each of the material types you supply, which of the following do you expect around supply and demand levels in six months' time?

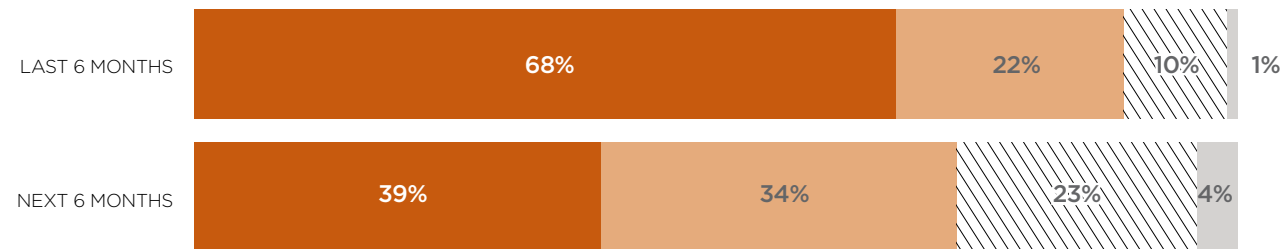
Given the situation with freight and staffing, lead times are likely to continue to increase. This will have flow-on effects to the market unless we start to plan and work differently.

Constrained supply means programmes on site will be extended, and this has cost implications even without any client penalties for delayed delivery. Some suppliers mention the potential impacts if supply can't be achieved – smaller builders and trades with less power among suppliers will be left with no supply, impacting their ability to work, operate, and pay their staff. As a result, we might start to see failed construction businesses at a time when the industry should be strong.

"WHAT IMPACT DO WE SEE OF THE SUPPLY CONSTRAINTS HAVING ON OUR CUSTOMERS? SOME SMALLER CUSTOMERS WILL NOT BE ABLE TO GET SUPPLY WHICH COULD PUSH THE BUSINESSES INTO HIGH RISK OF FAILURE."

LEAD TIMES LIKELY TO CONTINUE INCREASING

LEAD TIMES



■ INCREASED SIGNIFICANTLY
 ■ INCREASED SLIGHTLY
 ■ STAYED THE SAME
■ DECREASED SLIGHTLY
 ■ DECREASED SIGNIFICANTLY

BASE: n=240

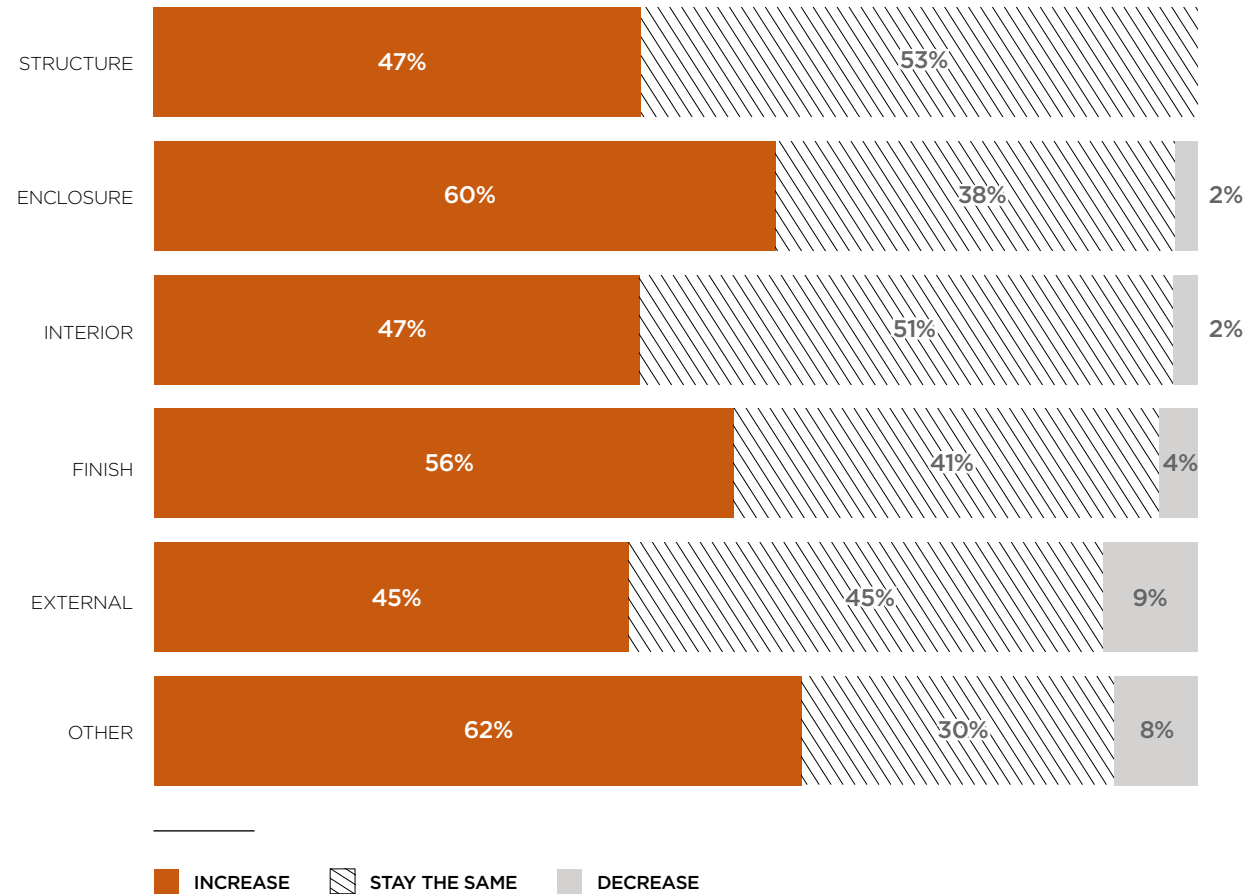
Question: Thinking about the market and your supply over the last six months, please rate your experience with...?

Question: Based on your experience of how the market is performing, what do you expect in terms of...?

Ultimately, the issues around supply look to continue for the next six months at the least. We've kept the forecast deliberately short (to six months), as it is hard to make any dependable predictions beyond this in a context of so much uncertainty around Covid. As discussed, four key issues must be addressed if we have any hope of triumphing through this as a productive and affordable industry. Let's turn then to what needs to happen in the face of these issues.

1. Dealing with the logistics situation
2. Considering the potentially hidden price impacts and sustainability of our supply chain
3. Operating in a context of a global market that is forecast to grow further
4. Appropriate staffing for the supply side of the construction industry

LEAD TIME CHANGE BY CATEGORY NEXT 6 MONTHS



BASE: n=240

Question: Looking ahead to January 2022, for each of the materials you supply do you expect the lead times for supply to increase, decrease, or stay the same as they are now?

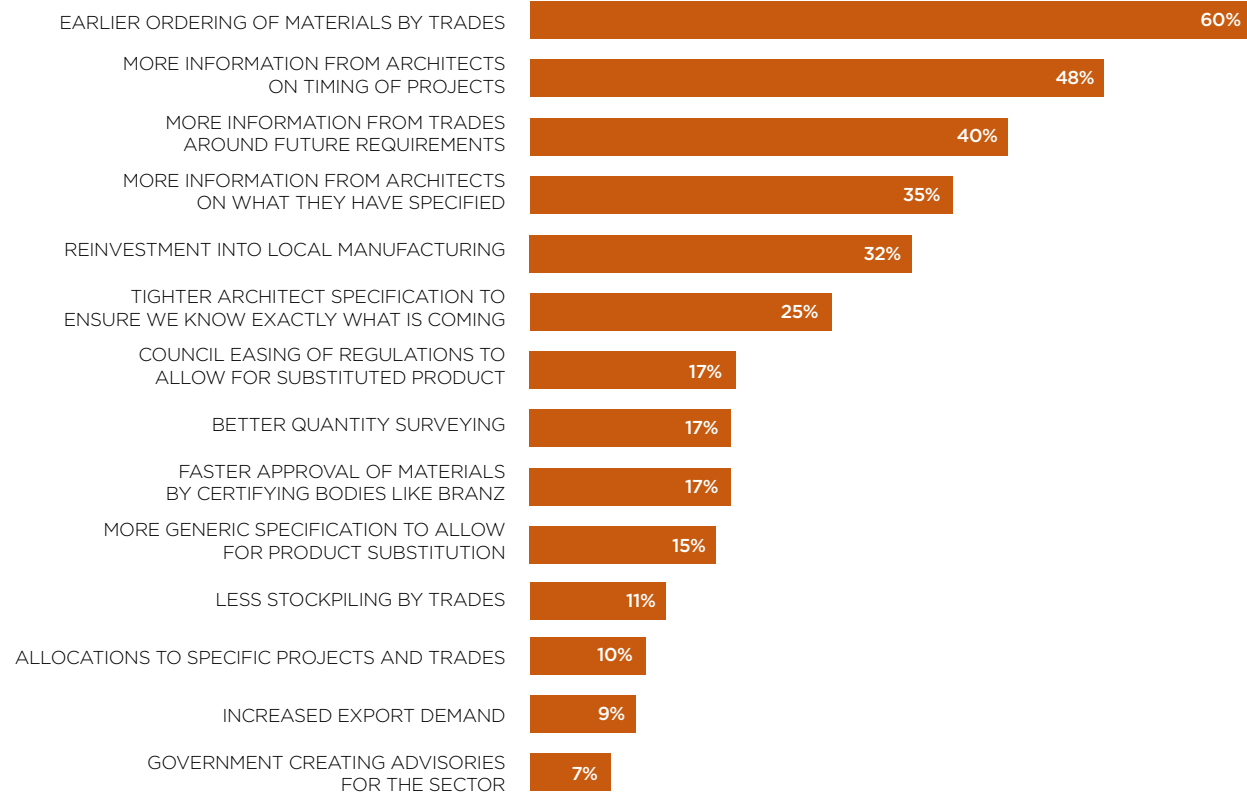
WHAT SHOULD OUR RESPONSE BE?

