

Absolutely Positively
Wellington City Council

Me Heke Ki Pōneke

Ordinary Meeting of Unaunahi Māhirahira | Audit and Risk Committee Rārangi Take | Agenda

9:30am Rāapa Wednesday, 29 Whiringa ā-rangi November 2023
Ngake (16.09), Level 16, Tahiwī
113 The Terrace
Pōneke | Wellington



MEMBERSHIP

Mayor Whanau
Councillor Apanowicz
Councillor Chung
Pouiwi Kelly
Councillor Pannett
Councillor Randle (Deputy Chair)
Bruce Robertson (Chair)
Wendy Venter

Have your say!

You can make a short presentation to the Councillors, Committee members, Subcommittee members or Community Board members at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-499-4444, emailing public.participation@wcc.govt.nz, or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about. All Council and committee meetings are livestreamed on our YouTube page. This includes any public participation at the meeting.

PUBLIC EXCLUDED

AREA OF FOCUS

The Unaunahi Māhirahira | Audit and Risk Committee oversees the work of the Council in discharging its responsibilities in the areas of risk management, statutory reporting, internal and external audit and assurance, monitoring of compliance with laws and regulations, including health and safety.

Quorum: 4 members

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1. Meeting Conduct

1.1 Karakia

The Chairperson will open the hui with a karakia.

Whakataka te hau ki te uru, Whakataka te hau ki te tonga. Kia mākinakina ki uta, Kia mātaratara ki tai. E hī ake ana te atākura. He tio, he huka, he hauhū. Tihei Mauri Ora!	Cease oh winds of the west and of the south Let the bracing breezes flow, over the land and the sea. Let the red-tipped dawn come with a sharpened edge, a touch of frost, a promise of a glorious day
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At the appropriate time, the following karakia will be read to close the hui.

Unuhia, unuhia, unuhia ki te uru tapu nui Kia wātea, kia māmā, te ngākau, te tinana, te wairua I te ara takatū Koia rā e Rongo, whakairia ake ki runga Kia wātea, kia wātea Āe rā, kua wātea!	Draw on, draw on Draw on the supreme sacredness To clear, to free the heart, the body and the spirit of mankind Oh Rongo, above (symbol of peace) Let this all be done in unity
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1.2 Apologies

The Chairperson invites notice from members of apologies, including apologies for lateness and early departure from the hui, where leave of absence has not previously been granted.

1.3 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1.4 Confirmation of Minutes

The minutes of the meeting held on 11 October 2023 will be put to the Unaunahi Māhirahira | Audit and Risk Committee for confirmation.

1.5 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows.

Matters Requiring Urgent Attention as Determined by Resolution of the Unaunahi Māhirahira | Audit and Risk Committee.

The Chairperson shall state to the hui:

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent hui.

The item may be allowed onto the agenda by resolution of the Unaunahi Māhirahira | Audit and Risk Committee.

Minor Matters relating to the General Business of the Unaunahi Māhirahira | Audit and Risk Committee.

The Chairperson shall state to the hui that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent hui of the Unaunahi Māhirahira | Audit and Risk Committee for further discussion.

1.6 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any hui of the Council or committee that is open to the public. Under Standing Order 31.2 a written, oral, or electronic application to address the hui setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the hui concerned, and subsequently approved by the Chairperson.

Requests for public participation can be sent by email to public.participation@wcc.govt.nz, by post to Democracy Services, Wellington City Council, PO Box 2199, Wellington, or by phone at 04 499 4444 and asking to speak to Democracy Services.

2. General Business

AUDIT NEW ZEALAND GOVERNING BODY REPORT 2022/23

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Unaunahi Māhirahira | Audit and Risk Committee provides the findings from Audit New Zealand's audit for the year ended 30 June 2023

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- | | |
|--|---|
| Strategic alignment with priority objective areas from Long-term Plan 2021–2031 | <input type="checkbox"/> Sustainable, natural eco city |
| | <input type="checkbox"/> People friendly, compact, safe and accessible capital city |
| | <input type="checkbox"/> Innovative, inclusive and creative city |
| | <input type="checkbox"/> Dynamic and sustainable economy |
| | <input checked="" type="checkbox"/> Functioning, resilient and reliable three waters infrastructure |
| | <input type="checkbox"/> Affordable, resilient and safe place to live |
| | <input type="checkbox"/> Safe, resilient and reliable core transport infrastructure network |
| | <input type="checkbox"/> Fit-for-purpose community, creative and cultural spaces |
| <input checked="" type="checkbox"/> Accelerating zero-carbon and waste-free transition | |
| <input type="checkbox"/> Strong partnerships with mana whenua | |

Relevant Previous decisions

Audit New Zealand's report for the previous year was presented to Unaunahi Māhirahira | Audit and Risk Committee on 10 May 2023.

