



Meeting of the Finance Audit & Risk Sub-committee

Date: Wednesday 22 May 2019
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

ITEM	SUBJECT	PAGE
1.	Welcome/Notices/Apologies	
2.	Conflict of Interest Declarations	
3.	Confirmation of Minutes of the Finance Audit & Risk Sub-committee held on 12 February 2019	
4.	Follow-ups from Previous Finance Audit & Risk Sub-committee Meetings	3
Decision Items		
5.	Rating Invoice – Proposed Issue, Due and Penalty Date Changes	7
6.	Proposed Schedule of 2019-2020 Internal Audits	21
Information or Performance Monitoring		
7.	Water Management Follow-up Internal Audit Report	45
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13.	Treasury Report (<i>late item to come</i>)	
Decision Items (Public Excluded)		
12.	Proposed 2019-20 Council Insurance Programme	81

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

SUBJECT: FOLLOW-UPS FROM PREVIOUS FINANCE AUDIT & RISK SUB-COMMITTEE MEETINGS

Item 4

Reason for Report

1. In order to track items raised at previous meetings that require follow-up, a list of outstanding items is prepared for each meeting. All follow-up items indicate who is responsible for each, when it is expected to be completed and a brief status comment. Once the items have been completed and reported to the Committee they will be removed from the list.

Decision Making Process

2. Council is required to make every decision in accordance with the Local Government Act 2002 (the Act). Staff have assessed the in relation to this item and have concluded that as this report is for information only and no decision is required, the decision making procedures set out in the Act do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the report "*Follow-ups from Previous Finance Audit and Risk Sub-committee Meetings*".

Authored by:

Leeanne Hooper
PRINCIPAL ADVISOR GOVERNANCE

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

[!\[\]\(2bae76de5ebbd5c4d7d47162f1673734_img.jpg\) 1](#) Follow-ups from Previous FARS Meetings

Follow-ups from Finance, Audit & Risk Sub-committee Meetings

12 February 2019

	Agenda Item	Follow-up / Request	Responsible	Status Comment
1	Six Monthly Report on Risk Assessment and Management	Provide info about initiatives to attract and retain appropriately qualified staff	HR	Included in "operational performance" 6 March report to Corporate & Strategic Committee (ref 1 following)
2	Six Monthly Report on Risk Assessment and Management	2019-20 review of risk assessment and management to cover potential inclusion of wider societal risks, adequacy of CDEM risks and underlying detail, and potential separation of flood protection infrastructure exceedance and failure	M des Landes	Review scheduled for Q1 of 2019-20 and report will be presented at FARS meeting following.

21 November 2018

	Agenda Item	Follow-up / Request	Responsible	Status Comment
3	Internal Audits Update	Investigate whether there is potential to bring forward any of the Audits on the work programme	M des Landes	Proposed schedule of Internal Audits for 2019-20 on 22 May FARS meeting agenda for approval.
4	Internal Audits Update	Transport Manager's living wage' report to be provided to Sub-committee members when available	M des Landes	Included in Living Wage update paper on 22 May FARS meeting agenda

Reference follow-up 1

HAWKE'S BAY REGIONAL COUNCIL Organisational Performance Report 1 July 2018 to 31 January 2019

Pg 11

Recruitment and Retention

Turnover in the YTD period has remained low but we have had significant issues recruiting in the area of river and drainage engineers despite doing extensive advertising and passive applicant identification through sources like LinkedIn. There is a national and indeed worldwide shortage of experienced and qualified river engineers.

We have a good package of benefits offered to applicants that compare well with other employers and salaries that are assessed against the market to ensure we are able to compete in the market. Salary data is reviewed annually.

Some roles will always take significantly more time and resource to fill. We have recently adopted a new recruitment process which has helped in some areas, e.g. senior planners but has not worked well in engineering roles. We are currently exploring another option to more clearly identify and approach passive applicants who may not normally apply but who have the skills we need. We also need to accept that overseas search is another option requiring more focus.

Recruitment expense is currently \$125,598 for the YTD from a total year budget of \$140,000. This budget was significantly increased from previous years due to the anticipated increases in recruiting the staff signalled in the LTP. It also reflects in part, the use of relevant specialist recruitment consultants to recruit for difficult to fill roles, e.g. river engineers. Council has tried to play a small part in addressing the shortage of river engineers by employing an engineering cadet each year during vacation period with the option of a year's full time employment at the end of their study. Unfortunately, we have been unsuccessful in getting any of the students we have hired over the last 5-6 years in the cadetship, into the final year employment option, for a variety of reasons. It is a programme we will continue with. Nationally, there is a programme of work underway, sponsored by the river engineers special interest group (SIG) and initiated by the human resources SIG, to consider a range of initiatives to improve the national situation. However it will be a few years before any direct benefit comes from this programme once commenced.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: RATING INVOICE – PROPOSED ISSUE, DUE AND PENALTY DATE CHANGES

Item 5

Reason for Report

1. This report proposes a change to the date Hawke's Bay Regional Council's rate invoices are sent out and the date payment is due with the objective of improving Council's cash flow and removing the payment pressure on ratepayers over the Christmas period.
2. It provides the Finance, Audit and Risk Sub-committee (FARS) the opportunity to review the proposal and if supportive, make a recommendation to the Corporate and Strategic Committee.

Background

3. An opportunity has been identified to improve HBRC's cash flow through adjustments to the date rates assessment/invoices are sent out and the date payment is due.
4. Currently rates invoices are sent out mid-September and due 1 October each year, however HBRC allows ratepayers until 31 January to pay before a penalty is applied.
5. Rates are the main direct source of income for Council. Typically Council receives approximately 6-8% of rates revenue in October, with approximately 70% of the rates revenue collected in January and February - seven to eight months into the financial year. (Please see Attachment 1 for the rates payment trends for the past three years.)
6. HBRC's history of having a due date (1 October) and then a final date for payment (31 January) for rates is understood to have come from the time when HBRC was a County Council. The Council at that time extended the timeframe for payment to accommodate the rural sector who needed to wait for their wool payments which arrived in January.

Proposal

7. This paper is proposing Council send out rates invoices earlier and bring the date forward for when payment is required. (Please see Table 8.1 below for the current dates and proposed changes.) It is also proposed to have one payment date only – so the due date and final date for payment is the same. Having one due date is in line with how Territorial Local Authorities apply their invoices.

Table 8.1: Current dates and proposed changes

	Current dates	Proposed dates for 2020-21
Date rating information is sent to NZ Post, Christchurch	31 August	Last week of July
Date rates invoices are sent out	Mid-September	Early to mid-August
Rate assessment/invoice date	1 October	20 September
Date invoice payments are due	1 October	20 September
Date for final payment	31 January	20 September
Date for applying penalties	1 February	21 September

8. The intention is for ratepayers to receive their invoice four to six weeks before it is due to be paid (currently ratepayers have 17 weeks). Legislation requires the ratepayer to receive the invoice 14 days before the due date.

9. The idea of moving the date invoices are sent out and the date payment is due has previously been discussed at a Council Long Term Plan (LTP) workshop on 11 October 2017 where potential efficiencies across the business were presented to Councillors.
10. Also introduced at this workshop was the option of adding a second penalty of 10% on total rates outstanding (including penalties) as allowed as per the local Government (Rating) Act 2002.
11. In the 2018-28 LTP Council stated we would investigate the rating date changes and implement the additional penalty. The following are extracts from the 2018-28 LTP.

Rate invoicing period change

It is proposed that during the 2018-28 LTP period HBRC will investigate changing the date that rate invoices are sent out and the final due date each year.

Additional penalties to be added from July 2019

All outstanding rates including previous penalties as at 1 July each year will now have a penalty of 10% added to those rates. This penalty will be added on the first working day after 1 July each year.

12. A 10% penalty is being implemented from 1 July 2019. This has also been notified on the current years' invoice.

Aim of changing the dates

13. The main aim of changing the date rate invoices are sent out and the payment date is to improve Council's cash flow.
14. The aim is to also shorten the payment period and eliminate the final date for payment. This means ratepayers would have one due date for payment (20 September).
15. It is hoped the new issue and payment dates can be implemented for the 2020-21 year with promotion of the new dates starting this year. **This means the dates for next year's rates for 2019-20 will remain the same.**
16. The intention is to also redesign HBRC's rate invoice to reflect Council's new branding and provide a cleaner invoice, while still meeting the legislative requirements.

Benefits of changing the dates

17. Improved cash flow - by moving the due date and having just one payment date, we are hoping to receive the 70% of rates revenue several months earlier than we currently do.
 - 17.1. As shown in Attachment 1, Council invoiced a total of \$24,240,753 in rates for the 2017-18 financial year and received approximately 70% (\$15,569,677) in January/February. In the current financial year (2018-19) \$27,280,369 was invoiced and \$18,908,917 was received this January/February.
 - 17.2. The earlier Council collects the rates revenue, the earlier it can be invested or used to fund operational expenses.
18. Less debt funding – if required to cover cash flow shortfall periods.
19. Less penalty and simpler payment for ratepayers.
 - 19.1. While the proposed changes might be viewed negatively by some, the change may be welcomed as helping ease the frustration of some ratepayers. Every year the rates team gets frustrated ratepayers calling once the penalty has been applied to their invoice to say they forgot to pay their rates because of the long time span between the issue and final due date.
 - 19.2. The intention is to provide ratepayers with a 12-month direct debit payment option which may assist the ratepayer with better budgeting. Currently ratepayers have a three-month direct debit option and a once-yearly option on 31 January. Some ratepayers choose to pay through automatic payments. Ratepayers who pay by direct debit will not be charged any penalty.

20. Better timing for ratepayers.

20.1. Ratepayers tell Council staff the timing of the final payment date, 31 January, is not ideal; citing Christmas, holidays and expenses relating to the start of the new school year. Although suggested that they can pay the rates earlier many prefer to pay on the last possible date.

21. Will reduce staff time spent taking phone calls from ratepayers checking to see if they have paid their rates, and re-printing and sending out invoices on request due to the long timespan between receiving the invoice and the final date for payment.

22. Provides Finance and Rating staff the opportunity to take more leave during the school holidays and Christmas period.

Risks/Issues of Changing the Dates

23. Public Perception

23.1. Ratepayers, for budgeting purposes, will be receiving two rate invoices in one calendar year – although the invoices cross over two financial years. It is vital that the changes, if approved by Council, are communicated early and clearly both internally and externally. A communications plan will be developed and implementation will start the day Councillors adopt the proposal (if they choose to adopt) to allow a good lead in time for the ratepayers.

24. Election Year

24.1. Due to it being it an election year it may be that Councillors are not keen to approve the proposed date changes. Should this be the case, the intention would be to implement the changes for 2021-22, following approval from Council.

25. Transition Period

25.1. It is acknowledged it may take two years before we receive the full targeted 70% earlier. People who are currently on payment plans may take a longer period to adjust.