There are many elements to this situation, this isn't a simple fix. We need to consider the issues that are impacting both the supply and demand aspect. We need to be thinking about the wider construction industry and the part that each stakeholder can play in helping to maintain productivity and affordability in these constrained times.

The response is critical. This cannot be a report simply to add to the fearmongering, we need to build positive steps that stakeholders can take to start to have an impact on the situation.

We asked suppliers what they thought would be useful to respond to supply chain issues. The clear message was around better planning and communication from all parties – architects, specifiers builders, trades and clients.

THERE ARE THINGS WE CAN DO RIGHT NOW AS AN INDUSTRY TO START TO EASE THE SQUEEZE – IT WILL REQUIRE DIFFERENT WAYS OF WORKING AND PLANNING



**MORE PLANNING
AHEAD AND SHARING
PROGRAMMES AND
SPECIFICATIONS**

BASE: n=240

Question: Which of the following do you believe would be useful to respond to supply chain issues and supply and demand challenges currently present in the NZ market?

As an industry, we are often poor at planning ahead, or at least poor in communicating that planning to each stakeholder across the construction process. Large commercial construction firms often do a good job of bringing suppliers into the fold early to ensure timely delivery, but at the smaller end of the market we lack the systems and processes to help suppliers anticipate what might be coming.

However, even where we are doing a reasonably good job now, there's still room for a lot more communication and planning.

It might seem overly simplistic to say we need to plan ahead, communicate early, and share more detail. However, given how the industry has traditionally operated, to do this well requires a real shift in the way we think about the build process and how we engage trades, suppliers, and clients.

We need to start changing the expectations of **end clients** around accessibility of product, ease of substitution, and speed of build – this will require some tough conversations, but also needs to be backed by industry bodies and the media. It's difficult as a standalone builder to tell a client that what used to be standard is now unrealistic in terms of timeframes, price, and accessibility. It requires support from industry bodies and a national conversation to change client expectations.

We need **merchants** to be working as the conduit between builders and suppliers with better forecasting of what's coming up. Merchants need to be trusted to sit in this role, and they need to be supported to collect this information and channel it in the right way.

We need architects and specifiers to take lead times into account in specification, and to communicate around what has been specified and when it's likely to be required on site. Yes, specifications change between the design and construct teams, but communication around intended specification will still help.

We need **builders and trades** to reconsider what's realistic for a build programme, and to communicate early with merchants, architects, specifiers, clients and suppliers to ensure the programme runs relatively smoothly. Conversations with builders over the last few months suggest that while they have started to make allowances for product availability and delays, there are still more allowances that need to be made.

Beyond this there is a role for government in helping to ease some of the supply issues and their impacts. We asked suppliers what they believe the New Zealand Government could be doing to alleviate some of the pressure on businesses that supply to the construction industry. Several key themes emerged:

Ease the pressure at ports	"Assist local companies to improve the service at all NZ ports. Hire ships for our export/import businesses. Improve infrastructure. We are heading towards a third world country."	Invest in NZ manufacturing and tech	"Support NZ made initiatives. Drive policy for up-skilling companies and protection from inherent risks as a SME."
A new strategy for ports	<p>"Restructure council managed ports so they are performance driven public companies, we have Ports of Tauranga as benchmark. The current mixed approach to port management clearly is not working."</p> <p>"Developing NZ only shipping supply lines, where we are not reliant on shipping which is diverted or waypointed via other ports before finishing in NZ."</p>	Invest in construction tech	"They could make loans more readily available to businesses that want to expand but need to invest significant amounts e.g. several million dollars to get additional equipment."
Improve immigration for skilled workers	<p>"Open immigration to skilled and required workers."</p> <p>"We have been loaded with extra costs by government such as increases to minimum wage and extra sick days. The biggest problem is getting staff. The single best thing the government could do is let migrants in."</p>	Change the expectations around construction timelines	"Better manage the expectations of the public with regards to the amount of time projects will take to complete."
		More efficient local council stakeholders	"Push harder on councils to increase their efficiencies around consents and inspections, plus train their staff on more products and systems – too much time wasting from councils is slowing projects significantly."

ABOUT EBOSS

Established in 2006, EBOSS works with leading building product suppliers to assist in material selection by specifiers. Trusted by 30,000 architects, designers, builders, sub-trades, council planners and engineers, who subscribe to the EBOSS digital product library and publications, EBOSS regularly engage with members of New Zealand's architectural, design and construction community.

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4.3 Health and Safety Report September 2021

Meeting: Risk and Audit Committee
Date of meeting: 22 September 2021
Reporting officer: Desarae Williams, Health and Safety Manager

1 Purpose

To inform the Risk and Audit Committee on key health and safety risks and the measures in place to mitigate those risks at the Whangarei District Council workplace and if there are any concerns of note.

2 Recommendation

That the Committee notes the health and safety report.

3 Background

Elected members have significant influence over our Council workplace and are obliged to:

- Apply due diligence to ensure Council, through its Chief Executive, is meeting legal health and safety obligations.
- Ensure that significant health and safety risks have been identified and are being suitably mitigated.
- Be confident that Council is providing a safe workplace for workers and others.
- Ensure that Council is compliant to health and safety legislation and improving its health and safety culture and systems.

4 Discussion

Our highest health and safety risks

We still have 63 identified generic council wide health and safety risks which are reviewed on a two-yearly rotational basis. We also have 448 (up three from last report) department health and safety hazards, which are reviewed on an annual basis.

COVID health and safety

In August this year, Council along with the rest of the country went into a hasty lockdown. Almost all usual health and safety work had to be parked, while this risk to the health and safety of the organization is managed. This lockdown had differing requirements to the previous one, so while we had foundation information, we could re-use, it all needed amending. We sent more information out to high-risk contractors to keep them in communication with the rapid changes.

As we did last time, the Corona Watch Team, who has continued to remain in place and catch up periodically, began to meet daily through the lockdown, then level 3 and 2. The team helps

the organization deal with the many operational challenges that are posed in these alert levels. Staff have reported very positively about the level of communication they have received. On-line All staff meetings kept staff in touch along with many written communications.

At the time of writing this report, over 30% of staff have voluntarily reported in having had two vaccines and over 20% having had their first vaccine. We have encouraged and aimed to make it easy for staff to have access to covid vaccinations, including their immediate families.

Staff have been provided with several opportunities to buy ergonomic furniture and IT equipment for their home office set ups. This was done again very recently. Some staff needed IT and/or furniture which was delivered to their homes in the lockdown if essential. WE plan to require every staff member to develop and maintain a personal checklist of essential gear they need to take, if we go into a sudden lockdown again.