Financial considerations

- | | | |
|---|--|---|
| <input checked="" type="checkbox"/> Nil | <input type="checkbox"/> Budgetary provision in Annual Plan / Long-term Plan | <input type="checkbox"/> Unbudgeted \$X |
|---|--|---|

2. There are no funding or revenue implications.

Risk

- | | | | |
|---|---------------------------------|-------------------------------|----------------------------------|
| <input checked="" type="checkbox"/> Low | <input type="checkbox"/> Medium | <input type="checkbox"/> High | <input type="checkbox"/> Extreme |
|---|---------------------------------|-------------------------------|----------------------------------|

3. Audit New Zealand's report identifies and assesses risks and issues arising during their audit. It does not create additional risk.

Author	Richard Leverington, Manager Risk and Assurance
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.
2. Note the content of Audit New Zealand's Report to Council for the year ended 30 June 2023.

Whakarāpopoto | Executive Summary

4. Audit NZ has concluded that the management control environment for key financial and non-financial information systems is **effective**. Similarly, Audit NZ has assessed the Information Technology control environment as **effective**.
5. Audit NZ was satisfied that WCC had properly completed revaluations, fair value assessments and impairments of property, infrastructure assets, land and buildings and property plant and equipment. Audit NZ noted that these had all been appropriately accounted for and properly disclosed in the financial statements.
6. Audit NZ has not made any new recommendations in this year's report. They give an update on the status of fifteen previous outstanding recommendations. Five of these were implemented or closed during the past year. The remaining ten outstanding recommendations relate to:
 - Performance measures for waste reduction and energy conservation
 - Procurement conflict of interest management
 - The Rating information database
 - Review of users and applications on the network
 - Purchase card expenditure practices
 - Reflecting asset condition in the fair value assessment of infrastructure assets
 - Timely preparation and review of recommendations
 - Recording customer complaints about water, wastewater and stormwater
 - Compliance with the Holidays Act 2003.

Takenga mai | Background

7. Every year after the completion of the audit of the annual report, Council's appointed auditors, Audit New Zealand, produce a report to the Council on the audit conducted. Their report makes recommendations on matters that they believe will strengthen the Council's control environment or enable greater efficiencies or effectiveness.
8. The report outlines their recommendations and officers' responses to those recommendations. Council's Internal Audit team monitors the progress of implementing these recommendations.

Ngā mahinga e whai ake nei | Next actions

9. Council officers have accepted the recommendations. Internal Audit will report back to Unaunahi Māhirahira | Audit and Risk Committee on progress to address the recommendations.

Attachments

Attachment 1. Audit New Zealand report to the Council on the audit of Wellington City Council for the year ended 30 June 2023 [↓](#) 

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AUDIT NEW ZEALAND
Mana Arotake Aotearoa

3

Report to the Council on the audit of

Wellington City Council

For the year ended 30 June 2023

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Key messages

We have completed the audit for the year ended 30 June 2023. This report sets out our findings from the audit and draws attention to areas where the Wellington City Council (the City Council) is doing well and where we have made recommendations for improvement.

Audit opinion

We issued a non-standard audit report on 25 October 2023.

Our audit report included:

- An **unmodified opinion** on the financial statements, which means we were satisfied that the financial statements present fairly the City Council's activity for the year and its financial position at the end of the year.
- A **qualified opinion** on some performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater and measurement of Wellington City Council (WCC) Group greenhouse gas emissions.

The performance measures we qualified our opinion on are:

- WCC Group GHG greenhouse gas emissions – Scope three emissions.
- Total number of complaints received – Water supply, Wastewater and Stormwater.
- We included an emphasis of matter paragraph drawing the readers' attention to the disclosure in the annual report which outlines the impact of the three water services reform programme could be significant, but is uncertain.

Areas of focus

We comment on the following key matters in the report:

- **Qualified performance measures**
 - **Three waters performance measures** – The reported results for the performance measure *Total number of complaints received – Water supply, Wastewater and Stormwater* (three waters) was qualified again this year. We were unable to form a view on the accuracy and completeness of complaints because the recommendations we made in previous years have not been implemented and the City Council was unable to reconcile its information with that held by Wellington Water.

- **WCC Group GHG emissions performance measure** – In measuring the GHG emissions associated with certain goods and services purchased by the City Council, including capital goods, the City Council has relied on spend-based emissions factors based on 2015 data. There is insufficient evidence to show that these factors are relevant for use in measuring the City Council’s GHG emissions for the years ending 30 June 2023. Therefore, the reported results for the performance measure was qualified.

Our opinion on this performance measure was also qualified in the previous year on the basis that that City Council had relied on spend-based emissions factors based on 2007 data in that year.