25.2. More penalties may need to be remitted in the first year of implementation due to an unbudgeted change for ratepayers. Council currently has a remission policy of one penalty remittance allowed every three years. If this proposal is approved, Council will develop a one-off additional penalty remission policy to take place in the first year of implementing the new dates. This will enable previously remitted ratepayers not to be financially punished while this change is being implemented.

Consultation

26. External advice has been sought in regards to determining the need for community consultation in changing the collection and penalty dates.

27. Philip Jones of PJ and Associates¹ has advised (please see Attachment 2) there is no legal requirement under either the Local Government (Rating) Act 2002 (LGRA) or the Local Government Act 2002 (LGA) for Council to consult on changing the due or penalty dates (When setting the due and penalty date a local authority must follow the requirements of both these acts.)

28. As noted in point 11 it was stated in Council's 2018-28 LTP HBRC will investigate changing the date that rate invoices are sent out and the final due date each year.

29. Philip Jones advises that a significant change in the due dates and associated penalty date would have to be considered against the Council's Significance and Engagement Policy. He advises the proposed changes would be considered a minor decision and therefore does not require further consultation via public meetings. However, because of the ratepayer's impact, Council should provide a long lead in time before implementing the proposal.

¹ Philip Jones is the principal of PJ and Associates. He has been consulting to a variety of local government-related organisations since June 2007. He is also a trainer of elected members through LGNZ Professional Development courses.

30. Staff have also considered Council's Criteria for Significance, in particular:
 - 30.1. The likely impact or consequences for affected individuals and groups in the region
 - 30.2. The impact on rates or debt levels
 - 30.3. The cost and financial implications of the decision to ratepayers
31. Is it acknowledged there will be some ratepayers who be significantly impacted by the earlier payment due date. The intention is to identify the 200 highest ratepayers in each district and contact them personally in writing to explain the changes, outline payment options, and potential remission of penalties for the implementation year.

Financial and Resource Implications

32. A project team has been established with Project Manager Mandy Sharpe (from the Project Management Office) and Principal Accountant Rates and Revenue Trudy Kilkolly leading the project. Within this team are staff from Communications, Rates, Finance and ICT.
33. Regular meetings/workshops will be held to ensure the process is rolled out as smoothly as possible, identifying and managing any issues.
34. Estimated costs that this project will incur include:
 - 34.1. Implementation of a communication/advertising campaign - \$15,000.
 - 34.2. Software changes (@ \$205.00/ hr) to allow the development of a new rates invoice template and to enable the 12-month direct debit facility to be added to our system. It is not known at this stage how long this will take.
 - 34.3. Consultant fees for peer review and development of remission policy - \$5,000.
 - 34.4. Re-design of new invoice - \$5000-\$7000.
 - 34.5. Increased staffing levels for short fixed term period to deal with ratepayers queries in relation to the change in payment times and/or payment structure \$10,000-\$15,000
 - 34.6. Possible increase in penalty remissions for the first year of implementation. (Last year 9,992 ratepayers received a penalty with 14% written off).

Decision Making Process

35. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 35.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
 - 35.2. The use of the special consultative procedure is not prescribed by legislation.
 - 35.3. The decision does not fall within the definition of Council's policy on significance.
 - 35.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
 - 35.4.1. The purpose of the Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for the provision of appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements.

Recommendations

1. That the Finance, Audit and Risk Sub-committee receives and notes the “*Rating Invoice – Proposed Issue, Due and Penalty Date Changes*” staff report.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:
 - 2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council’s adopted Significance and Engagement Policy, and that the Committee can exercise its discretion and make decisions on this issue without conferring directly with the community.
 - 2.2. Recommends that Hawke’s Bay Regional Council approves the proposed rates issue, due and penalty dates following, for implementation 1 July 2020.
 - 2.2.1. Invoices sent out – early to mid-August
 - 2.2.2. Rate assessment/invoice date – 20 September
 - 2.2.3. Payment due date – 20 September
 - 2.2.4. Penalty date – 21 September

Authored by:

Trudy Kilkolly
PRINCIPAL ACCOUNTANT RATES AND
REVENUE

Mandy Sharpe
PROJECT MANAGER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

- [1](#) Rate Payment Trends
- [2](#) Letter from PJ & Associates

Item 5

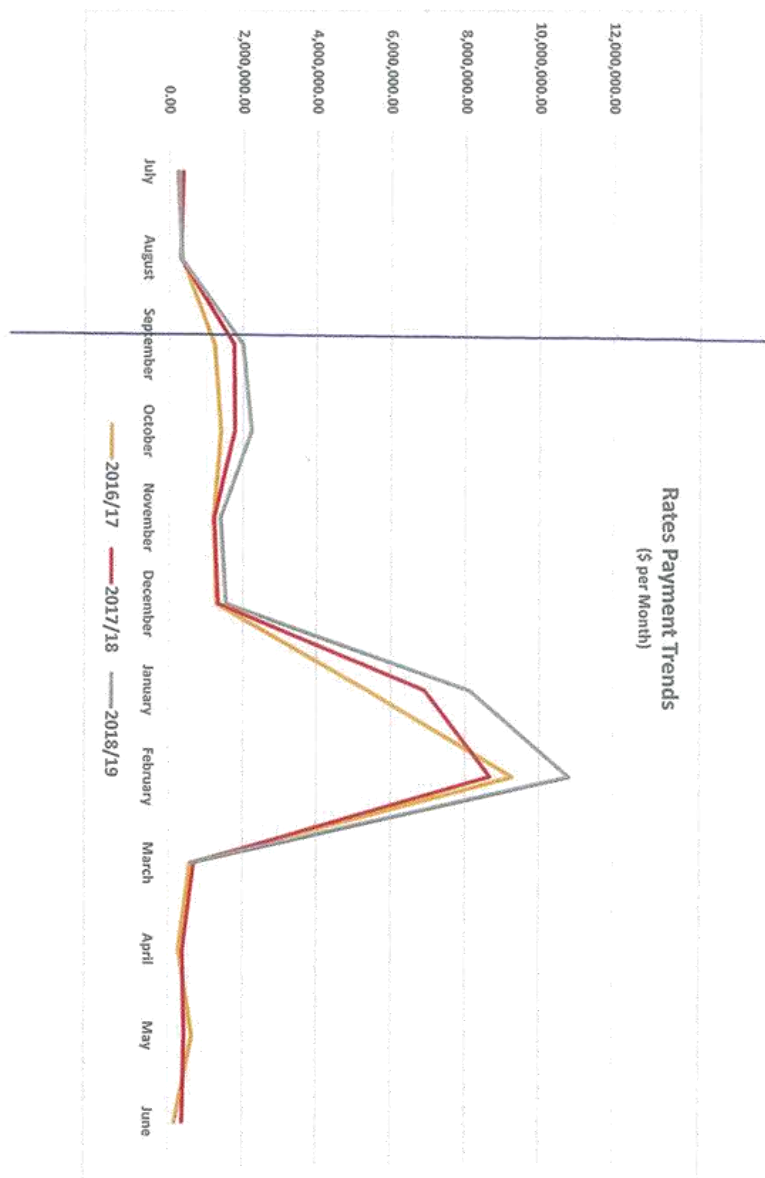
Attachment 1

SUMMARY

	2016/17	2017/18	2018/19
July	230,666.71	374,858.71	261,486.88
August	349,182.97	310,301.12	329,716.21
September	1,225,555.46	1,757,420.94	1,999,617.80
October	1,403,085.98	1,778,854.62	2,230,756.09
November	1,210,419.56	1,225,135.21	1,402,486.36
December	1,279,260.33	1,324,516.87	1,547,063.01
January	5,362,537.82	6,903,344.19	8,105,186.07
February	9,267,594.97	8,666,332.96	10,803,731.44
March	588,843.07	683,472.66	600,324.92
April	281,153.91	389,480.15	
May	641,699.58	437,556.28	
June	181,429.87	389,480.15	
	22,021,430.23	24,240,753.86	27,280,368.78

Paid in Jan & Feb	14,630,132.79	15,569,677.15	18,908,917.51
	66.44%	64.23%	69.31%

Paid after	20,216,025.09	21,798,173.09	24,689,547.89
1 October - Due Date	91.80%	89.92%	90.50%





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18 February 2019

Chief Executive
Hawke's Bay Regional Council
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Process for changing due and penalty date(s)

You have asked me to consider the process for changing due and penalty date(s). When setting the due and penalty date(s), a local authority must follow the requirements of the Local Government (Rating) Act 2002 (LGRA) and the Local Government Act 2002 (LGA). The LGA sets the requirements for consultation and content of the funding impact statement. While there is no legal requirement under either the LGRA or LGA for council to consult on changing its due dates and penalty dates, a significant change in the due dates and associated penalty date would have to be considered against the Council's Significance and Engagement Policy, before deciding on the appropriate level of consultation.

When setting the rates¹ by resolution of Council, the due date(s) and penalty date(s) are set, therefore the Council needs to consider the timing of the rates setting resolution to ensure there is adequate time to prepare and send assessment/invoice notices. The invoices must be delivered no less than 14 days before the due date. The rates assessment and invoice or a combined assessment/invoice must also disclose due and penalty dates. There are no other legal requirements in setting the due date(s) and penalty date(s). Council should try to set its rates in the same meeting as adopting the Annual plan.

The Council is considering changing its due dates and penalty dates to the following:

	Current dates 2018/19 year	Proposed dates for 2019/20	Proposed dates for 2020/21	Proposed dates after 2020/21
Due date ²	1 October 2018	1 October 2019	20 September 2020	20 September 2021
Penalty dates				
Instalment ³ (based on the value of the instalment, not total rates outstanding)	31 January 2019	31 January 2020	20 September 2020	20 September 2021

¹ Section 23 LGRA

² Required by sections 24 and 48 (3) LGRA

³ Based on section 58 (1) (a)

	Current dates 2018/19 year	Proposed dates for 2019/20	Proposed dates for 2020/21	Proposed dates after 2020/21
Beginning of new financial year (based on all outstanding rates) ⁴	Currently not applied	1 July 2019 or 5 working days after the date on which the rates resolution for the 2019/20 year is made	Not proposed	1 July 2021 or 5 working days after the date on which the rates resolution for the 2021/22 year is made
A further unpaid 6 months after that penalty was added.	Currently not applied	Currently not proposed		

There are two considerations, the first is the movement of the instalment penalty date and the other is the introduction of a penalty on all outstanding rates. While there is no need to consult, because of the impact, Council should give as much notice as possible and also have a reasonable reason for the change.

The due date (Section 24 LGRA) and penalty dates (Section 58) are only set by resolution when Council sets the rates. While the due date must be at least 14 days after the rates invoice (or assessment/invoice) it is the penalty date(s) that will have the most impact on ratepayers.

Impact of change in instalment penalty date

There are two types of ratepayers whose impact that need to be considered. The first is for those ratepayers who make one payment, they will be impacted by having to budget to pay approximately 130 days earlier than previously. For those with low amounts of rates, this may not be significant, but currently with low interest rates, the true financial impact is small. However, for those ratepayers for which the rates are significant, this change in cashflow may have a major impact. The Council's rates requirement for most ratepayers is relatively small.