Critical risks affecting Council employees

Health and safety risk	Activity since last Risk and Audit Committee meeting
Working in and around traffic	<p>Since the last meeting we have done a lot of work to review what we have in place and to better understand the new requirements.</p> <p>We held a workshop for our high-risk contractors on the new requirements and they gave much positive feedback that this had been arranged for them, with an opportunity to pose questions.</p>
Exposure to unacceptable behaviours	<p>In the last quarter staff reported 22 incidents involving aggressive person encounters and contractors reported 25 incidents. In both cases, this is an increase from the previous quarter</p> <p>The Library, the Hub and the I Site have been reporting an increasing number of incidents involving aggression from members of the public behaving in unacceptable manner.</p> <p>Also due to the increased level of hostility regarding dog uplift situations, static guards have been used more than usual to help control situations in Customer Services, where there are known situations occurring.</p>
Exposure to hazardous substances	No issues arising since the last report.
Working at height	<p>A medical treatment injury occurred when an employee fell through a walkway at the Ahuroa Water treatment site. A piece of grating had been removed to allow workmen to access an area and had not been replaced. It was complicated that tarpaulins over the walkway, hid the gap in the walkway from view and it had not been sufficiently barriered off from staff. On investigating the incident, a number of improvements, mostly involving the permit to work system were identified.</p> <p>From this incident a procedure was also developed about the use and control of temporary barriers.</p>
Working while fatigued	Water Treatment staff are trialling a new phone 'app'. This allows them to conduct a self-test that checks their fatigue levels, before getting in a vehicle to attend a call out. The Team Leader is notified if they go over the acceptable threshold. The workers so far have given positive feedback about this app and we will review with them again shortly.
Exposure to energy sources	We had a recent incident where a piece of equipment was being worked on by a high-risk Waste Department contractor

	and it was discovered the lockout of the equipment had been done incorrectly. If someone had of turned on the equipment, it could have resulted in an injury, Fortunately no one was injured, but this incident was taken very seriously and worked through with the contractor to avoid reoccurrence.
Working in confined spaces	No issues arising since the last report.
Work over water	No issues arising since the last report.
Exposure to workplace psychological risks	<p>This quarter we have spent \$846 (compared to \$1904 in the previous quarter) on employee assistance services (EAP) and counselling. While this figure is relatively low, there are some Counselling services offered that are government funded and so costs are not shown or known.</p> <p>Three individuals reported feeling workplace stress and one whole team reported feeling under stress in this quarter.</p> <p>Two internally facilitated sessions for Health and Safety Representatives was undertaken on mental health and wellbeing and was felt to be of immense value.</p> <p>Four H&S Reps joined colleagues at Northland Regional Council and attended a Mental Health 101 training course.</p>
Work alone	No issues arising since the last report.
Asset failure	No activity to report since last meeting.

Table 1 – The highest health and safety critical risks affecting Council staff.

Critical risks affecting Council Contractors

Health and safety risk	
Working around mobile plant and moving machinery	There were a larger than usual number of incidents reported by contractors each month this quarter, involving where a truck had to reverse in a very tight spot. The use of a spotter was identified as most as having been a means of preventing the incidents.
Felling trees	No activity to report since last meeting.
Respirable health risks	An incident was reported into us about some white powder spilled on the Town Basin playground. Unfortunately, the contractor when cleaning it up, used a leaf blower to remove the powder, believing it to be cornflour. Children and the public were still in the vicinity. A procedure, detailing the correct means of dealing with suspicious material was sent out to all contractors with a strong message to follow this, following WorkSafe contacting us about this incident.
Working under suspended loads and rigging	No activity to report since last meeting.
Deep excavation	No activity to report since last meeting.

Table 2 – The top five health and safety critical risks also affecting Council contractors.

SiteWise

In the last report it was noted that we were increasing the requirement for our high-risk contractors to meet the SiteWise health and safety pre-qualification green card status, which is at least a 75% pass status. This has been implemented remarkably smoothly.

Emergencies

A number of our planned drills this year, have fallen behind schedule, due to lack of health and safety personnel to facilitate or arrange these, but there is a plan in place to catch up, now we have two personnel back working in the area.

This year we plan to hold a mock drill for Shakeout, October 28th, 9.30am. This will fall on a day that there is a council meeting. Elected members will be asked to participate in a 5-minute discussion session to go through what they would immediately do if there was a tsunami threat announced at that time.

Health and Safety Assurance

Health and safety audits

An internal audit of the permit to work system was reported during the last meeting. The committee expressed interest in knowing more details about this. These have been developed into corrective actions, located in the health and safety corrective action register, and are reviewed on a monthly basis. An update of these is attached.

An internal audit on contractor health and safety management has now been arranged but was deferred temporarily due to the covid situation. This will resume once we are in alert level 1 again.

Compliance and legislation

There have been no known updates to health and safety legislation since the last health and safety report.

Internal health and safety policies reviewed

During this quarter we have reviewed, updated and re-published the following internal policies;

- Health and safety training, information, and supervision policy (2 yearly review)
- Contractor health and safety management policy (Ad hoc review)

Occupational health monitoring

We have a schedule of annual occupational health monitoring required by certain teams who are exposed to health risks, such as noise and dust. This is a legal requirement.

This quarter, the waste treatment operators undertook their annual monitoring. While individuals receive individual reports on themselves, a summary report is sent through to the Health and Safety Manager for review and follow up.

Accident Statistics

Injury Type	Employees	Contractor	Public	Volunteers	Elected members	Totals fourth quarter	Totals Third Quarter	Totals Second Quarter	Totals First Quarter
WorkSafe NZ Notifiable event	0	1	0	0	0	1	0	0	1
Lost time injury (injury needing days off)	0	9	0	0	0	9	10	3	4
Medical treatment Injury (visited doctor or physio)	2	7	3	0	0	12	9	11	19

Occupational health exposure	0	0	0	0	0	0	2	0	0
Minor injuries	4	8	3	0	0	15	39	35	15
Pain and discomfort reports	8	0	0	0	0	8	1	12	16
Incidents and near misses	45	55	5	0	0	105	89	126	81

Table 3: Council workplace injuries 1 April – 30 June 2021.

Incident Type	2020-2021	2019-2020	2018 - 2019	2017 - 2018	2016 - 2017
Injury notifiable to WorkSafe NZ	2	1	0	0	3
Lost Time Injuries	26	15	16	11	11
Medical Treatment Injuries	42	34	40	77	51
Occupational Health Exposure	2	7	4	4	11
Minor Injuries	104	123	125	160	127
Pain and Discomfort	37	71	58	138	109
Incidents	401	347	256	389	283

Table 4: Council workplace injuries over last five financial years.

Comparing previous years, we have more lost time injuries this year, the majority of which are suffered by rubbish and recycling operators.

Medical treatment injuries are also up, again mostly suffered by waste and rubbish collectors and parks maintenance workers. These all involve manual handling, slips, trips and falls risks as well as exposure to sharp items.

Incident reporting is up, with a significant proportion of these being aggressive person incidents, which has been steadily trending upwards this year.

Public safety

At the last Risk and Audit meeting, questions were raised whether we were going to have a life preserver at the Tikipunga Falls location, and this can now be confirmed that we do have this.

There was also a question raised about trees in the district which might affect CCTV positioned nearby. On checking, it can be confirmed that anywhere CCTV is placed, that safety in design is applied regarding suitable landscaping. For example, only low growing shrubs or grasses planted beneath or nothing at all.

Wellbeing

One of the newer Health and Safety Representatives has been proactive in helping create health and safety monthly updates, which go out to staff via staff newsletters. Most of these cover a wellbeing theme. These have been well received

Health and safety training undertaken since last report

Internal training	Number of sessions	Attendants	Total Hours	External training	Attendants	Total Hours
H&S Induction	3			Fear Free – How to deal with Shoplifters x 2	4	4
Mental health and wellbeing - workshop for H&S Reps - Part 1	1	18	56	Fear free - Dealing with aggressive phone calls	13	26
Mental health and wellbeing - workshop for H&S Reps - Part 2	1	14	49	Fearfree - Personal Safety	20	30
				Fearfree - Contractor personal safety	30	80
				Fearfree – Dealing with Armed Robbery	8	28
				Fearfree- Personal safety in Customer services		
				Mental Health 101	4	36
				Permit Issuer	13	104
				Site Safe Passports	8	4
				First aid	13	64
	5	32	105		113	376

Table 5: Health and Safety Training undertaken 1 April – 30 June 2021.

5 Significance and engagement

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via report publication on the website.

6 Attachment

Appendix 1 – Corrective Actions from the Permit to Work Audit, 2021 (Updated).

Appendix 1 – Corrective Actions from the Permit to Work Audit 2021 (Amended September 2021).