- **New accounting standard – First-time adoption of PBE FRS 48 Service Performance Reporting** – From our review of the disclosures against the requirements of the reporting standard we were satisfied that service performance reporting met the requirements of the standard.
- **Valuation of investment property** – We did not identify any issue with the valuation of investment property. We are satisfied that the valuation of these assets and related disclosures in the financial statements are appropriate.
- **Valuation of operational land and buildings** – We did not identify any issues with the valuation of operational assets. We are satisfied that the valuation of these assets and related disclosures in the financial statements are appropriate.
- **Fair value assessment of infrastructural assets: Three waters and roading** – We reviewed the independent valuer’s report and assessment which management have accepted, and were satisfied that the carrying value of these assets materially reflects the fair value of assets at 30 June 2023.
- **Accounting for impairment and capitalisation of work in progress** – We are satisfied that impairment has been appropriately accounted for within the financial statements and that appropriate disclosures about the nature of the impairment and capitalisation of work in progress – these disclosures comply with the requirements of the relevant accounting standards.
- **Valuation of City Council’s weathertightness liabilities** – We did not identify any issues with the valuation of the liability. The liability and related disclosures in the financial statements are appropriate.
- **New accounting standard – First-time adoption of PBE IPSAS 41 Financial Instruments** – We worked with the City Council to ensure the requirements of the standard were met, include hedging documentation was in place and the financial assets and liability disclosures were appropriate.

- **Accounting for items from major litigation activity** – We have confirmed that contingencies are fairly reflected in the annual report.
- **Holidays Act 2003 compliance** – The City Council are still in the process of determining a reliable estimate for the Holiday Act provision. We are satisfied that Holiday Act provision cannot be quantified and is appropriately disclosed as a non-quantified contingent liability at year end.
- **Mixed group (for profit and public benefit entity) issues** – We have reviewed the City Council’s consideration as to whether there are any consolidation adjustments that will be necessary to adjust Wellington International Airport Limited figures to comply with PBE IPSAS. We did not identify any issues.
- **Accounting implications of arrangements with government, non-government organisations and private sector** – Wellington Community Housing Provider Trust (Te Toi Mahana) was established in June 2023, and the accounting arrangements / detailed control assessment was completed recently, and we are currently assessing the arrangement. The outcome of the assessment will have an impact on how Te Toi Mahana is reflected in Wellington City Council Group. The related party transactions between the Council and the Trust are not material in 2022/23. This will change going forward.

The City Council entered into an Infrastructure Funding and Finance Administration Agreement in August 2023 to finance the construction of a sludge minimisation facility. External accounting advice has been obtained. The arrangement has been appropriately disclosed as a non-adjustable post balance date event. The accounting for the facility will be reflected in the 2023/24 financial statements.

- **Procurement** – As part of enhancing the overall control environment for procurement practice, the procurement team’s capability and capacity has been strengthened, recent process improvements made, and reporting requirements to management are being reconfirmed. Broadly, we have assessed the overall risks to be the same as last year.
- **Contract management** – Our review found that the City Council is heading in the right direction. The City Council continues to make updates to improve its control environment around contract management.
- **Project, programme and portfolio management** – The City Council is making progress on its journey to lift its project, programme and portfolio management maturity.
- **The risk of management override of internal controls** – We did not identify any issues indicating management override of internal controls.

Thank you

We would like to thank the Council, management and staff for their assistance in completing the audit, for their preparedness for the audit, and for their engagement with us.

Karen Young

Karen Young
Appointed Auditor
22 November 2023

1 Recommendations



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

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

1.1 Status of previous recommendations

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

Status	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	10	-	10
Implemented or closed	-	5	-	5
Total	-	15	-	15

2 Our audit report

2.1 We issued a non-standard audit report



We issued a modified audit report on 25 October 2023.

An unmodified opinion on the financial statements means we were satisfied that the financial statements present fairly the City Council's activity for the year and its financial position at the end of the year.

A qualified opinion on certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater and measurement of Wellington City Council (WCC) Group greenhouse gas emissions.

The performance measures we qualified our opinion on are:

- WCC Group GHG greenhouse gas emissions (tCo2-e decreasing) – Scope three emissions.
- Total number of complaints received – Water supply, Wastewater and Stormwater.

Without further modifying our opinion, we included an emphasis of matter paragraph drawing the readers' attention to the disclosure in the annual report which outlines developments in the Government's water services reform programme.

The Water Services Entities Act 2022, as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023 and the Water Services Legislation Act 2023 on 31 August 2023, establishes ten publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. Water services entities' establishment dates are staggered, with all the water services entities becoming operational between 1 July 2024 and 1 July 2026. The financial impact of the water services reform on the Council remains uncertain until the relevant water services entity's establishment date is known, and the allocation schedule of assets, liabilities, and other matters to be transferred is approved.