The other type is those who are paying by weekly or monthly instalments. To avoid paying a penalty, those ratepayers will have to increase their instalments. While there is a lead time for this to occur, there will be an impact. To demonstrate the impact, based on an annual rates payable amount of \$396.32, if the instalments began on 1 July 2019 and the penalty date was 31 January 2020, the monthly amount would be \$56.62, when the penalty date becomes 20 September 2020, the monthly amount would be \$132.11.

In bringing forward the due and penalty dates, Council may want to consider a remission policy for those who are paying the rates over a 12month period.

⁴ Based on section 58 the first day of the financial year for which the resolution is made; or
(ii) 5 working days after the date on which the resolution is made:

Impact of introduction of a penalty on all outstanding rates

The largest impact will be those ratepayers with a Clean Heat rate where the full amount which is set in one year, is payable over 10 years. Council will need to consider either a remission policy or a postponement policy to ensure penalties are not added to the rates that are outstanding but not overdue.

Also, for ratepayers who are in arrears but making regular payments, Council will need to decide whether these ratepayers should be levied penalties or not. If Council decides not to levy penalties, then a remission policy must be developed.

Consultation requirements

The postponement and remission policies must be public consulted and the ideal time would be in conjunction with the 2019/20 Annual Plan.

As noted above, there is no requirement to consult on the due and penalty dates, however the Council must consider this decision against its own significance and engagement policy⁵.

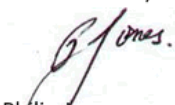
While there will be an impact on the ratepayers, because of the relatively low total rates being paid by ratepayers the significance and engagement policy requires Council to consider the following:

- The impact on rates or debt levels
- The cost and financial implications of the decision to ratepayers

Based on the significance and engagement policy this would be considered a minor decision and therefore the Council must inform the ratepayers of its decision. Because of the impact, it should provide a long lead in time before implementing the proposal.

If you require any further clarification of the issues raised above please do not hesitate to contact me.

Yours faithfully



Philip Jones
Principal
PJ and Associates

⁵ An extract of Council's significance and engagement policy is set out in appendix 1

Appendix 1

Extract of Significance and Engagement Policy

Our general approach to significance

Council will exercise its judgement when assessing the degree of significance for each decision to be made by Council.

Significant means that the issue, proposal, decision or other matter is judged by Council to have a high degree of importance. This is typically when the impact is on the regional community, or a large portion of the community or where the financial consequences of a decision are substantial.

When making decisions, Council will:

- Identify and assess as many options as are practical
- Evaluate the costs and benefits resulting from the decision/s to be made
- Provide detailed information, which will be accessible to the public
- Maintain clear and complete records showing how compliance with this Significance and Engagement Policy was achieved.

Criteria for Significance

When looking at the significance of a matter, issue, decision or proposal, elected members will assess:

- The likely level of community interest
- The likely impact or consequences for affected individuals and groups in the region
- How much a decision or action promotes community outcomes or other Council priorities
- The impact on levels of service identified in the current Long Term Plan
- The impact on rates or debt levels
- The cost and financial implications of the decision to ratepayers
- The involvement of a strategic asset.

Criteria for engagement

Decisions will be “informed” as a minimum standard. Decisions of high significance will be at the very least informed to wider communities, and will use engagement tools and techniques beyond “inform” for affected communities.

Level	1. Inform	2. Consult	3. Involve	4. Collaborate	5. Empower
What it involves	<i>One-way communication</i> - to provide public with balanced, objective information to assist them in understanding problems, alternatives, opportunities and/ or solutions	<i>Two-way communication</i> - to obtain public feedback on analysis, alternatives and/ or decisions	<i>A participatory process</i> - to work with public through the process to ensure that public concerns and aspirations are consistently understood and considered	<i>Working together</i> - to partner with public in each aspect of the decision including the development of alternatives and identifying the preferred solution	<i>Public empowerment</i> - to place final decision-making in public hands
Types of issues that we might use this for	- Report adoption - Algal bloom - Pest control - Access issue	- Annual Plan - Long Term Plan - Regional Land Transport Programme	- Flood & drain scheme review - Regional cycling plan	- Tukituki plan change - Taharua/ Mohaka plan change	- Election voting systems (STV or first past the post)
Tools Council might use	- Website - Media release - Brochure/ flyer - Public notice/s	- Formal submissions & hearings, social media, email, focus groups, phone surveys, surveys, video	- Workshops - Focus groups - Citizens panel	- External working groups (involving community experts)	- Binding referendum - Local body elections (Special Consultative Procedure)
When the community can expect to be involved	Council will generally advise the community when a decision is made	Council will advise the community when a draft decision is made and generally provides the community with up to four (4) weeks to participate and respond	Council will generally provide the community with a greater lead-in time to allow the time to be involved in the process	Council will generally involve the community at the start to scope the issue, again after information has been collected and again when options are being considered	Council will generally provide the community with a greater lead-in time to allow them time to be involved in the process – typically a month or more

Item 5

Attachment 2

Report on Process for changing due and penalty date(s)

Page 5 of 5

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: PROPOSED SCHEDULE OF 2019-2020 INTERNAL AUDITS

Item 6

Reason for Report

1. To propose an internal audit programme for the 2019-20 financial year for agreement of the Sub-committee.

Background

2. During the current financial year HBRC's internal auditors, Crowe Horwath, have conducted a series of internal audits including:
 - 2.1. Data Analytics
 - 2.2. Health & Safety
 - 2.3. Water Management Follow-up.

Options Assessment

3. In consultation with Crowe Horwath, and based on HBRC's risk register, staff recommend the following internal audit programme for the 2019-20 financial year.
 - 3.1. IT Security
 - 3.2. Data Analytics
 - 3.3. Risk Management
 - 3.4. Asset Management.
4. A detailed work programme which provides an outline of the above proposed and previously conducted audits is **attached**.
5. IT security has been proposed due to the benefit of independent advice over how effective HBRC's IT controls are. While HBRC believes its controls are effective, IT and cyber security is an increasingly high risk area for organisations. The review would include an evaluation of processes, policies, procedures, security controls and response and recovery programmes. This would also tie in well with a cyber-security/penetration testing assignment currently underway as part of an overall IT security review. As this is the first proposed audit in the programme, a scope is **attached** for the Sub-committee to review and approve.
6. Data Analytics is proposed to be repeated due to the useful information it has provided in its previous two audits. This also provides the opportunity to benchmark improvements made to processes since prior audits. As this audit has been performed previously, the cost and staff time involved will be reduced.
7. Risk Management has been proposed due to its evolution and development over the past two years to ascertain how effective risk management processes are, along with areas for improvement.
8. Asset management has been proposed as there hasn't been an audit of this activity in recent years. The audit would include areas such as a review of the maturity of asset management controls in areas such as asset management policy and strategy, accuracy of data, asset lifecycle decision making, and asset performance and condition. Areas such as leadership, planning and continuous improvement would also be assessed.
9. All of these areas are recommendations at this stage and staff will take any guidance from the Sub-committee for additional or reprioritising topics, as well as refining of scope.

Financial and Resource Implications

10. Staff confirm that the schedule of internal audits as proposed is accommodated within existing budgets as set by the 2018-28 Long Term Plan, however if the sub-committee wishes to consider additional work in this area budget allocations may require reconsideration.

Decision Making Process

11. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 11.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
 - 11.2. The use of the special consultative procedure is not prescribed by legislation.
 - 11.3. The decision does not fall within the definition of Council's policy on significance.
 - 11.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision making delegations adopted by Hawke's Bay Regional Council 9 November 2016, specifically:
 - 11.4.1. The purpose of the Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for the independence and adequacy of internal and external audit functions.
 - 11.4.2. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees.

Recommendations

1. That the Finance, Audit and Risk Sub-committee:
 - 1.1. receives and considers the "*Proposed Schedule of 2019-2020 Internal Audits*" staff report.
 - 1.2. Agrees to the 2019-20 schedule of Internal Audits, including associated budget allocations, being:
 - 1.2.1. IT Security
 - 1.2.2. Data Analytics
 - 1.2.3. Risk Management
 - 1.2.4. Asset Management.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee takes note of the agreed 2019-20 schedule of Internal Audits within associated budget allocations.

Authored by:

Melissa des Landes
ACTING CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

- [1](#) Draft Proposed 2019-20 Internal Audit Plan
- [2](#) 2020 Cyber Security Planning Memo - Draft for discussion



Hawke's Bay Regional Council Proposed Internal Audit Plan 2019-20

12 April 2019

Draft for Discussion

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Audit | Tax | Advisory

Item 6

Attachment 1



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Item 6

1 Executive summary

We have prepared a proposed annual audit plan as well as a 3 year strategic plan for discussion and approval based on the following factors prior to discussion with Management:

- A review of previous internal audit activities undertaken.
- Requests from Management and the Finance, Audit & Risk Sub-committee for coverage in the 2019/20 Financial Year.
- Current issues noted by us as items of risk prevalent in the local government sector and reflected in the indicative strategic 3 year internal audit plan.
- Coverage of financial, operational and IT related activities and functions. We have taken consideration of the fact that the control activities included in the Strategic Risk Register for financial processes include regular internal audit activity and as such have maintained a reasonable amount of financial activities in our proposed plans.

The proposed annual audit plan is indicative only and is submitted to the Finance, Audit & Risk Sub-committee for consideration and approval. The plan is intended to be dynamic and further changes may be made as needed throughout the period included in the review.

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2 2019/20 Proposed Audits & Timeframe

No	Internal Audit Project	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
1	Data Analytics	■		▲									
2	Cyber Security	■		▲									
3	Risk Management				■		▲						
4	Asset Management								■		▲		
7	Management reporting, preparation for and attendance at meetings	Ongoing											

■ = Audit field work and report writing ▲ = Finance, Audit & Risk Sub-committee Meeting to which the Internal Audit Report will be presented



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3 Annual Audit Plan for July 2018 to June 2019

No.	Audit Project/ Activity	Start Date	Planned hours	Brief Scope
1	Data Analytics	July 2019	40	Data Analytics exercise over payroll and payables master and transactional data to identify potentially suspicious relationships, trends and transactions for the year ended 30/06/2017.
4	Cyber security	November 2019	70	<p>The objective of this review is to evaluate the maturity of cybersecurity processes, policies, procedures, governance, security controls, response and recovery programmes. The audit will identify the key areas of cyber risk that exist for the organisation and consider the policies, procedures and controls that have been designed to mitigate those risks over the three primary security and control areas:</p> <ul style="list-style-type: none"> Protection of networks to which multiple information resources are connected Responsibility and accountability for the device and information contained on it Protection of sensitive data and intellectual property <p>The review will identify areas for improvement and provide recommendations to address the areas identified.</p>
2	Risk management	July 2019	50	Assess the current maturity of the HBRC's risk management processes against each of the criteria defined in the AoG Enterprise Risk Maturity Assessment Framework and to identify, where required, improvements to enable the Council to reach its desired level of maturity.
3	Asset management	September 2019	90	Assess the maturity of the Council's asset intensive groups and functions in asset management. This will include a review the maturity of asset management controls in the following areas: asset management policy and strategy, levels of service and performance management, forecasting demand, accuracy of asset register data, asset performance and condition, asset lifecycle decision-making, managing risk, operational planning, capital works planning and financial planning. The assessment will encompass the following asset management enablers: leadership, asset management plans, management systems, service delivery mechanisms considerations (insourcing / outsourcing) and continuous improvement practices.
5	Management reporting, preparation, attendance at meetings		30	Ongoing preparation for and attendance at Audit & Risk Subcommittee meetings and meetings with the HBRC Internal Audit Sponsor and Audit New Zealand.
	TOTAL		280	

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4 Indicative 3 Year Internal Audit Plan (2019-20 and 2021-22)

We have indicated below the range of audit projects we would typically see in a strategic internal audit plan for a local authority. Currently the options detailed in Section 3 above are shown for the 2019-20 plan. Following the determination of the 2019-20 Audit Plan a strategic 3 year plan of internal audits to be undertaken in subsequent years can be drawn up. In putting the proposed audit activities together, we have reviewed the Council's Draft Strategic Risk Register and taken consideration of areas where the risk register notes that external audits or peer reviews are already undertaken.