Brief description of issue	Agreed Action	Who responsible	Due by	Progress notes or comments	Completed
Sequential permit numbering system and register lacking	Sequential permit numbering system and register to be developed.	Desarae Williams	30/10/2021	Date amended. Still trialing paper copies Then sufficient time for printing required as part of this action.	
A lack of a place for signatories providing peer checks.	The permit to work form to be altered, with consultation from affected parties.	Desarae Williams	30/06/2021	The form we are using has this.	July 2021
A lack of a place for signatories providing peer checks.	Those affected informed of the signatory requirements during follow up training.	Desarae Williams	30/08/2021	This would have been completed if not for lockdown. Most of the people have been trained on this, but we have one more group to complete, post lockdown.	
Lack of consistency noted amongst permit issuers	Those affected informed of the requirements during follow up training.	Desarae Williams	30/08/2021	This would have been completed if not for lockdown. Procedure amended and training developed with internal trainer identified.	
Lack of a decision tree about what work needs a permit to work or not and no means of capturing this.	Develop a means (Keep simple) so that it can be noted somehow and somewhere when there is a decision not to use a permit to work for high risk work. This is to be done in consultation with those affected.	Desarae Williams	30/06/2021	Decision tree developed and sent out for consultation. Will be linked to the amended PTW procedure.	June 2021

Unauthorised individuals are issuing permits to work	Review the current permit authority list. This may need several layers of permission. This will be done in consultation with those affected.	Desarae Williams	30/06/2021	DMs have identified who they want to be permit issuers. Training has commenced on this. The amended procedures also go into requirements in detail.	July 2021
The training for permit to work authorities is inconsistent	Establish who has done what training and work out the training gap analysis	Desarae Williams	30/05/2021	This is under development, based on the amended PTW procedures.	27/05/2021
Refresher training for permit issuers has been inconsistent	Identify what the needs are and implement.	Desarae Williams	30/06/2021	This has been identified and added to amended PTW procedures	20/05/2021
Compliance training for staff issuing permits needs to be consistent and the audit showed that it was not.	Review the current compliance training spreadsheet and ensure vital H&S compliance training is arranged	Desarae Williams	30/06/2021	This training and requirements is now showing on the Permit Authority register	3/06/2021
Lack of consistency in permit issuing	Develop a schedule of spot checks	Desarae Williams	30/04/2021	This is now part of the PTW procedure.	20/05/2021
Lack of permit closure noted	To be covered in permit to work training.	Desarae Williams	30/08/2021	This would have been completed if not for lockdown. This is included in the training.	

Lack of consistency about using the permit to work system across departments	To be covered in permit to work training.	Desarae Williams	30/08/2021	This has become a full Council requirement with permit issuers and DMs fully aware of requirements. However, will be helped when all receive internal PTW training. The scope of work for when a permit is required has been reviewed and broadened to include when a permit is and is not required.	August 2021
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4.4 Audit NZ – Verbal Report – September 2021

Meeting: Risk and Audit Committee
Date of meeting: 22 September 2021
Reporting officer: Carl Wessels (Audit NZ)
Jaimala Singh (Audit NZ)
Emily Thompson (Manager – Democracy and Assurance)

1 Purpose

To provide an update to the committee from out external auditors.

2 Recommendation

That the Risk and Audit Committee notes the report from the external auditors.

3 Background

This session is to allow for a verbal update from Audit NZ on any key audit points.

4 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

4.5 External Audit Action Update – September 2021

Meeting: Risk and Audit Committee
Date of meeting: 22 September 2021
Reporting officer: Emily Thompson (Manger – Democracy and Assurance)

1 Purpose

To report the status of outstanding actions from Council's External Audit

2 Recommendation

That the Risk and Audit Committee notes the status of the outstanding external audit actions.

3 Background

External audits are performed annually by Audit New Zealand. This report is to show the progress on the actions highlighted from the external audit reports. These will not be closed by Audit NZ until the next annual audit.

Recommendations resulting from these audits have been reported to the Audit and Risk Committee.

4 Discussion

This is a regular report to share progress on external audit actions to the committee. There are currently only five 'open' actions, which is great progress, from the twelve reported to this Committee in March.

Attachment one provides a summary of the actions and their status. Since the last report, staff consider that they have completed three recommendations and one recommendation has been closed by NZ Audit.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

6 Attachment

External Audit Issues Action Plan Progress – September 2021

External Audit Action

Department Owner	Business Owner	Audit Ref	FY raised	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ date of this report	Status
Finance	Delyse Henwood	2.2.1	2021	Access to payroll masterfile We recommend that the access settings for the payroll masterfile be reviewed to ensure there are adequate segregation of duties in place.	We noted that a duly delegated employee reviews any changes made to the employee masterfile data. However, this person also has the ability to edit the masterfile. We understand the person has not and will not make any adjustments to the masterfile without consultation with the Team Leader and the Payroll Coordinator. However, having edit access creates a segregation of duties risk (that is, the potential to review one's own changes).	Necessary	In response to the recommendation, the employee Masterfile access for the General Manager – People and Capability has changed to 'view only' (Actioned 15/06/21).	Jun-21	Completed	WDC : Accepted/ Resolved
Finance	Delyse Henwood	3.5	2019	Carry forwards On 25 July 2019 the Council approved capital projects carry forwards of \$34 million for 2019/20. We understand the carry forwards increased due to delays in granting of resource consents, weather conditions and availability of contractors. We have analysed the detailed carry forwards and noted the largest carry forwards were: - the LED streetlight upgrade of \$2 million; - Whau Valley Water Treatment plant of \$4.4 million - work is currently underway for this project; and - the Civic Centre of \$6.2 million. The balance of the carry forwards were made up of smaller projects which are either in progress, in consultation or planned for delivery at a later stage. We understand management are closely monitoring the carry forwards and are reporting the progress to the Council. We recommend management continue to progress the carry forwards to avoid any decline in service delivery and escalated project costs.	We recommend management continue to progress the carry forwards to avoid any decline in service delivery and escalated project costs	Necessary	In progress: Infrastructure project delivery continues to improve with the largest capex spend recorded for the 2021 financial year.	TBC	Council's progress on the carry forwards will be assessed during the final audit. We will follow-up and report our findings on this matter in our final report to Council.	Open
Infrastructure	Simon Weston	3.1.2	2019	Stormwater, flood protection, solid waste, wastewater, water and parks and recreation We recommend that management carry out a review over the pipe depth information and ensure this is updated and taken into account for the next valuation round.	The previous valuation was completed by AECOM New Zealand as at 30 June 2017. For the current financial year, the District Council engaged Pattle Delamore Partners Limited to carry out the revaluation. The valuation report was provided late to us which resulted in a delay in our audit. We would remind the District Council to ensure that proper planning takes when arranging the valuations so to avoid any possible delays. The assets were revalued upwards by \$74.8 million with the majority of this revaluation being wastewater (\$37.9 million), parks and recreation (\$13.4 million) and water (\$15.1 million). We reviewed the assumptions and methodology applied in completing the valuation. We also discussed these assumptions with the valuer in order to gain comfort over the valuation movements. Based on our work, we were satisfied the valuations adopted by the District Council were supportable and in line with the accounting standards. WDC 19J Final MR (inc management comments).docx 8 We did however note that the valuers applied a standard pipe depth assumption. We accepted this change in assumption however we would recommend that the District Council clarify all assumptions with future valuers to ensure a consistent approach.	Necessary	July 2012 - Management acknowledges the matters identified during the audit and will ensure methodology, assumptions and deadlines are well defined in the planning stage of our next revaluation. July 2021 - These assets are not scheduled to be revalued during the 2020/21 financial year. We will only be able to follow-up the implementation during the next revaluation (as at 30 June 2022).	FY 23	These assets are not scheduled to be revalued during the 2020/21 financial year. We will only be able to follow-up the implementation during the next revaluation (as at 30 June 2022).	Open
Finance	Alan Adcock	4.3	2018	Redundant network user accounts A review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.	We noted that a regular review of network user accounts and their associated access rights is performed. However, there are some log on accounts at the network level that have not been used since 2016. There are also a number of accounts that have not been used at all and were created as far back as 2013. System accounts that have not been used for an extended period of time is an indication that they are no longer required. If these accounts are left open, it increases the risk of unauthorised access to the District Council's systems. We recommend that the review of user accounts and access rights at the network level is performed to ensure that unused accounts are disabled.	Necessary	In 2019 ICT Operations created scripts which disabled inactivate user accounts (both Contractor & Staff accounts). In 2020 we performed a full audit of all accounts including non-users accounts and manually disabled these accounts (RFC4367), we have now put in place tougher decommissioning guidelines which should prevent any legacy accounts remaining within Active Directory after they no longer have purpose. The scripts were demonstrated during the recent Audit as well and confirmed as sufficiently working.	TBC	Matter outstanding; to follow up during Audit NZ final visit This will be reviewed during the final audit visit.	WDC : Accepted/ Resolved
Finance	Delyse Henwood	3.2	2019 interim	Sensitive expenditure testing We recommended that management remind staff that tax invoices are retained for all credit card expenditure and ensure these are approved on a one-up basis. We further recommend that Council considers implementing processes that require sensitive expenditure to be reported.	No issues identified during our testing of sensitive expenditure during the interim audit. We noted Council is in process of updating the policy. We will follow-up and review the updated policy at final audit to ensure alignment with the update sensitive expenditure guidance issued by the OAG.	Necessary	The sensitive expenditure policy has been revised and updated and was adoption by Council Tuesday 29 June.	Dec-21	Quarterly reporting of sensitive expenditure will commence from the September Risk & Audit Committee meeting.	WDC : Accepted/ Resolved
Business Support	Eddie Wotherspoon	3.4	2019 interim	Procurement policy We recommended that the District Council considers including the improvements noted to the Procurement Policy to ensure it is in line with best practice.	During our review of the procurement policy, we have found some areas of improvement that will strengthen and enhance the policy. These are: •the policy makes reference to a separate document called the "Policy Procedures Manual". We noted this document was last updated in January 2015. Considering that the procurement policy was recently updated, we recommend that the "Policy Procedures Manual" be updated to be in alignment with the procurement policy; •The policy does not identify the risk of creating a "process contract" and what that might mean for the procurement; •the policy does not contain provisions related to recording risks in a risk register; •the policy does not contain guidance on procurement methods for closed tendering, syndicated procurement and collaborative contracting such as Alliancing and Public Private Partnerships; and We recommend that the District Council considers including the above improvements into the Procurement Policy to ensure it is in line with best practice.	Beneficial	Management is currently reviewing and updating the procurement policy to allow for any amendments required due to MBIE's reissue of "The Government Rules of Sourcing". A review and update of the Policy Procedures Manual is also underway.	Aug-21	The draft policy is currently going through an internal review process, for 'sense checking' by some of the bigger procurers in Council to provide thoughts, concerns and feedback. The Plan is that this policy will be going before Council next month (July 21).	Open