In forming our audit opinion, we considered the following matters. Refer to section 4 for further detail on these matters.

2.2 Uncorrected misstatements in the financial statements and statement of service provision

The financial statements and statement of service provision are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

There were no significant misstatements identified during the audit that required correcting. Immaterial unadjusted misstatements together with management’s reasons for not adjusting the misstatements have been included in the management letter of representation.

2.3 Uncorrected disclosure deficiencies in the financial statements and statement of service provision

The financial statements are free from material disclosure misstatements, including omissions. During the audit, we discussed with management any disclosure improvements that we found, and they were addressed by management.

2.4 Corrected statement of service provision misstatements

During the current year, Wellington Water Limited (Wellington Water) identified several issues with how they previously calculated attendance and resolution times (fault response times) for water supply and wastewater. Performance measures were incorrectly calculated by Wellington Water and reported in their shareholding councils’ annual reports, including the City Council’s 2021/22 Annual Report.

The errors in the results were material and amount to prior period errors in accordance with PBE IPSAS 3: *Accounting Policies, Changes in Accounting Estimates and Errors*. We recommended to the City Council that the prior period error in the results be restated alongside the original result, and the reason for the restatement be explained. The City Council has done this.

The restated performance measures are as follows for the 2021/22 result. Restated results for 2020/21 have been excluded as these results cannot be confirmed:

Activity	Performance measure	Previously reported 2021/22 result	Restated 2021/22 result
Water supply	Medium response time for attendance for urgent call outs	66 minutes	114 minutes
	Medium response time for resolution for urgent call outs	1.8 hours	17.4 hours
	Medium response time for attendance for non-urgent call outs	66.8 hours	334 hours
	Medium response time for resolution for non-urgent call outs	3.1 days	22 days
Wastewater	Medium response times for wastewater overflows (attendance time)	162 minutes	100 minutes

Activity	Performance measure	Previously reported 2021/22 result	Restated 2021/22 result
	Medium response times for wastewater overflows (resolution time)	162 minutes	100 minutes

Summary of reasons for the misstatement in the results: Wellington Water made an error in applying the DIA guidance to the methodology used to measure the fault response times for water supply and wastewater. These changes relate to excluding records that were previously included, the most significant of which was the inclusion of duplicate records (where multiple people reported the same incident). Due to the treatment of this data, duplicate records are closed before the job is complete, impacting the results. Wellington Water have also removed additional jobs that were not strictly in line with the performance measure guidelines. The reported results include responses to call outs where there are no faults.

2.5 Quality and timeliness of information provided for audit



Management needs to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management. This included the dates we required the information to be provided to us.

The City Council was good in the delivery of supporting information during the final audit and utilised the AuditDashboard to ensure documentation was provided within a reasonable timeframe.

We were able to work collaboratively with the Council, management and staff, and acknowledge their assistance, willingness to help and professionalism throughout the year.

3 Assessment of internal control



The Council as the governing body, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information.

We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work and may not include all weaknesses for internal controls relevant to the audit.

Control environment

The control environment reflects the overall attitudes, awareness, and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behavior through implementation of policies, procedures, and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behavior has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

Based on our audit work, we have concluded that the management control environment is effective and therefore there was no change to our planned approach for specific account balances.

Our work also included considering the City Council's general information technology controls (GITC). We have assessed the control environment as operationally effective, and we have not identified any new significant deficiencies in internal control with regards to the City Council's information technology governance process.

There are no new control environment matters that we need to bring to the attention of the Council.

Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for the City Council's key financial and non-financial information systems:

- revenue (including statutory and other revenue streams) and related receivables;
- expenditure (including sensitive expenditure) and related payables;
- payroll and related employee entitlements;
- property, plant and equipment;
- performance reporting;
- treasury functions;
- cash and bank;
- general ledger and journals; and
- legislative compliance.

We did not identify any new deficiencies with the control environment that we need to bring to the attention of the Council.

Some of the recommendations made in the prior year have been implemented and progress made on others.

General information technology controls review

We performed our assessment under ISA (NZ) 315: *Identifying and Assessing the Risks of Material Misstatement (Revised 2019)* which came into effect for the City Council's audit this year.

We documented and evaluated the internal controls in place at the City Council to identify the information systems that contribute to, or are relied upon, to ensure the effective operation of these controls. We completed testing of the general information technology controls (GITCs) to ensure the council has mitigated the risks of material misstatements arising from the use of information systems.

We tested the GITCs within the following categories:

- manage access;
- manage change; and
- information technology operations.

Where internal controls rely on configuration settings in the supporting information systems, we tested these to confirm they operate effectively throughout the year.