The plan is intended to be dynamic and further changes may be made as needed throughout the period included in the review.

Key:	Undertaken	✓	Planned	X
------	------------	---	---------	---

Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
Governance						
1	Risk Management Process Review: Review of Risk Management policies and procedures	N/A		X		
2	Development of Risk Policy and Framework: Facilitation of Strategic and Operational Risk Assessment processes.	N/A	✓			
3	Development of Assurance Map: Identify the assurance processes in place over the high rated risks to allow the Audit & Risk Committee to determine areas where further internal audit activity may be required.	N/A				
4	Ethics: Review of the Council's ethical standards and procedures including codes of conduct, protected disclosures policies, conflicts of interest policies and programmes	N/A				



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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
5	Strategic Planning Process (Annual Plan/Long-Term Plan): <ul style="list-style-type: none"> Review the adequacy of the procedures and practices with respect to the annual and long term planning processes covering Consultation/engagement with the community, Council staff and Councillors in developing the Annual Plan. Degree to which the Council Plan and annual plan reflects Council and community priorities The timeliness of development of the Annual Plan and coordination / resourcing through the Annual Budget and Capital Works Program The process for monitoring and reporting on achievement of Annual Plan actions. 	Moderate	✓			
6	Decision-Making Processes: Review of delegated authorities to ensure clear principles and guidelines for the delegation of authority are documented, promote timely, efficient and appropriate decision-making and are adhered to.	Low				
Statutory and Regulatory Compliance						
1	Rates Management: Review of the policies, procedures and controls in place over the calculation and collection of rates.	Low				
2	Resource Consents Review of the resource and building consent processes covering: <ul style="list-style-type: none"> Compliance with the RMA/BCA Compliance with the Regional Plans Fee setting, invoicing and collection 	Low				

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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
3	Non-Rates Revenue: Review of the policies, procedures and controls in place to ensure the completeness of fee setting, invoicing and collection, enforcement actions and integrity of information systems for the following functions: <ul style="list-style-type: none"> Leasehold rents Infringements and fines Loan repayments Other fees 	High			X	
Finance						
1	Fraud Risk Management: Assess the Council's performance against key attributes of a better practice fraud control program (drawn from AS 8001:2008 Fraud and Corruption Control)	Low	✓			
2	Cash Handling: Review of the cash handling procedures in place at locations and bus services where cash is received.	Low				
3	Procurement and Purchasing: Procurement review covering the current procurement procedures and strategies in place and to identify potential improvements to the efficiency and effectiveness of procurement activities (supplier optimisation, use of preferred suppliers/AOG agreements, management of conflicts of interest, contract tendering and monitoring of supplier performance).	Low	✓			
4	Data Analytics: Annual Data Analytics exercise over payroll and payables master and transactional data to identify potentially suspicious relationships, trends and transactions.	Low	✓	X	X	X



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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
5	Treasury Management Assess the Council's Treasury operations for compliance with the Council's Treasury policies and procedures, including the monitoring controls over treasury activities, segregation of duties and compliance with delegated authorities.	Moderate	✓		X	
6	Accounts Receivable and Credit Control: Review of policies, procedures and controls over invoicing, collection of revenues and credit management.	Low				
7	Sensitive Expenditure Review of policies, procedures and controls over purchasing activities (purchase order and invoice approvals) and expenditures to meet OAG expectations for Sensitive expenditure.	Low			X	
8	Fixed Asset Management: Review of policies, procedures and controls in place for safeguarding and verifying the existence of fixed assets including disposal procedures and procedures for monitoring the existence of assets.	Low				
9	Tax Compliance: Review of the Council's compliance with GST, PAYE, Withholding tax and FBT.	Low	✓			
10	Grants and Loans Review of policies, procedures and controls over the awarding of grants and loans including criteria for awarding grants, consistency, transparency and management of conflicts of interest and monitoring of use of grants.	Low				

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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
Operations and Infrastructure						
1	Management of Contractors: Review of the policies, procedures and controls in place over the engagement of external contractors at the Council.	Low				
4	Contract Management: Review of policies, procedures and controls in place over contracts including delegated authorities, tender procedures, monitoring of contractual terms (SLAs, renewal and termination clauses) and monitoring performance of contracted parties.	Low	✓			
5	Water Supply/Waste Water Management: Review of policies, procedures and controls in place over key water and waste water risks including quality performance monitoring, monitoring of key supply and maintenance contracts and emergency response plans.	Moderate	✓			
6	Asset Management: Review of infrastructure asset management procedures and practices to assess whether the controls and processes, including the ability to deliver capital projects, are operating effectively.	Moderate		X		
7	Emergency Management: Review of the policies, procedures and controls in place to ensure an effective response to a civil defence emergency.	Moderate	✓			



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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
Information Services						
1	Business Continuity and Disaster Recovery Planning: Review of the effectiveness of the Council's business continuity procedures in place to respond to a disaster.	Moderate			X	
2	External IT Network Vulnerability Assessment/Cyber Security Assessment of the Council's corporate perimeter systems for any potential vulnerability which would allow an unauthorised user to gain access to those systems.	High	✓			
3	Records Management: Review of the policies, procedures and controls in place over the registration, retention, destruction and confidentiality of Council documents and records and processes to ensure records can be effectively retrieved.	Low				
4	IT/Cyber Security: Review of the design and operation of the Council's IT/Cyber Security policies and procedures to protect sensitive data and systems from unauthorised access or alteration.	High		X		
Human Resources						
1	HR Practices: Review of key HR policies and procedures including recruitment, training, performance appraisal, staff retention and succession plans, disciplinary procedures and security of personal information.	Low				
2	Payroll: Review of the payroll procedures and practices to assess whether the controls and processes ensure complete, accurate and timely processing of payroll information.	Low	✓			



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Audit Project / Activity and Brief Scope		Strategic Risk Rating *	Prior Years	2019-20 Actual	2020-21 Plan	2021-22 Plan
3	Health and Safety: Review of the extent to which the Health & Safety-related policies and procedures in place at the Council meet the requirements of the Health and Safety at Work Act (2015) and review of specific areas of concern.	Moderate	✓			

* The Strategic Risk Rating applied is the residual risk rating provided in the Council's Draft Strategic Risk Register.



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Draft for Discussion

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Hawke's Bay Regional Council

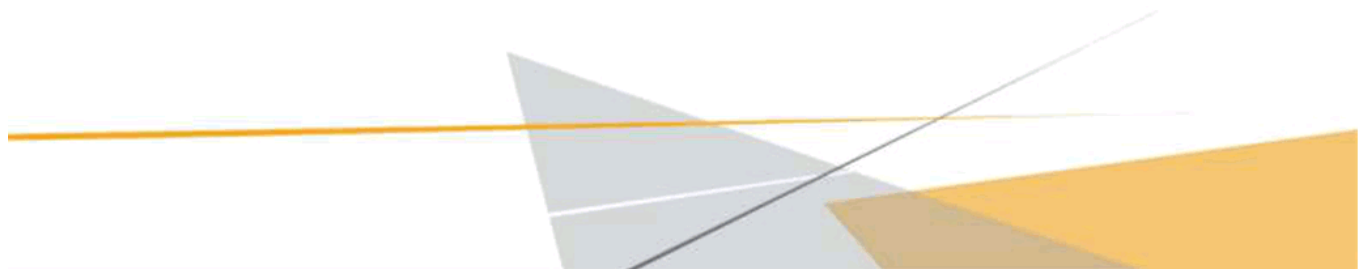
Internal Audit – Cybersecurity Assessment Planning Memorandum

April 2019

Confidential

Prepared for: Melissa des Landes, Corporate Accountant

Prepared by: Phil Sinclair, Senior Partner – Audit & Assurance
Martyn Solomon, Associate Partner – Audit & Assurance





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Cyber Security Assessment

1 Introduction

Cyber risk is the risk organisations face from their use of digital technology, especially IT networks, the internet and mobile devices. Sources of cyber risk can include hackers, employees, ex-employees, contractors, suppliers and the general public. Cyber risk damage is frequently caused by a failure of process – or a failure of people to follow agreed process. Cyber incidents can have a financial, operational, legal and reputational impact and can include:

- Negative publicity resulting in loss of reputation
- Loss of intellectual property
- Fines, lawsuits and legal fees resulting from noncompliance or loss of confidential or consumer information
- Forensic investigation costs
- Public relations campaign costs to improve public image
- Technology improvement costs to mitigate and improve cybersecurity controls
- Loss of time and productivity

2 Objective

The objective of the assignment is to evaluate the maturity of cybersecurity processes, policies, procedures, governance and other controls.

The audit will identify the key areas of cyber risk that exist for the organisation and consider the policies, procedures and controls that have been designed to mitigate those risks over the three primary security and control areas:

- Protection of networks to which multiple information resources are connected
- Responsibility and accountability for the device and information contained on it
- Protection of sensitive data and intellectual property

The objective of the audit will be to identify areas for improvement and provide recommendations to address the areas identified. Our approach will not include a detailed assessment of the operating effectiveness of controls at this stage.

3 Approach

We will evaluate the maturity of the Council's processes, policies, procedures, governance and other controls relative to the US National Institute of Standards and Technology (NIST) Cybersecurity Framework. This framework consists of standards, guidelines and good practices to manage cybersecurity-related risk.

We will evaluate the Council's cyber maturity across the following five cyber functions:

- **Identify:** An understanding of how to manage cyber security risks to systems, assets, data and capability.
- **Protect:** The controls and safeguards necessary to protect or deter cyber security threats.
- **Detect:** Continuous monitoring to provide proactive and real-time alerts of cyber security related events.
- **Respond:** Incident response activities.
- **Recover:** Business continuity plans to maintain resilience and recover capabilities after a cyber breach.