External Audit Action

Department Owner	Business Owner	Audit Ref	FY raised	Audit Recommendation	Current status and previous comments	Priority	Management's action plans	Implementation Timeframe	Progress @ date of this report	Status
Infrastructure	Simon Weston	App 1	2018	Project management We identified the following areas for improvement: • The project management framework was last updated in 2009. This project management framework and guidance should be reviewed. • There needs to be more clear guidance on what projects are required to be managed by the project management team. • The scope of projects need to be more clearly defined so management can ensure the projects have achieved what they set out to achieve. • Post implement reviews over projects should be performed, documented and reported. • The project management system is currently being maintained on a spreadsheet. To gain efficiency and reduce the likelihood of human error it would be beneficial to improve this project management reporting system to enable better reporting. This system should be integrated with financial management and asset management and could be considered as part of the planned updates to the asset management systems.	Status: In progress A review of the project management activity is now underway. Post implementation reviews of significant projects has now being included as part of the Audit Committees roles and responsibilities.	Beneficial	The Asset Management System and GIS System upgrades are not yet complete. Business Improvement functions moved to the ICT department, however resources from that department have not been available to assist with the project management framework review.	Dec-19	Audit NZ will be following up during their final audit visit this year. A review of the project management activity is now underway. Project scoping recommendation is implemented with requirement to complete the project brief for every project. Audit has sighted an example for the project Recreation and Ecological Linkages – Tracks and Walkways. Hatea Walkway – track upgrade The following areas are pending on client feedback: • Project Management Framework Review implementation; • Clearer guidance on what project is required by the project management team; and • Whether project management has moved from spreadsheet-based to an improved reporting system (that is, integrated to an upgraded AMS).	Open
Infrastructure	Simon Weston	3.5	2019 interim	Inappropriate set-up of Wastewater Mandatory measure We recommended that the District Council reviews all long-term planning (LTP) measures uploaded into their Corporate Performance Module and ensure these are in-line with both the performance framework approved in the 2018-28 LTP and in line with the DIA regulations. We further recommend that the District Council uploads the data from the laboratory results into Water Online at least every quarter and review the results uploaded to those previously reported to SLT at least every quarter when the data is uploaded.	We noted from our review of the Wastewater performance measure "(a) The number of flooding events that occur in a TA district and (b) For each flooding event, the number of habitable floors affected. (Expressed per 1000 properties connected to the TA's stormwater system)", that the District Council has inadequately set-up this measure within their Corporate Performance Module within TechOne. There is no edit field to record part (b) of the measure (such as habitable floors). The risk arises that management are incorrectly reporting the measures within their system to their SLT and potentially in their Annual Report at year end. We recommend that the District Council reviews all LTP measures uploaded into their Corporate Performance Module and ensure these are in-line with both the performance framework approved in the 2018-28 LTP and in line with the DIA regulations. We further recommend that systems are reviewed to ensure these are robust and that reporting is accurate.	Beneficial	Setup of the Corporate Performance Module in TechOne will be reviewed to capture the correct KPI's for reporting.	TBC	This has been assessed through the preparation of the Long-Term Plan 2021-2031 and will be incorporated into our Corporate Management System. This will be reported through the 2021-2022 Annual Report.	Open
Roading	Jeff Devine	4.1	2019	Improvement to roading processes Processes around reconciling the accounting system and RAMM be improved. From our review of roading additions in the accounting system (TechOne), we found these were not easily reconcilable to the additions in the RAMM database. We understand RAMM is used as the primary source for roading revaluations and therefore it is essential that additions between TechOne and RAMM are identifiable and reconcilable.	Our detailed observations include: • It was difficult to trace roading projects back to the roading assets capitalised within the RAMM database. This is because the project ID is not currently included in the RAMM database to trace back to the project for some additions. • The unit prices and overheads rates were not always consistent with the recent contract rates. • A new asset record was not always created within RAMM for all additions. • There were some contracts that had been identified as only operational contracts. However, from our additions testing there was costs from those contracts that were capitalised which suggests these contracts include a capital element to them. However did not found these in the capital commitments at balance date. • There was assets capitalised in the financial statements but were still included as work in progress in RAMM. We recommend that: • Processes are improved so that projects can be easily traced to assets capitalised within RAMM. • A formal review over the unit prices and overhead rates be performed to ensure that unit prices reflect the contracted amount. This will ensure that there is no significant difference between the contract amount and valuation unit prices. • For all new additions a record for that asset is added in RAMM or can easily be traced to an existing record. • A review over operational contracts to ensure if a proportion of the contracts are capitalised that a proportion of the contracts are also included as part of capital commitments. • All assets that are showing as capitalised in the financial statements should also be capitalised in the RAMM database.	Necessary	Management will consider the above observations and recommendations.	TBC	NZ Audit: Closed Although there is some room for improvement, we have not noted any significant concerns during this audit or the 2021/31 LTP audit. This matter is therefore closed.	Audit NZ - Closed

4.6 Risk Report September 2021

Meeting: Risk and Audit Committee

Date of meeting: 22 September 2021

Reporting officer: Katherine Rainham (Risk Management Advisor)
 Joanne Tasker (Assurance Coordinator)

1 Purpose

To provide an overview to the Risk and Audit Committee of the current risks across the organisation.

2 Recommendation

That the Risk and Audit Committee notes the Risk Report for September 2021.

3 Background

Council's risk management framework details how departments record and manage their risks. While risk management is a subjective activity the framework provides some consistency on the use of ratings identified for risks.

This report has been compiled by the Assurance Coordinator during the onboarding of Council's recently appointed Risk Management Advisor. Moving forward, the Risk Management Adviser will support departments to identify risks and recognise any controls they have in place, or intend to put in place, around these risks. This fills the vacancy left by the Senior Assurance Coordinator Role.

This report includes a matrix demonstrating the spread of risks across Council, of which there are currently 342. The report also includes the critical risks that affect various departments and the strategic risks that affect Council as a whole.