We are satisfied that the GITCs have remained operationally effective for all areas. This means that there are sufficient information technology controls in place to allow for a control’s reliance audit approach.

General information technology controls (GITC) category	Technology One Financials	Technology One Payroll
Manage access	Operationally effective	Operationally effective
Manage change	Operationally effective	Operationally effective
Information technology operations	Operationally effective	Operationally effective

Overall, we are satisfied activity controls have remained design and operationally effective. Therefore, we placed reliance on these for the purposes of our audit.

4 Matters raised in the Audit Plan



In our Audit Plan for 2022/23, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Our audit response
Qualified performance measures	
<p>In 2022 we issued a qualified opinion on the statements of service provision on the following performance measures:</p> <ul style="list-style-type: none"> <p>Waste reduction and energy conservation</p> <p><i>WCC Group GHG emissions (tCo2 e) decreasing (LTP Year 1 to 10) target – “achieve 2050 target”</i></p> <p>In measuring the GHG emissions associated with certain goods and services purchased by the Council, including capital goods, the Council has relied on spend based emissions factors based on 2007 data. There is insufficient evidence to show that these factors are relevant for use in measuring the Council’s GHG emissions for the years ending 30 June 2021 and 2022, and we were unable to obtain sufficient alternative evidence to conclude that the reported performance is materially correct.</p> <p>Meeting customer expectations – Water supply, Wastewater and Stormwater</p> <ul style="list-style-type: none"> <p><i>Water:</i> Number of complaints about the drinking water’s clarity, taste, odour, pressure or low, continuity of supply, and supplier responsiveness.</p> 	<p>Waste reduction and energy conservation</p> <p>Our work over measuring the WCC Group GHG greenhouse gas emissions measure involved understanding the systems in place for measurements, testing inputs into the various calculations, obtaining confirmations from relevant parties providing input into the calculations and reperforming the calculations ourselves.</p> <p>In measuring the GHG emissions associated with certain goods and services purchased by the City Council, including capital goods, the City Council has relied on spend based emissions factors based on 2015 data. There is insufficient evidence to show that these factors are relevant for use in measuring the City Council’s GHG emissions for the years ending 30 June 2023, and we were unable to obtain sufficient alternative evidence to conclude that the reported performance is materially correct. For this reason, the reported results for the performance measure was qualified.</p> <p>Our opinion on this performance measure was also qualified in the previous year on the basis that that City Council had relied on spend-based emissions factors based on 2007 data in that year.</p> <p>We continue to recommend that the City Council ensures that there are reliable systems in place to capture the data on GHG emissions to address these</p>

Audit risk/issue	Our audit response
<ul style="list-style-type: none"> ○ <i>Wastewater:</i> The total number of complaints received by the territorial authority about any of the following: sewage odour, sewerage system faults, sewerage system blockages, and the territorial authority’s response to issues with its sewerage system. ○ <i>Stormwater:</i> The number of complaints received by a territorial authority about the performance of its stormwater system. <p>The City Council was unable to provide a complete record of all complaints received as some complaints were made directly to Wellington Water and were unable to reconcile its information with that held by Wellington Water.</p>	<p>performance reporting issues and any possible impacts on the City Council’s 2023/24 annual report.</p> <p>Management comment</p> <p><i>We understand and are addressing the limitations in our data to report against this measure. We may have access to more recent emissions factors for our spend-based data from December 2023, which will provide a better basis for us to report. We will continue to work with the audit team to ensure this information is reliable for reporting purposes.</i></p> <p>Meeting customer expectations – Water supply, Wastewater and Stormwater</p> <p>Our audit approach included relying on the work of the Wellington Water auditor to provide assurance for certain performance results which are reported by Wellington Water on behalf of the City Council.</p> <p>The City Council was unable to provide a complete record of all complaints received.</p> <p>The Department of Internal Affairs’ definition for this measure requires that every such complaint in relation to an issue or event is recorded by the City Council. In the past, we identified that the City Council only records the first such complaint, and therefore complaints are incomplete. We confirmed with the City Council that this has not changed, the issue identified in the past has not been addressed. Additionally, we understand some complaints are made directly to Wellington Water.</p> <p>There were no practical audit procedures we could apply to obtain assurance over the completeness or accuracy of reported results for these performance measures. Therefore, the measure for the <i>Total number of complaints received – Water supply, Wastewater and Stormwater</i> was qualified again this year.</p> <p>We continue to recommend that the City Council continue discussions with Wellington Water to understand the plans in place to address the issue and any possible impacts on the City Council’s 2023/24 annual report. The City Council should also ensure it is able to reconcile its records to Wellington Water’s records.</p>