The following section provides an overview of the categories of cyber controls that will be evaluated within the above five cyber functions:

3.1 Identify

The Identify Function assists in developing an organisational understanding to managing cybersecurity risk to systems, people, assets, data, and capabilities. Understanding the business context, the resources that support critical functions, and the related cybersecurity risks enables an organisation to focus and prioritise its efforts, consistent with its risk management strategy and business needs.

We will evaluate the maturity of controls within the following categories:

- Identifying physical and software assets within the organisation to establish the basis of an Asset Management program
- Identifying the business environment the organisation supports including the organisation's role in the local government sector
- Identifying cybersecurity policies established within the organisation to define the governance program as well as identifying legal and regulatory requirements regarding the cybersecurity capabilities of the organisation
- Identifying asset vulnerabilities, threats to internal and external organisational resources, and risk response activities as a basis for the organisations Risk Assessment
- Identifying a Risk Management Strategy for the organisation including establishing risk tolerances

3.2 Protect

The Protect Function outlines appropriate safeguards to ensure delivery of critical infrastructure services and supports the ability to limit or contain the impact of a potential cybersecurity event.

We will evaluate the maturity of controls within the following categories:

- Protections for Identity Management and Access Control within the organisation including physical and remote access
- Empowering staff within the organisation through Awareness and Training including role based and privileged user training
- Establishing Data Security protection consistent with the organisation's risk strategy to protect the confidentiality, integrity, and availability of information
- Implementing Information Protection Processes and Procedures to maintain and manage the protections of information systems and assets
- Protecting organisational resources through Maintenance, including remote maintenance, activities
- Managing Protective Technology to ensure the security and resilience of systems and assists are consistent with organisational policies, procedures, and agreements

3.3 Detect

The Detect Function defines the appropriate activities to identify the occurrence of a cybersecurity event and enables timely discovery of cybersecurity events.

We will evaluate the maturity of controls within the following categories:

- Ensuring Anomalies and Events are detected, and their potential impact is understood
- Implementing Security Continuous Monitoring capabilities to monitor cybersecurity events and verify the effectiveness of protective measures including network and physical activities
- Maintaining Detection Processes to provide awareness of anomalous events

3.4 Respond

The Respond Function includes appropriate activities to take action regarding a detected cybersecurity incident and supports the ability to contain the impact of a potential cybersecurity incident.

We will evaluate the maturity of controls within the following categories:

- Ensuring Response Planning process are executed during and after an incident
- Managing Communications during and after an event with stakeholders, law enforcement, external stakeholders as appropriate
- Analysis is conducted to ensure effective response and support recovery activities including forensic analysis, and determining the impact of incidents
- Mitigation activities are performed to prevent expansion of an event and to resolve the incident
- The organisation implements Improvements by incorporating lessons learned from current and previous detection / response activities

3.5 Recover

The Recover Function identifies appropriate activities to maintain plans for resilience and to restore any capabilities or services that were impaired due to a cybersecurity incident and supports timely recovery to normal operations to reduce the impact from a cybersecurity incident.

We will evaluate the maturity of controls within the following categories:

- Ensuring the organisation implements Recovery Planning processes and procedures to restore systems and/or assets affected by cybersecurity incidents
- Implementing Improvements based on lessons learned and reviews of existing strategies
- Internal and external Communications are coordinated during and following the recovery from a cybersecurity incident

4 Deliverable

We will provide you with a detailed report of our findings and recommendations we consider appropriate to mitigate any risks identified.

5 Estimated hours

We estimate that 70 hours will be required to complete this assignment.

6 Acknowledgement and Acceptance

The details of the above scoping document have been read and understood and I am authorised to accept them for and on behalf of the Hawke's Bay Regional Council.

Signed: _____

Name: _____

Position: _____

Date: _____

PO No: _____



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HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: WATER MANAGEMENT FOLLOW-UP INTERNAL AUDIT REPORT

Item 7

Reason for Report

1. To provide the sub-committee with the results of the follow-up Water Management internal audit undertaken by Crowe Horwath.

Background

2. The Finance, Audit and Risk sub-committee agreed at its meeting on 9 September 2017 to include Water Management as part of the internal audit work programme. After a series of iterations, the scope was agreed at the Regional Council meeting on 31 January 2018.
3. The initial Water Management Audit was presented to the Finance, Audit and Risk Sub-Committee in June 2018
4. As part of its internal audit programme a review has now been undertaken by Crowe Horwath and the findings presented as attached for the sub-committee's consideration.

Decision Making Process

5. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the "*Water Management Follow-up Internal Audit Report*" staff report.

Authored by:

Malcolm Miller
MANAGER CONSENTS

Approved by:

Liz Lambert
GROUP MANAGER REGULATION

Attachment/s

[!\[\]\(e50091943b385fe16d3277389202856f_img.jpg\) 1](#) Crowe Horwath Follow-up Water Management Audit report



Item 7

Follow-up Water Management Audit

Hawke's Bay Regional Council

Internal Audit Report

May 2019

Confidential

Prepared for: Finance, Audit & Risk Sub-Committee

Prepared by: Phil Sinclair, Senior Partner – Audit & Assurance
Martyn Solomon, Associate Partner – Audit & Assurance

Audit | Tax | Advisory

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1. Executive Summary

1.1 Objective and Scope

The objective of the assignment was to review whether management actions relating to our Water Management internal audit undertaken in May 2018 have been or are being effectively implemented in line with agreed implementation dates or that senior management has accepted the risk of not taking action.

1.2 Findings

The table below provides a high-level summary of Managements progress in closing out recommendations:

#	Finding	Conclusion
1	Uncertainty over the responsibilities towards the National Environmental Standard for Sources of Human Drinking Water Standards	Partially Implemented
2	No set process for documenting and recording findings	Partially Implemented
3	Risk monitoring programme to be formally adopted	Partially Implemented
4	Lack of resources to effectively monitor consents	Partially Implemented
5	Lack of formal staff development programmes and succession planning	Closed
6	Monitoring Officer reports not reviewed	Partially Implemented
7	Consent reporting to be improved	Partially Implemented
8	IRIS to improve follow up process	Partially Implemented
9	Hawke's Bay Joint Working Group does not include all Councils	Closed
10	Lack of formal relationship between Science and Compliance Teams	Partially Implemented
11	Complaint reporting to be improved	Closed
12	Lack of regular reporting	Yet to be actioned

1.3 Conclusion

As the table above shows, three findings have been Closed, one Yet to be actioned at eight Partially Closed. Many of the "partially implemented" recommendations are reflective of the IRIS implementation. The IRIS system went live on November 26. From our discussions with staff we understand the implementation has been relatively successful, albeit there have been some issues that required resolving and several software upgrades are still to be implemented.

We would like highlight two areas that require consideration:

Firstly, the departure of the Compliance Manager (main point of contact for the initial audit) provided some difficulty in completing the review. Findings three (*Risk monitoring programme to be formally adopted*) and four (*Lack of resources to effectively monitor consents*) should be driven by the employee in this position. As such, we acknowledge HRBC may want to wait for the replacement before implementing these recommendations.



Secondly, regarding finding 1 (*Uncertainty over the responsibilities towards the National Environmental Standard for Sources of Human Drinking Water Standards*), HBRC needs to keep monitoring the effectiveness of the Hawke's Bay Joint Working Group to ensure the safety of drinking water in the region. We have left the recommendation as Partially Implemented so that progress on this continues to be reported to Council.

1.4 Basis and Use of this Report

This report has been prepared in accordance with our Scoping Document dated 20 December 2018 and subject to the limitations set out in Appendix 4 - Basis and Use of the Report.



2. Findings and Recommendations

1. Uncertainty over the responsibilities towards the National Environmental Standard for Sources of Human Drinking Water Standards		Rating of finding: High
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>The Hawke's Bay Joint Working Group should establish the responsibilities for protecting sources of human drinking water from becoming contaminated within the Hawke's Bay region and develop appropriate procedures for managing, monitoring and reporting on impact of activities on drinking water sources.</p>	<p>Regular reporting (no less than annually) should be provided to the Executive Leadership Team and the Finance, Audit & Risk Sub-Committee. The report should be presented by the HBRC representatives on the Hawke's Bay Joint Working Group. The reporting should show the attendance of stakeholders over the past 12 months and include any significant discussions, decisions or remaining uncertainties.</p>	<p>HBRC representative on the Drinking Water Working Group to report annually to ELT and FAR Sub-committee on activities of the working group.</p> <p>Report to include (but not limited to) attendance, outstanding issues and matters discussed and resolved.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>The formation of the Joint Working Group with attendance from all stakeholders is the key to ensuring a collaborative approach to addressing the uncertainty around the responsibilities towards the National Environmental Standard for Sources of Human Drinking Water Standards.</p> <p>We understand there are overlaps and crossover of roles regarding environmental management health protection and service supply. The roles and functions of the various organisations can lead to some uncertainty and complexity around the supply and management of drinking water. This creates the risk that avoidable contamination may occur due to the uncertainty around roles and responsibilities.</p> <p>To mitigate this, the group has a collaborative approach where potential issues are raised and discussed, and uncertainties are resolved.</p> <p>We have left our recommendation as Partially Implemented due to the on-going uncertainty and high level of risk associated with this recommendation.</p>		<p>Group Manager - Regulation</p>
		Date of Implementation
		<p>Annually, no later than September following conclusion of financial year.</p>

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2. No set process for documenting and recording findings		Rating of finding: Moderate
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>HBRC should adopt a standard procedure for how information is documented and stored.</p> <p>We understand there has been successful roll out of IRIS to other Regional Councils. HBRC should work with other Regional Councils to understand the benefits of the system.</p>	<p>HBRC should adopt a standard procedure for how information is documented and stored.</p>	<p>Priority is being given to the development, in Promapp, of the procedures used in IRIS for both the processing of resource consents and the management of compliance monitoring.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>HBRC is in the process of documenting procedures for how information is documented and stored in IRIS. In May 2019, an IRIS mobile application will be launched that allows tablets to be used in the field.</p> <p>Furthermore, we understand HBRC worked closely with other Regional Councils in the implementation of IRIS.</p>		<p>Group Manager - Regulation</p>
		Date of Implementation
		<p>December 2019</p>