4 Discussion

Risks are given a rating based on the likelihood of the risk occurring and the anticipated impact if the risk were to occur. Based on this, risks are categorised as either low, medium, high or critical as demonstrated on the below table:

Catastrophic	Critical	Critical	Critical	Critical	Critical
Major	High	High	Critical	Critical	Critical
Moderate	Medium	Medium	High	High	Critical
Minor	Low	Low	Medium	High	High
Insignificant	Low	Low	Low	Medium	High
Impact	Rare	Unlikely	Possible	Likely	Almost certain

Likelihood

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

6 Attachment

1. September 2021 Risk Report

September 2021 – Council Risk Overview

This report provides an overview of Council's current risk profile and includes three distinct sections:

1. Risk matrix which shows the spread of risks across the organisation.
2. The current critical risks (those shown in red on the risk matrix)
3. The current strategic risks i.e. risks that effect Council as a whole.

1. Risk Matrix

The risk matrix shows the spread of risks across the organisation. It reflects the residual risk to council after considering the current controls that are in place.

Key	Low	Medium	High	Critical
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Table one:

Residual risk spread of current Council risks (September 2021) (Total 342)

Impact	Catastrophic	0	1	1	0	0
	Major	8	6	6	3	2
	Moderate	18	41	73	19	2
	Minor	15	39	57	19	7
	Insignificant	6	13	3	2	1
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

Summary	76	118	133	15
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Table two:
Residual risk spread of current Council risks (June 2021) (Total 363)

Impact	Catastrophic	0	1	1	0	0
	Major	8	5	4	3	2
	Moderate	18	40	64	17	2
	Minor	17	47	71	19	9
	Insignificant	8	19	4	4	0
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

Summary	95	133	122	13
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Table three:
Residual risk spread of current Council risks (March 2021) (Total 398)

Impact	Catastrophic	1	1	1	0	0
	Major	8	7	4	5	2
	Moderate	25	45	61	19	4
	Minor	20	54	78	20	10
	Insignificant	7	16	5	4	1
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

Table four:**Residual risk spread of current Council risks (December 2020) (Total 424)**

Note: there was a change in risk categorisation following the adoption of a new Risk Management Framework by Council in October 2020.

Impact	Catastrophic	1	1	1	0	0
	Major	8	8	13	2	2
	Moderate	24	52	67	23	3
	Minor	19	55	79	22	9
	Insignificant	9	17	4	5	0
		Rare	Unlikely	Possible	Likely	Almost Certain
Likelihood						

Please note that the health and safety risks are managed via a database portal and reported separately to the Risk and Audit Committee. Similarly, ICT risks are not reported on in detail in this report as the Committee regularly receives an ICT Update Report. ICT risks are discussed under the 'data and systems' strategic risk.

2. Current Critical Risks

Department managers have been asked to review the appropriateness of their current critical risks. The table below has been developed from this feedback. This table does not include strategic risks that have been identified as affecting multiple departments. Those are reported separately in table 6.

Two additional critical risks have emerged since the June 2021 Risk Report. The first is “*Review of District Plan*”. This risk was previously considered a high risk, rather than a critical risk. It was rated as a possible/moderate risk but is now rated as a possible/major risk. The other new critical risk is “*City Safe assault*” that has recently been identified and added to the Community Department’s risk register. The other risks have appeared on this list previously but have been reviewed and updated as needed.

Table five: Council’s current critical risks

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
Building Control	<i>Swimming pool inspections</i> – lack of resource available in the team to complete formal swimming pool inspections/ audits. Statutory requirements may not be being met under the Building Act.	A Building Inspection staff member is being seconded into the Compliance team as assistance to inspect pools (April - May 2021). From May 2021 temporary staff hired (previously trained and competent) to assist with inspections for a 6-month period at 20 hrs per week. Temporary administration staff support completes in June 2021. Workloads being controlled on a weekly basis by Team Leader	Almost certain	Moderate	Workloads being controlled on a weekly basis by Team Leader. From May 2021 we have hired temporary staff to assist with inspections and getting up to date for a 6-month period. This is not a long-term solution. Building Inspection staff being seconded into the Compliance team as assistance (April 2021 - period to be decided).

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
Building Control	<i>Building Act 2004 not keeping pace with Modern Methods of Construction (MMC)</i> – Use of MMC in Whangarei raises concerns about processing, inspection, liabilities etc. There is a high profile/value international brand Hotel development that is coming to Whangarei that is using MMC. There is a risk that Council will not be able to consent the building within the timeframes and costs that are expected.	Legislation is now in place for MMC but no regulation or certified bodies. When this has been promulgated the risk should be reduced to a minor as the controls will be within the legislation. Council is working with other organisations to understand how MMC consent requests are dealt with.	Likely	Major	Legislation in place. Need updated MMC areas of the Building Act leading to licensed practitioners and manufacturers. Internal process and procedure to be updated once enacted, including web page information etc.
Building Control	<i>Processing delays</i> – lack of skilled resources across industry resulting in skill shortages internally. Contractor capacity also limited. As a result, there is a risk that we may not meet statutory timeframes for processing.	Volume of consent requests increased in 2021. Daily monitoring of consent allocations. Close communication with contractor who is providing 40% of consents to the customer.	Almost certain	Moderate	New contract being sought with contractors, and a panel of contractors to be the outcome. The purpose of this is to be able to spread the load around contractors to assist our efforts as there is increased demand country-wide and even an individual contractor struggles to meet our excess demand. Ongoing monitoring by building consent team leader to ensure that the number of applications being consented before the planning assessment is complete are kept to a minimum. Confirm with contractor

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
					that no consents are being released until the planning assessment has been completed.
Building Control	<i>Wrong decision or approval made</i> – There are several approvals made under the Building Act including issuing a consent, conditioning a consent, issuing a Code Compliance Certificate, issuing Compliance schedules and notices. All have risk implications if issued incorrectly.	Work is categorised into levels of complexity. Competency assessment of staff is undertaken annually. Allocation of work is closely monitored by team leaders. Contractors may be used to ensure Council can process work, both from a volume and complexity viewpoint. Monthly monitoring of work. An annual report/ consideration of staffing levels is conducted as an aid. Training is sought and delivered to ensure staff are up to date with the industry. The department undertakes regular audits of practices and also has audits conducted by the Ministry on a biennial basis to remain accredited.	Possible	Major	Monthly reporting, covering: <ul style="list-style-type: none"> - Numbers of staff to work levels/ establishment (how quickly do we fill vacancies) - Days to process applications – customer and statutory. Inspections per officer per month averages - Volume of work and complexity - Annual reports prepared on volumes of work, types and numbers of staff based on these assumptions.
Community development	<i>City Safe assault</i> – Potential injury to City Safe staff due to increased level of anti-social behavior, threats, and assaults being experienced in the central	City Safe officers receive training on anti-social behavior management issues. City Safe officers are equipped with Police radios and are on	Possible	Major	Ongoing risk assessment and training with Police.

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
	city area by the City Safe Community Safety Officers.	the net whilst patrolling, and now wear stab proof vests. They also carry video cameras for the recording of incidents			
District Plan	<i>Review of District Plan</i> – The District Plan is undergoing an incremental review rather than a full and timely review.	Negotiation with external stakeholders (Minister for the Environment, the Court and NRC) to ensure they are aware of the delays and process status. Appointed consultants to help work through the gaps and progress the review.	Possible	Major	As more work is achieved then there will be less stakeholders involved – to be monitored and updated regularly.
Water Services	<i>Prolonged inability to supply water</i> – unable to meet service levels due to water shortage, power outage, seismic event, prolonged drought, dam failure etc.	Demand management strategy and network maintenance strategy. Compliance with NZ dam safety guidelines and comprehensive dam safety review regime every 5 years. Emergency action plan. Consent renewals for intakes. Northland Lifeline Group has created a register of all critical sites for Northland including a Fuel Plan.	Possible	Catastrophic	Upgrade of Poroti Water Treatment plant to treat water from Wairua River will allow more water to be taken to cover drought and growth. It will also provide resilience for problems encountered at the other treatment plants. Closure of the Refinery will reduce demand in Bream Bay area.
Water Services	<i>Contaminated and untreatable water</i> – risk that members of the public could become sick from water borne organisms.	Upgrade Whau Valley Water treatment plant and respond appropriately to proposed new drinking water standards	Unlikely	Catastrophic	Upgrade Poroti water treatment plant and consider upgrades of other water treatment plants to ensure multiple barriers meet new standards and

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
		and rules when announced. Update Water Safety Plans.			rules. Regularly update Water Safety Plans.
Infrastructure, Planning and Capital Works	<i>Project management tools and systems</i> – the lack of a project management system results in a lack of visibility for projects, KPIs, and project budgets.	Use of excel spreadsheets but limited financial information and no risk information is captured. Financial reporting from TechOne (for a single financial year only). Forward works viewer gives some idea of other projects happening but doesn't include reporting and isn't being updated. Manual reporting and updates, lots of information in emails. Ad hoc knowledge based mitigations when someone hears about a project from colleagues	Almost certain	Major	Implement a project, programme and portfolio management system. Organisation Strategy actions, and Business Improvement Projects include establishing a Project Management Centre of Excellence, a new Project Management System, and process mapping. All of this has been delayed by 2 years due to restructuring of Business Improvement Team and delays to the SIGMA project implementation.
Infrastructure, Planning and Capital Works	<i>Inadequate scoping of projects</i> - Department resourcing, experience and job descriptions do not match with the expectation that this work will be done within this department (rather than asset owner departments).	Ad hoc scoping of projects, reliant on individual experience. Limiting the capital works programme due to resourcing constraints (however this causes other issues such as under-investment in infrastructure renewals and upgrades).	Almost certain	Major	Review job descriptions and role requirements against staff experience and knowledge. New processes required for the establishment of new projects. Follow the project management system including use of business cases.