Audit risk/issue	Our audit response
	<p>Management comment</p> <p><i>We continue to work with Wellington Water to reconcile the total number of complaints.</i></p> <p><i>To fully address this matter would require a significant and possibly costly changes to systems and processes. We have not prioritised this with water reform progressing as the responsibility for this measure would no longer belong with the City Council. We will consider the impact on our reporting against measures if there are changes to the water reform agenda.</i></p>
New accounting standard - First-time adoption of PBE FRS 48 Service Performance Reporting	
<p>PBE FRS 48 <i>Service Performance Reporting</i> replaced that part of PBE IPSAS 1 <i>Presentation of Financial Statements</i> that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, i.e. for the City Council, it is for the year ended 30 June 2023.</p> <p>We will assess the City Council's compliance with the reporting standard.</p>	<p>The reporting standard establishes generally accepted accounting practice and requirements for reporting on service performance.</p> <p>In addition to the requirement to provide contextual information on why the City Council exists, what it intends to achieve, and what was done during the reporting period towards its broader aims and objectives, it also requires disclosure of significant assumptions and judgements for the selection, measurement, aggregation, and presentation of the service performance information.</p> <p>We reviewed the City Council's disclosures against the requirements of the reporting standard.</p> <p>We are satisfied the City Council's service performance reporting met the requirements of the standard.</p>
Valuation of investment property	
<p>The City Council revalues its investment property annually. The relevant accounting <i>standard is PBE IPSAS 16 Investment Property.</i></p> <p>The fair value of investment properties needs to reflect the market conditions as at reporting date. Given the volatility in the property market there is potential for large valuation movements year on year, which need to be accounted for.</p> <p>Due to the nature and value of the revaluations, any bias or errors in the inputs used or calculations performed could result in a</p>	<p>The City Council performed a revaluation of its investment property which resulted in a revaluation decrease of \$13.4m (4.5%).</p> <p>We:</p> <ul style="list-style-type: none"> • reviewed the valuation report to assess whether the requirements of PBE IPSAS 16 have been met; • held discussions with the valuer to understand their process, methodology used and the assumptions;

Audit risk/issue	Our audit response
<p>significant misstatement in the value of investment property.</p>	<ul style="list-style-type: none"> • assessed the valuation process including the competence and experience of the person completing the valuation, and obtained an assurance letter from the valuers; • assessed the presentation and disclosure of information related to the valuation in the financial statements; and • enquired into the processes employed by the City Council to ensure that the items revalued are complete and how the City Council satisfies itself that the revaluation is appropriate. <p>We are satisfied that investment property has been accounted for, and appropriately disclosed in the financial statements.</p>
Revaluation of operational land and buildings	
<p>The City Council revalues its operational assets on a three-year rolling cycle. The last revaluation was performed in 2020/21.</p> <p>With the current environment having a significant impact on costs – for example, supplies and labour cost escalations, the City Council’s existing revaluation policy has been reviewed to assess whether the current three year cycle is appropriate. Currently, there are indications there maybe potential material changes to the fair value of operational assets.</p> <p>The City Council has decided to bring forward its operational assets revaluation to 2022/23.</p>	<p>The City Council performed a full revaluation of its operational assets which resulted in the following revaluation decreases:</p> <ul style="list-style-type: none"> • Land: \$15.8 million (4.4%) • Buildings: \$16.6 million (1.6%) <p>We:</p> <ul style="list-style-type: none"> • assessed the valuation process including the competence and experience of the person completing the valuation, and obtained an assurance letter from the valuers; • held discussions with the valuer to understand their process, methodology used and the assumptions; • reviewed the valuation report to assess whether the requirements of PBE IPSAS 17 – <i>Property, plant and equipment</i> have been met; • ensured changes to useful lives have been appropriately taken up; • assessed the presentation and disclosure of information related to the valuation in the financial statements; and • enquired into the processes employed by the City Council to ensure that the items revalued are complete and how the City Council satisfies itself that the revaluation is appropriate.