3. Risk monitoring programme to be formally adopted		Rating of finding: High
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>HBRC should formally adopt the risk monitoring programme. This should include the monitoring frequency that is appropriate to the risk appetite of the Council.</p> <p>In addition, the monitoring frequency should be achievable with the resources available. Management should be accountable for meeting the monitoring programme and if resources are not sufficient the additional risk (if any) of a consent not being monitored needs to be assessed and communicated appropriately.</p>	<p>The Executive Leadership Team should formally consider and adopt the risk monitoring programme. This should include the monitoring frequency that is appropriate to the risk appetite of the Council.</p> <p>This should include the requirement for consents to be individually assessed, rather than being assessed at the sector level.</p> <p>In addition, the monitoring frequency should be achievable with the resources available. Management should be accountable for meeting the monitoring programme and if resources are not sufficient the additional risk (if any) of a consent not being monitored needs to be assessed and communicated appropriately.</p>	<p>The new Compliance Manager will be asked to review the risk ratings applied to the resource consents and to define the criteria used in the development of the chosen risk scoring matrix.</p> <p>This will form the basis of the risk monitoring programme to be prepared for adoption by the ELT.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>HBRC has implemented a risk scoring matrix which drives the monitoring frequency. We are not aware of a framework which explains the criteria (i.e. definition of consequence and likelihood). Importantly, the matrix does not mention the appropriate level of residual risk. For example, the matrix identifies a priority 2 rating as a monitoring frequency of 1 – 3 years. With a lack of resources, these consents may not be reviewed in this timeframe. There is a risk that consents will not be rated appropriately and consequently nor monitored at the correct frequency. This may lead to a significant non – compliance not being identified.</p> <p>In addition, the risk ratings are applied at a sector level (i.e. air discharges, dairy farms, forestry etc.) not the individual consent level. While a useful guide, consents within a sector have many different factors which need to be considered. There is a risk that within a sector that has been assessed as moderate, there could be high risk consents that have not been assessed as such.</p> <p>From discussions with staff, we understand the current resources are not sufficient to complete the risk monitoring programme.</p>		<p>Compliance Manager</p>
		Date of Implementation
		<p>Risk rating review – by December 2019</p> <p>Risk monitoring programme to be completed annually, prior to start of new financial year.</p>

The relationship you can count on

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4. Lack of resources to effectively monitor consents		Rating of finding: Moderate
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>HBRC should ensure that the Compliance Team is appropriately resourced to implement the risk monitoring programme. We understand that additional FTE have been requested for the 2018/19 financial year.</p> <p>In addition, if it is not possible to monitor all consents in accordance with the risk monitoring programme this needs to be communicated appropriately and the risk accepted.</p>	<p>The recommendation should be read in conjunction with finding 3 above.</p> <p>The Council needs to ensure the risk monitoring programme aligns with the available resources. Where it is not possible to monitor all consents in accordance with the risk monitoring programme this needs to be communicated appropriately and the risk accepted.</p>	<p>To provide sufficient resources to deliver the risk monitoring programme, or communicate the risk of not delivering the programme in full if insufficient resources available.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>We understand that additional resources towards the risk monitoring programme were allocated for the 2018 / 19 financial year. Due to other priorities (i.e. new regulations) the resources have not been applied to the risk monitoring programme. Furthermore, an additional resource has been requested as part of the 2019 / 20, however other priorities may mean the resource is not applied to the risk monitoring programme.</p> <p>As explained in finding 3 above, the risk monitoring programme has not been formally adopted, including any residual risk by not monitoring all consents.</p>		<p>Group Manager - Regulation</p>
		Date of Implementation
		Annually



5. Lack of formal staff development programmes and succession planning		
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>The Consent Team should implement a formal professional development process for senior staff. Plans should incorporate:</p> <ul style="list-style-type: none"> the minimum training requirements for each role; and requirements for setting, completing and reporting training. <p>HBRC implements a formal succession planning process for the Consent Teams. This should include:</p> <ul style="list-style-type: none"> Identification of roles that require succession plans; and For each role identification of current employees who are: <ul style="list-style-type: none"> ready; ready 1-3 years; and ready 5 years+ <p>Development plans should be in place for these roles.</p> <p>This recommendation is also relevant to the Compliance Team.</p>	Management have closed the recommendation.	Ongoing issue through performance development feedback process.
May 2019 Status: Closed		Responsible Person
<p>Professional development</p> <p>HBRC has implemented a personal performance and development charter for the 2018 / 19 financial year. The charter sets performance levels for staff and monitors performance. This includes the recognition of training needs, which are managed as required. Prior to the charter, this process was managed informally between Managers and their staff.</p> <p>Succession planning</p> <p>There is no formal succession planning process. It is the responsibility of the Manager to ensure staff are developing and ready to take the next steps in their career. We understand succession planning is regularly discussed at the Executive Management level.</p>		Group Manager - Regulation
		Date of Implementation
		Ongoing



6. Monitoring Officer reports not reviewed		Rating of finding: Low
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>The Team Leader should sign off within the document management system (Daisy or its replacement IRIS) that the Monitoring Officer's report has been reviewed. The review should ensure that:</p> <ul style="list-style-type: none"> the condition ratings are accurate; the level of documentation is sufficient; and any non-compliance has appropriate follow up. <p>A report should then be able to be run from Daisy/IRIS to show all monitoring reports issued and identify any that had not been reviewed.</p>	<p>On the implementation of the IRIS software update, HBRC should develop reporting that shows all monitoring reports issued and identify any that had not been reviewed.</p>	<p>IRIS update being implemented to enable this functionality.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>Reviews are currently recorded as an "action" within IRIS (like a file note). We understand the IRIS software is being updated to allow a separate recorded to show the review (i.e. a dropdown box saving reviewed by). The current process of recording an "action" limits the ability to report on this information i.e. what portion of approved consents have been reviewed. We understand this will be possible when the software is updated.</p>		<p>Compliance Manager</p>
		Date of Implementation



7. Consent monitoring compliance reporting to be improved		Rating of finding: Moderate
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>HBRC should complete reporting at a monitoring officer level that provides an overview of consents monitored based on the priority (risk) rating of the consent. This allows issues to be identified at an early stage, providing HBRC the ability to rectify any issues. We understand IRIS will have the ability to provide this reporting.</p>	<p>HBRC should complete reporting at a monitoring officer level that provides an overview of consents monitored based on the priority (risk) rating of the consent. This allows issues to be identified at an early stage, providing HBRC the ability to rectify any issues.</p> <p>Furthermore, formalised reporting should be completed between the Team Leader and Compliance Manager and between the Compliance Manager and Group Manager – Regulation Group.</p>	<p>The use of dashboard reporting in team meetings will be implemented.</p> <p>One or more report templates will be developed to allow for formal reporting between the Team Leader Compliance - Manager Compliance, and the Manager Compliance – Group Manager Regulation, to assist identifying issues and reporting successes.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>IRIS provides dashboard reporting at both a compliance officer and team leader level of consent monitored. This shows consents completed, due in the next month and overdue.</p> <p>The team leader has regular meetings with compliance officers to discuss progress against the risk monitoring programme. The dashboard reporting is not currently used in these meetings.</p> <p>The team leader reports informally to the Compliance Manager, there is no set reporting template.</p>		<p>Compliance Manager Group Manager - Regulation</p>
		Date of Implementation
		July 2019



8. IRIS to improve follow up process		Rating of finding: Low
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>On the implementation of IRIS all actions dates should be documented in the system. This will allow useful reporting such as running reports that shows the number of consent reports that are outstanding past the due date.</p> <p>This is particularly important for lower risk consents that may not be reviewed and followed up. An administrator could easily communicate and follow up late reports with consent holders.</p>	<p>HBRC should develop reporting that shows the number of consent monitoring reports that are outstanding past the due date.</p> <p>This is particularly important for lower risk consents that may not be reviewed and followed up. An administrator could easily communicate and follow up late reports with consent holders.</p>	<p>Implement the cross checking of consents monitored and those to be monitored with a focus on priority 3 consents which may not otherwise be monitored at all.</p> <p>This will allow us to understand the risks and it is linked to issue 4 which is to ensure sufficient resources to carry out monitoring.</p>
May 2019 Status: Partially Implemented		Responsible Person
<p>As explained in finding 7 above, dashboard reporting is available. There are two reports, "Authorisation reports that shows the amount to be monitored" and "Observation shows amount that has been monitored". By comparing these reports (would have to be manually), you could look at the consents by priority ratings and cross check that those requiring review, had been reviewed. This is not currently being completed.</p>		Compliance Manager
		Date of Implementation
		Six-monthly



9. Hawke's Bay Joint Working Group does not include all Councils		
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
Central Hawke's Bay and Wairoa District Councils are encouraged to attend the group. If this is not possible, then an alternative collaboration/form of communication needs to be considered. The key messages need to be communicated to these Councils.	NA	Completed
May 2019 Status: Closed		Responsible Person
We were provided a copy of meeting minutes identifying representation from Central Hawke's Bay and Wairoa District Councils.		Group Manager - Regulation
		Date of Implementation
		Completed

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The relationship you can count on



10. Lack of formal relationship between Science and Compliance Teams		Rating of finding: Moderate
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
A formal communication agreement and procedure should be implemented. The agreement should clearly define communication protocols and clarify what information is relevant to each group. The agreement should be drafted by the relevant Managers and be endorsed by the Group Managers.	The recommendations should be considered by the Integrated Catchment Group Manager and the Regulation Group Manager and included within the Service Level Agreement. The agreement should clearly define communication protocols and clarify what information is relevant to each group.	The Service Level Agreement will be amended to address the outstanding issues- communications protocol and information requirements.
May 2019 Status: Partially Implemented		Responsible Person
A Service Level Agreement has been developed which outlines the process to be followed when either team requires the services of the other. The Service Level Agreement does not define the communication protocols and clarify what information is relevant to each Group. An initial review had been completed between the Science and Compliance teams that identified recommendations that would address our above recommendations. We are supportive of the recommendations which will need approval of by the Integrated Catchment Group Manager and the Regulation Group Manager		Group Manager - Regulation
		Date of Implementation
		July 2019



11. Complaint reporting to be improved		
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>A regular report (monthly) should be prepared which shows the actual response time against the planned response time. We understand the IRIS system will incorporate this ability as well as other enhancements that will improve oversight by team leaders and management on the responses to complaints/incidents.</p>	NA	Completed
May 2019 Status: Closed		Responsible Person
<p>There is a report "Initial Response Time" that shows the number of requests, and what percentage were addressed within the required timeframe.</p> <p>The Group Manager – Regulation Group receives a weekly report of this information.</p>		Group Manager - Regulation
		Date of Implementation
		Completed

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12. Lack of regular reporting		Rating of finding: Moderate
2018 Recommendation	May 2019 Recommendation	Agreed Management action(s)
<p>The Compliance Manager should formally report to the Group Manager External Relations. This could include:</p> <ul style="list-style-type: none"> The number of consents being monitored by: <ul style="list-style-type: none"> performance (significant non-compliance, non-compliance, compliant, not assessed etc.); sector for those that present a significant risk to the health of the community (i.e. territorial authorities, dairy etc.); risk rating; and where due dates for information have been breached. The number of complaints; Enforcement actions taken; Identification of any significant issues; Identification of any trends; and Identified actions from the previous period, responsibility and timeframe. <p>Where possible the results from the corresponding period in the prior year should be shown. Where there are significant variances from the prior year or expectations, explanations should be provided.</p>	<p>The Compliance Manager should formally report to the Group Manager Regulation. This could include:</p> <ul style="list-style-type: none"> The number of consents being monitored by: <ul style="list-style-type: none"> performance (significant non-compliance, non-compliance, compliant, not assessed etc.); sector for those that present a significant risk to the health of the community (i.e. territorial authorities, dairy etc.); risk rating; and where due dates for information have been breached. The number of complaints; Enforcement actions taken; Identification of any significant issues; Identification of any trends; and Identified actions from the previous period, responsibility and timeframe. <p>Where possible the results from the corresponding period in the prior year should be shown. Where there are significant variances from the prior year or expectations, explanations should be provided</p>	<p>Implement reporting as set out in May 2019 recommendation as soon as functionality of IRIS allows this to happen.</p>
May 2019 Status: Yet to be actioned		Responsible Person
Reporting is not being produced. From our discussions with staff, we understand that IRIS, when fully operational should be able to complete the above reporting.		Compliance Manager
		Date of Implementation
		Quarterly from Q1 2019/20

Appendices

Appendix 1: Classification of Internal Audit Findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Rating	Definition	Guidance	Action required
High	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. 	<ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns Non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues 	<ul style="list-style-type: none"> Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. Ongoing resource diversionary potential. Requires high priority to immediate action
Moderate	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives. 	<ul style="list-style-type: none"> Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation Departures from best practice management procedures, processes 	<ul style="list-style-type: none"> Requires substantial management intervention and may require possible external assistance. Requires prompt action.
Low	<ul style="list-style-type: none"> Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives. 	<ul style="list-style-type: none"> Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. 	<ul style="list-style-type: none"> Requires management attention and possible use of external resources. Requires action commensurate with the process objective.