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
Infrastructure, Planning and Capital Works	<i>Translating strategic documents into work programmes</i> – limited information in strategies and plans regarding projects at implementation level, no budget estimates for funding, and there is limited coordination of integrated programme funding across the LTP process.	None	Likely	Major	Review required of how this process works now and learn from it to improve for the next LTP. Visibility of all projects across the organisation to enable coordination of activities requires a Project Management System with the full lifecycle from ideas through prioritisation and delivery.
Health and Bylaws	<i>Dog pound facility no longer complies with the “Dog – Code of Welfare and “Temporary Housing of Companion Animals Code” provisions</i> - both kennel minimum size standards and total lack of associated facilities (e.g. kennel runs, enrichment areas, separate areas for dangerous dogs, and quarantine areas). There is a risk of failing future compliance audits which may result in a full or partial closure, greater reliance on Auckland (with higher cost and reputational risk). Restrictions on larger dogs can impact ability to impound dogs, which can impact compliance and income. Operational	All available operational controls to overcome structural limitations have been implemented. However, not all risks can be mitigated through these controls. Through the current LTP Council has budgeted for the construction of a new dog shelter. However, there is a risk that this will not be sufficient to provide for a fully compliant and/or large enough facility. Note: the project will be brought back to Council shortly, if the revised budget or scope will not allow for a compliant facility.	Likely	Major	To avoid audit failure as of August 2021 the definition/criteria of a “long-term” dog has been shorted from four weeks to seven days. This means long-term and dangerous dogs will be relocated to Auckland sooner, minimizing health and safety risk to staff. However, this will have further financial implications on the budget and the team’s other functions. The only way to address and resolve the risk fully is to have a new fully compliant dog pound constructed as soon as possible.

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
	responses to limitations increase health and safety risk for pound staff.				
Parks and Recreation	<i>Structures on public land</i> – private owners adjacent to public land build structures on the public land for their use (i.e. jetties on esplanades/ reserves)	Any unsafe structures identified should be removed, upgraded or added to the Coastal structures contract and therefore inspection programme.	Possible	Major	Continue to investigate any new structures identified and either remove, up-grade, or add to the Coastal structures contract and inspection programme.
Waste and Drainage	<i>Development approval process inadequate</i> – due to legacy of poorly designed/ planned assets, development approval process may allow poor quality assets to be approved and constructed without sufficient oversight.	Environmental engineering standards in place, also bylaws. However, no clear legal liability for Council and no clear internal processes.	Possible	Major	Consider options to improve internal processes and clarify legal liability issues. Reliant on resourcing and coordination between departments. Low resource numbers due to the volume of work coming through from the public. Using contractors/consultants to provide coverage for staff shortages. Changes to the appeals version as well as operative version of District Plan is making things a challenge, particularly where stormwater is concerned. No clear link between District Plan and Engineering Standards anymore. Getting pushback from planners and developers. Work in progress. Flood risk maps and climate change also of concern.

Department	Risk description	Current Controls – What we are already doing about it	Likelihood rating	Impact rating	Future treatment – What we plan to do
Waste and Drainage	<i>Unclear legal liability for Council regarding engineering approvals and vested assets</i> – lack of legal clarity when contracting out design work to consultants. We may be responsible for quality of designs and construction.	We currently require that producer Statements (PS1) are submitted for designs. However, PS1 forms are occasionally signed by independently qualified persons (IQPs) who may be operating outside their specific area of competency. This places liability on Council for accepting these designs. Peer reviews are requested if scope of development is complex, or untried or potential risks of failure have been identified as high.	Possible	Major	<p>Risk based decision based on development size around peer review of information.</p> <p>Ensure vested assets are constructed to high standards. Hold points for essential construction points. Ensure adequate capacity in team for construction assessments - may require additional WDC resources or third-party assessments by consultant engineers.</p> <p>Moving away from having independently qualified persons (IQPs) and instead relying on Engineering New Zealand Competency assessment and requirements for Professional Engineers to review and sign off on work that is complex in nature.</p>

Northland Transport Alliance Highest Level Risks

It should be noted that in the last June 2021 Risk Report the highest rated risk for the Northland Transport Alliance was reported on in detail. This risk remains the same and so is not repeated in this report. In summary, the risk is that as a result of the NTA organisational structure not being its own entity, but rather a partnership between differing Councils, it raises issues in terms of statutory delegations, financial responsibility, inequitable workforce, differing systems used by staff, inefficient practices relating to health and safety and procurement, and triangulation employment issues.

3. Council's Strategic Risks

Strategic risks are risks that have been identified as affecting the entire organisation, rather than a particular area of Council. The risk description endeavors to capture the impact of the risk organisation-wide.

Table six: Councils strategic risks

Area	Risk description	Current Mitigation – what we are doing about it
Data and systems	<p>Data sets across all systems and databases in Council are not currently aligned and interactive. Using multiple databases can lead to difficulty transferring and updating information, and a lack of visibility across the organisation. Systems may seem overly complex. In order to manipulate or organise data effectively, data may need to be duplicated into a programme like excel, taking additional staff time.</p> <p>Poor quality data can result in poor forecasting. We may be relying on information that is inaccurate or incomplete and this could lead to the wrong decision being made.</p> <p>There is a specific risk around the limited GIS skill set within Council alongside the complexity in updating and extracting this information.</p> <p>System failure or loss of data could have serious consequents on the organisation. Potential risks for WDC data include the potential for internal or external cyber threats, hardware failure from aging hardware or general fault, failure to regularly</p>	<p><i>Reduce:</i> Upgraded the current asset management system from Hansen to TechOne – underway to go live in July 2021. Current work on Trilogy part 2.</p> <p><i>Reduce:</i> Current work on Trilogy part 2 and focus in multiple departments on development of better datasets to improve organisation wide visibility, modelling and knowledge.</p> <p><i>Accept:</i> Outsource GIS expertise as required, particularly for non-BAU of urgent GIS work.</p> <p><i>Reduce:</i> Firewall services enhanced, latest ESET Antivirus, Phriendly Phishing staff training, quarterly security meeting, contract services for key critical systems and infrastructure, Cloud service providers have in place replication systems to Disaster Recovery Centres etc.</p>

	update software, or potential risk to data backup systems.	
Staffing and resourcing	<p>Whangarei is growing and the local government environment is poised for change. At this point we are unable to predict what will happen with roles due to the changing environment. Rapid growth and the lag between our budgeting and approval processes has led to a delay in additional positions. Recruiting and retaining staff in certain areas of the organisation can be difficult. The combination of timing and scarcity of specific skills can lead to understaffing, gaps in teams and an inability to provide staff cover.</p> <p>Lack of staff resourcing, and high staff turnover can lead to; existing staff being overworked, a lower level of available support service, and the potential inability for Council to meet its statutory obligations.</p> <p>There could be a loss of institutional knowledge when key staff leave the organisation, particularly where there has been a lack of succession planning.</p>	<p><i>Mitigate:</i> Council is building a good reputation as an employer. Whangarei District Council won the HRNZ 2021 award for Organisational Change and Development, the Taituara Award for Excellence in Organisation and People Development as well as being a finalist in the Diversity Awards NZ 2021. We are offering more flexibility in working arrangements. There has been an increase in opportunities for current staff to move around the organisation to fill roles, in order to better utilise current staff resource and offer development opportunities for existing staff.</p> <p><i>Mitigate:</i> Staff wellbeing is supported through our organisational strategy and tikanga (Whanaungatanga, Manaakitanga, Kotahitanga and Atawhaitanga) and through our health and safety documents.</p> <p><i>Reduce:</i> The use of Kete ensures that information is not lost, however Council is reliant on handover documents created by the staff member who is leaving and the department manager to ensure that information is passed on after a staff member resigns. There has been a significant amount of work done on process mapping and trying to build cross training/ back up across the team.</p>
Litigation	Due to the increasingly litigious environment there is a potential for an increase in cases being brought against Council. Some are appropriate however some are not.	<i>Accept:</i> Litigations brought against Council are being dealt with on a case by case basis with external legal support as required. There is some transfer of risk under the insurance programme (statutory liability, public liability and professional indemnity insurances).