Audit risk/issue	Our audit response
	We are satisfied that operational assets have been accounted for, and appropriately disclosed in the financial statements.
Fair value assessment of infrastructural three waters and roading assets	
<p>The City Council revalues its infrastructure assets on a three-year rolling cycle. Infrastructural assets were last revalued at 30 June 2022.</p> <p>For those assets that are not due to be revalued, accounting standards require the City Council to perform a comprehensive analysis to determine whether there is a significant difference between the fair value and the carrying value that would trigger the need for the City Council to revalue (a fair value assessment).</p> <p>Accounting standards also require the City Council to complete an assessment of whether there are potentially any indications of impairment (an impairment assessment), and whether an adjustment is needed to the value of any assets as a result of this.</p> <p>Management should perform a fair value assessment as at 30 June 2023 by applying relevant cost indices taking into account the cost pressures and significant constraints that exist within New Zealand and Wellington’s construction industry and the limited availability of resources in the sector (including various trades and project managers)</p>	<p>Infrastructure assets were revalued at 30 June 2022 by an independent valuer. The City Council engaged the same independent valuer to complete a fair value assessment to assist management with its assessment.</p> <p>The fair value assessment showed an indicative movement, which we agreed was immaterial hence an off cycle revaluation was not required to be performed for the year ended 30 June 2023 for three waters and roading asset classes.</p> <p>We have reviewed the valuer’s report, met with the valuers, and assessed the results of their assessment and we are satisfied that the fair value assessment complies with the requirements of PBE IPSAS 17 – <i>Property, plant, and equipment</i>.</p> <p>We are satisfied that the carrying value of these assets materially reflects the fair value of infrastructural assets at 30 June 2023.</p>
Accounting for impairment and capitalisation of work in progress	
<p>Assets held at cost are required to be assessed for indicators of impairment on an annual basis, work in progress (WIP) values on projects that span an extended period of time should be assessed regularly for impairment over the period of the project.</p> <p>The City Council needs to ensure that as phases of a project are completed, and assets become operational, capitalisation of the WIP balance occurs in a timely manner. This will ensure that depreciation expense on these assets is recognised and accounted for appropriately.</p>	<p>We are satisfied that impairment has been appropriately accounted for within the financial statements and that appropriate disclosures about the nature of the impairment and capitalisation of work in progress – these disclosures comply with the requirements of the relevant accounting standards.</p>

Audit risk/issue	Our audit response
<p>The City Council will need to complete an assessment of impairment of assets (as above) and all significant WIP balances.</p>	
Valuation of the City Council’s weathertightness liabilities	
<p>The City Council’s liability for weathertightness claims remains significant, totalling \$24.6m at 30 June 2022. There is a high degree of judgement and estimation in the calculation of the liability.</p> <p>We will review the valuation of the weathertightness homes provision as at 30 June 2023. This will include testing of the underlying information used in the valuation, reviewing the valuation methodology and key assumptions, and reviewing the disclosure in the financial statements.</p>	<p>We reviewed the valuation of the weathertightness homes provision as at 30 June 2023.</p> <p>This included testing of the underlying information used in the valuation, reviewing the valuation methodology and key assumptions, and reviewing the disclosure in the financial statements.</p> <p>We are satisfied that the disclosures for the claim in the financial statements are appropriate.</p>
New accounting standard – First-time adoption of PBE IPSAS 41 Financial Instruments	
<p>PBE IPSAS 41: <i>Financial Instruments</i> is effective for periods beginning on, or after 1 January 2022. Earlier application was permitted however the City Council did not early adopt the standard.</p> <p>The Standard introduces new and amended classification, measurement, impairment model for financial assets based on expected losses which might result in the earlier recognition and hedging requirements, and disclosure for financial assets and financial liabilities. This standard replaces both PBE IPSAS 29 and PBE IFRS 9.</p> <p>PBE IPSAS 41 is based on PBE IFRS 9 and has been amended to include additional PBE guidance relevant to the New Zealand context.</p> <p>Because the Council has previously adopted PBE IFRS 9 there are only a handful of differences (as above) that need to be considered on transition.</p>	<p>We assessed the Council’s compliance with the Standard.</p> <p>Our main feedback was in relation to the need to comply with the new hedging requirements and financial assets and liability disclosures.</p> <p>The City Council had to retrospectively put in place its hedging documentation. The consequence of not complying with the hedging requirements is financial instrument gains and losses would be required to be reflected in the statement of revenue and expenses.</p> <p>We worked with the City Council to ensure the disclosures required by the Standard were made in the financial statements.</p>

Audit risk/issue	Our audit response
Accounting for items from major litigation activity – Legal claim by BNZ and other significant legal matters	
<p>The City faces a number of ongoing legal issues and court cases. The City Council will need to consider the accounting and disclosure implications of these legal issues and cases when preparing the financial statements.</p> <p>BNZ leased a premise for which the City Council issued a building consent for the superstructure of the building on 16 November 2006, a code compliance certificate on 27 March 2009 and the final code of compliance was issued on 29 June 2010. During the Kaikoura Earthquake in November 2016, BNZ claims the building suffered irreparable damage and was unable to be occupied by BNZ from that date. This litigation activity can result in significant liabilities for the City Council.</p> <p>Determining whether there is a contingent liability requiring disclosure in the financial statements generally requires judgement given the specific circumstances and facts of the legal matter.</p>	<p>Our audit response to this risk included:</p> <ul style="list-style-type: none"> • understanding the City Council’s approach to monitoring the litigation activity and how it makes decisions as to whether a contingent liability (and/or asset) should be disclosed, including the City Council’s involvement in this; • obtaining confirmation from the City Council’s external legal advisers as to the legal matters they have assisted the City Council with during the financial year, and their assessment of the likely outcome; • determining any likely financial impact of this outcome; and • discussing the status of the litigation with the City Council’s internal legal counsel and external legal advisors. <p>We have confirmed that there has been no movement in the BNZ claim during the year and that it is appropriately reflected as an unquantified contingent liability in the annual report.</p>
Holidays Act 2003 compliance	
<p>During 2019/20, the City Council completed a review of payroll processes, which identified instances of non-compliance with the Holidays Act 2003 (the Act).</p> <p>The City Council established a project team to review systems configuration and business processes to better understand the areas of non-compliance with the Act. This work has continued into 2022/23. The project is split into two phases: phase one is the rectification of known system configuration and business process issues while phase two will be the remediation.</p>	<p>We:</p> <ul style="list-style-type: none"> • met with the project team to obtain an update on the progress of the Holiday Pay provision calculation; • reviewed the information available including relevant calculations, the Holiday Pay Governance Group Initiative Meeting minutes, and other documentation; and • reviewed appropriateness of the accounting and disclosure based on above understanding and information.