Appendix 2: Scope

Objective

The objective of the assignment was to review whether management actions relating to our Water Management internal audit undertaken in May 2018 have been or are being effectively implemented in line with agreed implementation dates or that senior management has accepted the risk of not taking action.

Approach

Our approach will incorporate the following steps:

- We will verify whether findings and actions have been fully implemented, partially implemented or are yet to be actioned.
- Where defined action plans for findings are indicated as being fully implemented, verification of the implementation will be undertaken to ensure that the action plan has been implemented as documented.
- Where action plans are indicated as being partially implemented in the schedule, the level of implementation and actions still to be completed will be verified. If no date is set for full implementation or the set date had passed, a new date will be set.
- Where action plans have not been started, actions to be completed will be verified. If there is no date set for full implementation or the set date has passed, a new date will be set.
- Where management has accepted the risk of not taking action, an assessment of the appropriateness of this risk acceptance will be undertaken and a verification of the appropriate levels of management approval will be reviewed.



Appendix 3: List of Interviewees

Name	Role
Liz Lambert	Group Manager - Regulation
Keith Peacock	Team Leader – Compliance
Simon Moffitt	Environmental Officer - Compliance
Malcolm Miller	Manager - Consents
Mike Alebardi	Team Leader – Pollution Response
Stephen Swabey	Manager Science
Louise McPhail	Principal Advisor Policy Implementation
Wayne Wright	Manager – Compliance

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Appendix 4: Basis and Use of this Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe Horwath disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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HAWKE'S BAY REGIONAL COUNCIL FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

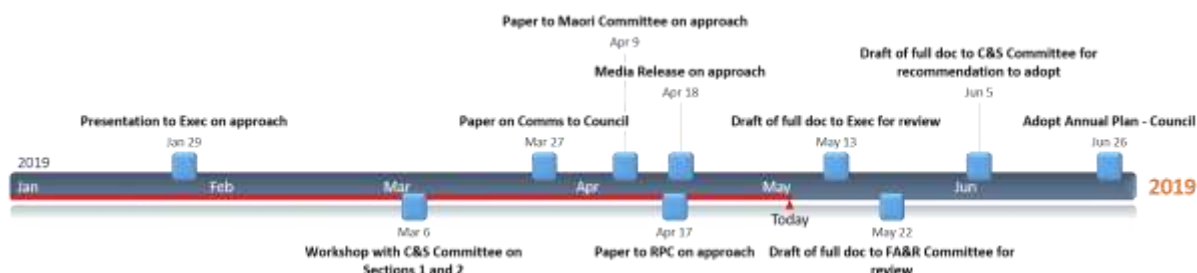
Subject: DRAFT 2019-20 ANNUAL PLAN

Reason for Report

1. The Annual Plan for 2019-20 is attached for review and feedback. It will then go to the Corporate and Strategic Committee on 05 June for final adoption by Council for 26 June 2019.

Background

2. The Annual Plan 2019-20 represents year 2 of the Long Term Plan (LTP) and as the forecasted rates increase of 7.9% has not changed, nor were there any material or significant differences to what was forecast, the Council has decided not to consult.
3. The Annual Plan document has three sections:
 - 3.1. Section 1: Introduction
 - 3.2. Section 2: Highlights
 - 3.3. Section 3: Financial information
4. A draft of sections 1 and 2 were presented to Council in a workshop early March. A media release on 18 April signified our non-consultation approach and provided a high level overview to the public.
5. A detailed two page spread of key highlights will be published (through newspapers and social media) in early June to inform the community.
6. A timeline of events for the Annual Plan is below.



Decision Making Process

7. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and considers the Draft 2019-20 Annual Plan and provides feedback to staff.

Item 8

Authored by:

**Karina Campbell
SENIOR PROJECT MANAGER**

**Melissa des Landes
ACTING CHIEF FINANCIAL OFFICER**

Approved by:

**Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES**

Attachment/s

1 First Draft 2019-20 Annual Plan **Provided to FARS members only**

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Item 9

Subject: LIVING WAGE UPDATE

Reason for Report

1. To provide the Sub-committee with a report that breaks down the type and value of suppliers used by Council for review and consideration. This is provided in conjunction with any other relevant Living Wage updates since previous meetings.

Background

2. A procurement internal audit was completed and presented to FARS 6 June 2018, which included an extension to consider the implications behind implementing a Living Wage requirement. This Living Wage memorandum traversed the key issues behind implementation of a living wage, such as legal and financial challenges. The memorandum also noted the benefits of implementing a Living Wage, such as the recognition of the dignity of work and ability to earn a living.
3. The Finance, Audit and Risk Sub-committee (FARS) requested at its meeting on 21 November 2018 that staff prepare further analysis of the types of suppliers (direct and indirect) Council engages with in the procurement of its goods and services. This analysis would attempt to quantify the cost of implementing or preferencing living wage suppliers and how it could be implemented by way of policy.
4. Finally there was also an analysis of other Councils' stances on the living wage, whereby the overarching theme was that most Councils elected to only pay the living wage under certain criteria, such as to direct staff only.
5. This report was then presented to the 12 December 2018 Corporate and Strategic Committee meeting, where after extensive discussion it was agreed to await the results of a national review of the Public Transport Operating Model (PTOM) which is currently underway.
6. The above report was presented in conjunction with other work that Council has previously provided to FARS in relation to GoBus and staff and a further update on this and other relevant updates is provided at this meeting.
7. Over the last quarter, staff have conducted a survey of a sample of direct suppliers to determine likely impacts on requiring them to pay the Living Wage. The volume of feedback received was disappointing, a full analysis of the feedback that was received is provided in separate section following.

Council Supplier Analysis

8. Over the past quarter, staff have conducted an analysis of the top 100 suppliers by spend over a 12 month period. From this list a distinction was made between direct and in-direct suppliers, with direct suppliers being determined as those whom Council engages on a direct level. For example, a cleaner who provides their services on site and in person would be deemed direct, as opposed to a stationary provider who would be deemed indirect.
9. Once this distinction was determined, a total of 65 suppliers from the top 100 were determined to be direct. A survey was then emailed out utilising the online survey tool "Survey Monkey" to the direct suppliers. The disclaimer for the survey stated that Council is reviewing its procurement policy and was using any responses for information only at this stage.

10. The survey was kept brief but included key questions such as whether or not suppliers pay their staff the living wage. A further question was posed that if the requirement for suppliers to pay their staff the Living Wage was made a compulsory, whether that supplier could absorb the costs or if they would need to pass them on (or a combination thereof). Finally, a question was asked if this was made a requirement, whether they would still be interested in continuing business with Council, with room for optional free text comments.
11. There were only nine responses after the initial email which staff concluded wasn't a large enough sample to reflect a fair view. A decision was made to contact other direct suppliers who Council recognises would traditionally be the type of service who may traditionally be paid on the lower end of the wage scale. This included suppliers who Council engages frequently, such as cleaners and caterers who were not in the preliminary selection.
12. This direct approach also resulted in a disappointing response rate, with only an additional four responses, or 13 in total. This poor response may highlight the reluctance of suppliers to provide sensitive salary information, despite a clear disclaimer being provided as to how this information would be used.
13. Results from respondents are as follows:
 - 13.1. Just over 75% of respondents already pay their staff the Living Wage.
 - 13.2. 100% of respondents who answered stated that they would continue to provide services to Council if it was made a requirement for suppliers to pay the Living Wage.
 - 13.3. There were a mixture of those suppliers who would be able to absorb the costs (29%) versus those who would need to pass on the cost (43%), with the remainder stating they would need to pass on a portion of the costs.
 - 13.4. The cost of the increase in terms of the value of the contract with Council was:
 - 13.4.1. less than 10% (43%)
 - 13.4.2. 10-20% (57%)
 - 13.4.3. no suppliers stated that this would cost more than 20%. Note that the survey only asked for a percentage, as opposed to total costs in order not to make the survey too cumbersome for respondents.
14. The optional comments section at the conclusion of the survey provided some supportive, albeit minimal feedback, with all comments provided being in positive support of the Living Wage concept and encouraged Council for conducting a review on this. The following comments were made. "Make the change to Living Wage," "I do think this is a necessary step. I fully support a living wage," "We totally support the Living Wage goal, good on you for highlighting this."
15. Note the comments above were from suppliers who already pay their staff the Living Wage. No additional feedback was received from those suppliers that don't.
16. Overall, the feedback shows the majority of respondents already pay their staff the living wage, with around 70% of those that don't indicating a need to pass on either a portion, or the entire cost to their customers in order to operate their business.
17. Given the relatively small sample size, and the assumption that those suppliers already paying the living wage could have been more inclined to complete the survey, the results of the survey are not conclusive enough to make assumptions or estimates accurate enough to inform decision making. However, based on the results, staff reviewed the budget for the provision of building maintenance services, which includes services such as cleaning and catering as noted above as being types of serviced traditionally in the lower quartile of the wage bracket. At present, Council currently spends approximately \$300k per annum on such services. A 20% increase on this budget item would cost Council an additional \$60k per annum.

GoBus/PTOM Update

18. At FARS meeting 21 November, Councillors were advised that staff had been participating in the national PTOM review which the GoBus contract falls under. Staff were expecting to have viewed the initial report by this date however Transport Minister Phil Twyford had indicated that further detailed work would be required for the report to be more useful and as a result the report is not yet available.
19. Latest update from the review is that unions were engaged in November/December 2018, with research approach agreed in late December. Work on additional research was launched earlier this year, with report expected to follow. Staff will continue to provide updates to FARS at each meeting.