	Issues can arise where departments are not aware of the legislation they operate under. Difficulties and uncertainties are noted when it comes to Council's legal liability for external contractors.	<i>Reduce:</i> 6 monthly legislative compliance form completed by department managers.
Aggressive customers	Staff deal with abusive, difficult and potentially violent customers, particularly in public facing roles. There is an added risk to staff working alone or at more isolated Council sites.	<i>Reduce:</i> Ongoing training (e.g. FearFree) and health and safety practices constantly being reviewed. Learnings from aggressive customer incidents are shared throughout the organisation. Use of panic alarms and CCTV in some areas.
Climate change	<p>Engagement with hapū: Hapū have raised concern about the engagement with hapū undertaken so far for projects in the climate change work programme. In particular the engagement has not been at the haukainga level and hapū representatives raise this as a strong concern. Vacancies in the Maori Relationships team mean that internal support for engagement is not available risking the ability and manner of how engagement with hapū takes place.</p> <p>Adaptation: A range of impacts of climate change have been projected for Northland by NIWA including sea level rise, more warmer days, more droughts, more extreme weather events. The recent AR6 report from the IPCC indicates that changes previously projected as extreme scenarios are now looking increasingly likely. Potential impacts include damage to the transport and infrastructure networks, water shortages, and droughts. This may result in vulnerable infrastructure, parks and reserves.</p>	<p><i>Accept and respond:</i> Responses to risks will be largely delivered by the Climate Change programme of work.</p> <p>Engagement with hapū: Engagement with Maori communities including the haukainga will take place in two of the major projects. Though, for the draft Te Taitokerau Adaptation Strategy, engagement at this stage is after adoption. Staff will likely need to contract in tikanga support to engage in the appropriate manner. There will be financial implications of this. Acknowledging that there could be multiple workstreams across all of the Te Taitokerau Councils needing similar expertise, there could be the opportunity to align engagement within projects and with other organisations.</p> <p>Adaptation: The District Council responses drop out of the Priority Actions in the collaboratively developed draft Te Taitokerau Adaptation Strategy. Three particular actions that support our understanding & ability to respond in this area include:</p>

	<p>Financial: Large, long term financial risks. Costs to protect, shift, and future proof infrastructure and assets. Increasing insurance costs and potential inability to insure some areas. Councils ability to borrow money may be impacted if we have inadequate climate related financial risk disclosure.</p> <p>Legislative obligations and reporting: Local authorities and lifeline utilities are legally required to provide information to the Minister for Climate Change on how they are responding to the risks (including transition risk) from climate change. MfE has indicated that the Minister will begin exercising discretion to require reporting immediately.</p> <p>Communication: The Office of the Auditor General expects Councils to communicate risks, information gaps and what it plans to address climate change risks.</p> <p>Mitigation: The price point for greenhouse gas emissions will likely increase through the Emissions Trading Scheme (ETS). So NRLLP will need to pay more for our carbon emissions generated through the waste operations.</p>	<ul style="list-style-type: none"> • Climate projections for Whangarei: Staff have begun engagement with NIWA to prepare projections specific to Whangarei District. • Development of a Risk Assessment for Council infrastructure and assets: Staff at the early stages of reviewing the approaches other councils have taken to developing their risk assessments. It will align with the risk assessment undertaken by the Northland Lifelines Group. • Filling the newly established role for a Climate Change Adaptation Co-ordinator: This position will lead a number of the priority actions from the draft Te Taitokerau Adaptation Strategy. The application period for the role has closed and assessment of applicants has begun. <p>Financial: The development of the risk assessment mentioned above and Priority Actions 40, 41 & 42 of the draft Te Taitokerau Climate Adaptation Strategy will support a response to financial risk.</p> <p>Legislative obligations and reporting: The LTP includes resourcing for the climate change programme of work intended to address legislative obligations and reporting and greenhouse gas mitigation opportunities as part of Councils operations. Priority Actions 37, 38, 39 of the draft Te Taitokerau Climate Adaptation Strategy and responses provided already above support mitigation of this risk.</p>
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	<p>Reputational risk: Council adopted a Corporate Sustainability Strategy in November 2018 and then Council declared a Climate Emergency in 2019. Commitments made in the Corporate Sustainability Strategy need to be resourced to allow the organisation to gather the data need to inform actions.</p>	<p>Communication risk: Priority Actions 7 & 8 of the draft Te Taitokerau Climate Adaptation Strategy and responses provided already above support mitigation of this risk.</p> <p>Mitigation (reduced GHG emissions and sequestration) / Reputational risk: The draft Whangarei Climate Action Plan includes mitigation responses intended to draw down carbon and reduce emissions produced by Council, while supporting the community to reduce their emissions footprints. This work is in development but is impacted by key staff covering the responsibilities of existing vacancies.</p>
Regional growth	Growth of region is other than identified in current Statistics New Zealand projections. Leading to lack of budget on development of core infrastructure and amenities to support the population.	<i>Accept:</i> Monitor and work with facts as they are identified. New models of growth have been developed as information is improving.
Government policy changes	Central government policy can be changed at any time and this can impact Council's budget and the operational activities of the organisation. There is also potential for regulatory changes made through orders from Council which can cause significant costs to ratepayers with little consultation and no useful rights of appeal.	<i>Accept:</i> Until changes occur, we are not able to respond. There is a process to engage following legislative changes but changes to central government policy are managed by the senior and operational leadership team as they occur.
Specific government policy changes: <i>Four wellbeing's RMA reforms 3 waters</i>	Government changes create both opportunities and risks for Council in several areas. Core functions and responsibilities for Council departments may change significantly due to the proposed reforms. This may affect the structure of departments or the organisation.	<i>Accept:</i> Monitor the situation. Consider external resources to assist with workload as required. Staff provide balanced reports to Council to support decision making in these areas.

	<p>The 3 Waters reform may result in discharge from wastewater treatment plants exceeding consent limits, as requirements may be higher than the current wastewater treatment plant can achieve.</p> <p>Job satisfaction for staff in these areas may suffer as roles change, workload increases or decreases, uncertainties arise, and stress levels increase. This could lead to high staff turnover.</p>	<p><i>Accept:</i> Council have initially opted out of the scheme. Staff are keeping an eye on development of legislative changes and working to understand the impact. Funding allowed for in LTP to upgrade the WWTP.</p> <p><i>Reduce:</i> Council supports staff wellbeing through our organisational strategy and tikanga. Mental health and wellbeing are promoted across the organisation. Each Whanau Group participated in a wellbeing toolkit workshop in late 2020. The Employee Assistance programme is available for staff.</p>
COVID 19	<p>COVID-19 has had an impact on planning timeframes as well as available resources. It has impacted the ability to plan events as well as the number of events occurring. It has impacted the budgeting assumptions made in the 2020/21 Annual Plan which was developed in a time of high uncertainty.</p> <p>The possibility of another COVID lockdown may result in staff being situated in different locations (where different COVID levels may apply). Some staff may be unable to work with the office closed.</p>	<p><i>Accept:</i> Monitoring of budgets and cutting expenses where possible. Business continuity plans in place, with reviews periodically undertaken by the Corona Watch Team between lockdowns.</p> <p><i>Reduce:</i> Key systems are accessible from home and some staff have mobile devices to access systems as well. Home office equipment has been made available for staff to purchase at cost price.</p>

RESOLUTION TO EXCLUDE THE PUBLIC**Move/Second**

That the public be excluded from the following parts of 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:

General subject of each matter to be considered		Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing this resolution
1.1	Confidential Minutes Risk and Audit Committee 23 June 2021	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
1.2	ICT Risks Report		

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

Item	Grounds	Section
1.1	For the reasons as stated in the open minutes	
1.2	To prevent the disclosure or use of official information for improper gain or advantage	Section 7(2)(j)

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

“That _____ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item _____.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____.

Note: Every resolution to exclude the public shall be put at a time when the meeting is open to the public.