National Local Authority Update

20. Council is currently working with all five local authorities to progress a discussion on the living wage for internal staff. Councils have agreed to engage an economic consultant to review this from a Hawke's Bay perspective.
21. At the time of writing this report this is still being finalised however initial indication suggests that every region adopting a common national living wage is not necessarily an adequate reflection of regional living costs and as such the report may identify a more appropriate, Hawke's Bay living wage. This is similar to an exercise conducted by Palmerston North City Council that identified a living wage which better reflects regional economies.
22. Council currently pays all of its permanent staff the living wage or higher.

Central Government Steps

23. Central Government has recently lifted the minimum wage in New Zealand significantly which now sits at \$17.70 per hour as at 1 April 2019. This is an increase of \$1.20 on previous minimum wage. This increase is the biggest boost to the minimum wage in recent New Zealand history.
24. In addition to this increase, Central Government has also promised to increase the minimum wage further annually for it to reach \$20 per hour by 2021.
25. Workplace Relations and Safety Minister Iain Lees-Galloway has stated that the reasoning behind this increase is "the Government is determined to improve the wellbeing and living standards of all New Zealanders as we build a productive, sustainable and inclusive economy".
26. At the time of writing this paper, the Living Wage is currently \$20.55 and has been signalled to increase to \$21.15 - with a 1 September 2019 implementation date.
27. The Living Wage website doesn't appear to have any commentary on the recent minimum wage increases at the time of writing this paper.
28. As a reminder at FARS meeting 6 June 2018, a Living Wage Implications Memorandum was presented and noted Palmerston North City Council (PNCC) conducted an exercise to determine a Palmerston North living wage. This was in light of the fact that the cost of living in this centre was considerably less than the cost of living in major centres. This determination was set at \$17.50.
29. As minimum wage (\$17.70) has now increased beyond the Palmerston North living wage (\$17.50), PNCC has elected to drop its local living wage and options to reassess it further, in recognition of the minimum wage increases.
30. Some PNCC Councillors noted within their decision making that the increase in the minimum wage is setting out what the living wage originally planned to do, being increase the wellbeing and living standards of New Zealanders.

Procurement Options

31. Given the difficulty Council has faced in extracting supplier wage information, it is hard to determine the real cost impact of the requirement to include a Living Wage as a minimum requirement as part of Council's procurement policy.

32. Staff note that an option may be to encourage the payment of a living wage within its procurement policy, as opposed to making it a minimum requirement.
33. The payment of a Living Wage could be given a weighting however should be weighed up alongside other important factors, such as buying local, environmental impacts, and good health and safety practices. For example, a supplier may pay the Living Wage but they may be from a larger centre. As a result, a local business may miss out on Council's business. Due to this staff are not recommending a set weighting and believe that each contract should be considered on a case by case basis.

Decision Making Process

34. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

1. That the Finance, Audit and Risk Sub-committee:
 - 1.1. Receives and notes the "*Living Wage Update*" staff report
 - 1.2. Notes that considerations of living wage related procurement policy decisions are addressed in a separate "*Procurement and Contract Management*" item.
 - 1.3. Continues to await the feedback of the Public Transport Operating Model report.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee recommends that Hawke's Bay Regional Council:
 - 2.1. Considers the addition of a statement in the Procurement Policy that "*Council encourages payment of the Living Wage*"
 - 2.2. Recommends that if the inclusion of a weighting for payment of the Living Wage in a contract decision is to be considered, that decision will be determined based on the type and value of the contract, and should also weigh up other best business practices.

Authored by:

Melissa des Landes
ACTING CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: PROCUREMENT AND CONTRACT MANAGEMENT UPDATE

Item 10

Reason for Report

1. This report provides an update on progress made in response to recommendations made by the 2018 internal audit to review and amend the Regional Council's Procurement Policy and Procurement Manual.

Background

2. From a purely business perspective, the most obvious benefits of an effective procurement process are financial, via upfront cost savings by procuring items, services, and contracts at the best price available. Effective procurement should also ensure that projects are delivered to time and budget, with reduced exposure to commercial risk and by way of a consistent and appropriate process which aligns with HBRC procurement principals.
3. The HBRC Procurement Policy was approved in 2015, the Procurement Manual was approved in 2016, with the intent to review within three years.
4. In September 2018 The Office of the Auditor General (OAG) and Ministry of Business Innovation and Employment (MBIE) made new recommendations for best practice in procurement. HBRC commissioned a review in 2018 by Crowe Horwath to evaluate our existing policy and make recommendations to align with current best practice guidelines. This draft policy and the accompanying draft procurement manual reflect HBRC progress to adopt those and other recommendations to achieve best practice.
5. The attached revised policy and manual are consistent with national procurement principles and guidelines and are compliant with relevant legislation. The Policy details what HBRC is required to do to meet national guidelines and the Manual details how to apply policy principles, to deliver benefits of best practice procurement.
6. Key Audit findings from 2018 were:
 - 6.1. Procurement policy (2015) is fit for purpose
 - 6.2. HBRC would benefit from a central Procurement and Contract resource
 - 6.3. There was a lack of evidence to support procurement decisions (Procurement plans)
 - 6.4. There are inconsistent templates and de-centralised systems for contract management, with inherent risk.
 - 6.5. Contract register was incomplete and contained expired contracts.
7. Audit recommendations and responses are tabled following.

Recommendation	Response
<i>Procurement structure should be centralised to ensure consistency in the application and training for best practice</i>	<ol style="list-style-type: none"> 1. A procurement hub has now been established as a central procurement management resource. Staff have created a replacement for 'contract central' an Electronic Document Record Management System (EDRMS) and rather than just being a repository, the new contracts hub will provide resources to manage the whole procurement life cycle from planning to evaluation. 2. Specifically, for an organisation of HBRC's size and scale, MBIE have informally recommended 1 x procurement FTE to be at Senior Leadership Team level. This is due to the level of work likely to be involved, along with the requirement for that person to have sufficient stature within the organisation to drive results. This role was not included in the HBRC Long Term plan, but was proposed at the finance audit and risk committee in June 2018, to be explored for 2020, existing resource being utilized in the interim.
<i>Regular reporting to the Executive team should include high value, high risk or complex procurement and notice of upcoming significant tenders.</i>	A draft template report will be implemented from June 2019
<i>A procurement planning template be included in the procurement manual</i>	Plan templates are included for simple and complex procurements
<i>Training should be provided to staff engaged in procurement practice and contract management</i>	Training will be cascaded from the Hub to selected subject matter experts in each executive team member group. Each group will include (where relevant) training for existing staff and new staff as part of the induction process
<i>Tools and templates should be implemented to ensure policies and procedures are followed</i>	Procurement NZ, OAG and MBIE templates are now being introduced as standard across all HB councils, currently being led by HBRC and HDC. These are detailed in the revised procurement manual.

Next Steps

8. As part of the centralisation of procurement, and in order to promote a consistent approach, training will be cascaded through the organisation for and to those with procurement responsibilities. The training will be based on the manual and targeted to the needs of each service group. The Executive Assistants for each group will be supported as 'subject matter experts' for the group and training will be delivered to team level. New staff will have training as part of their induction. Training videos will be available for reference and 'refresher' presentations delivered on request.
9. Contract reporting as provided monthly to the Executive team and the Office of the Chief Executive will be provided to Finance Audit and Risk sub-committee on a quarterly basis with effect from July 2019. This will include: New contracts in the reporting period by value (over \$50k) and level of risk; details of sourcing – RFP/RFQ /Local interest; List of expiring contracts in the next reporting period.
10. Crowe Horwath (Findex) will be invited to review the revised policy and manual in June 2020 to check adherence and completeness.

Decision Making Process

11. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

1. That the Finance, Audit and Risk Sub-committee:
 - 1.1. Receives and considers the “*Procurement and Contract Management Update*” staff report
 - 1.2. Agrees support for the proposed revised Hawke’s Bay Regional Council Procurement Policy May 2019 and Procurement Manual.


Authored by:

Mark Heaney
MANAGER CLIENT SERVICES

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

 1	HBRC Procurement Policy May 2019	Under Separate Cover
 2	HBRC Procurement Manual May 2019	Under Separate Cover
 3	Contractor registration	Under Separate Cover
 4	Procurement Plans	Under Separate Cover
 5	Contract for Provision of Services	Under Separate Cover
 6	Contract Evaluation Form	Under Separate Cover
 7	Contract monitoring template	Under Separate Cover
 8	Other Policy and Legislation	Under Separate Cover

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: MAY 2019 SUB-COMMITTEE WORK PROGRAMME UPDATE

Item 11

Reason for Report

1. In order to ensure the sub-committee's ability to effectively and efficiently fulfill its role and responsibilities, an overall update on its work programme is provided following.

Task	Item	Scheduled / Status
Internal Audits	Health & Safety	Presented to 21 November 2018 FARS meeting.
	Data Analytics	Presented to 12 February 2019 FARS meeting.
	Business Continuance	Deferred
	Water Management – Follow Up Review	Scope agreed at 12 February 2019 FARS meeting with final report to be presented to 22 May FARS meeting.
Risk Assessment & Management	Reporting on risks (6-monthly) affecting Council plus noting changes / improvements / areas that require attention from last report (3-monthly).	Presented to 19 September 2018 and 12 February 2019 meeting. Risk management review proposed for 2019-20 financial year.
Insurance	Council's proposed 2018-19 Insurance programme.	Update to be presented to 22 May FARS meeting.
Annual Report	Discussion on Audit Management Letter. Discussion on the major issues (if any) in the audit report on the Annual Report.	Audit Director attended 21 November 2018 FARS meeting to discuss Annual Report process.
S17a Efficiency Reviews (Section 17a Local Government Act)	Update on progress and findings of Section 17a Efficiency Reviews.	Staff resourcing has been diverted to focus on the procurement and contract management piece of work, with S17a to form part of this following.
Investment Returns & Treasury Monitoring	Update on progress in obtaining required level of dividend from PONL (Port of Napier Limited). Update on Treasury function within Council.	Separate Treasury paper prepared to be presented to 22 May FARS meeting. Application to join LGFA (Local Government Funding Agency) now complete.
Living Wage	Procurement and Contract Management	Staff have undertaken a survey of supplier contracts and findings of this will be presented at 22 May FARS meeting, alongside an update on the PTOM (Public Transport Operating Model) review.

Decision Making Process

2. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the “*May 2019 Sub-committee Work Programme Update*” staff report.

Authored by:

**Melissa des Landes
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Approved by:

**Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES**

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 22 May 2019

Subject: PROPOSED 2019-20 COUNCIL INSURANCE PROGRAMME

That Council excludes the public from this section of the meeting, being Agenda Item 12 Proposed 2019-20 Council Insurance Programme with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUNDS UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Proposed 2019-20 Council Insurance Programme	7(2)(i) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to enable the local authority holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

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