Audit risk/issue	Our audit response
	<p>We confirmed that the City Council is still in the process of determining the amount for the Holiday Act provision: The remediation calculation model has been built and is undergoing user acceptance testing. Due to current progress on the testing, a reliable estimate of the liability is not yet available.</p> <p>We are therefore satisfied that Holiday Act provision cannot be quantified and is appropriately disclosed as a non-quantified contingent liability as at 30 June 2023.</p>
Mixed group (for profit and public benefit entity) issues	
<p>We have assessed Wellington International Airport Limited (WIAL) as a significant component for the City Council group audit.</p> <p>WIAL is a for-profit entity, and the City Council group is a public benefit entity. Different accounting standards apply to public benefit entities and for-profit entities resulting in differences in the treatment of certain transactions and events.</p> <p>There is the potential for significant adjustments being required when for profit entities are consolidated into group financial statements prepared in accordance with the public benefit entity standards.</p>	<p>We have reviewed the City Council’s consideration as to whether there are any consolidation adjustments that will be necessary to adjust WIAL figures to comply with PBE IPSAS.</p> <p>For the year ended 30 June 2023, there were no new accounting standards that apply to WIAL and not the City Council group.</p> <p>We have not identified any issues.</p>
Accounting implications of arrangements with government, non-government organisations and private sector	
<p>To deliver on the City Council’s 2021/31 Long Term Plan and specific plans for affordable housing, social housing, and sludge, the City Council indicated that they may enter into arrangements with government, non-government organisations and private sector.</p> <p>Construction of a sludge minimisation facility</p> <p>The City Council has progressed the Sludge Minimisation Project and intends to construct a Sludge Minimisation Facility. As traditional</p>	<p>Our audit response to this risk included:</p> <ul style="list-style-type: none"> • obtaining an update on these projects and arrangements from the City Council; • gaining an understanding of these arrangements and discussing with the City Council whether, for these arrangements, it has considered the tax and accounting treatment and disclosures in the financial statements; and • reviewing the accounting entries and relevant disclosures made in the financial statements.

Audit risk/issue	Our audit response
<p>funding and financing is not feasible the City Council has looked to use an alternative funding option based on the new Infrastructure Funding and Financing Act.</p> <p>Wellington Community Housing Provider Trust (Te Toi Mahana)</p> <p>The City Council made the decision to establish a Community Housing Provider (CHP) on 30 June 2022, following a statutory process of community consultation and a Long-Term Plan amendment.</p> <p>The Trust Deed was signed off by the City Council on 15 December 2022 and decisions were also made in regard to the lease and loan agreements between the CHP and the City Council, support for transferring existing tenants and a transition plan to establish the Trust by July 2023.</p> <p>It is important that the accounting treatment for the above contractual arrangements are considered early on. The City Council may have to obtain external accounting advice on the tax implications and accounting treatment in its financial statements.</p> <p>The City Council should engage with us early and provide position papers on each matter which includes sufficient support (for example, external accounting advice) for the accounting treatment chosen.</p>	<p>Construction of a sludge minimisation facility</p> <p>The City Council entered into an Infrastructure Funding and Finance Administration Agreement in August 2023.</p> <p>The City Council have obtained external accounting advice for the construction of a sludge minimisation facility substantially funded by a special purpose vehicle set up under the framework established by the Infrastructure Funding Act 2020. We will review the accounting advice as part of the 2023/24 audit.</p> <p>The arrangement has been appropriately disclosed as a non-adjustable post balance date event. The accounting for the facility will be reflected in the 2023/24 financial statements.</p> <p>Te Toi Mahana</p> <p>The Council has transferred responsibility for the management and upkeep of social housing to a Trust (Te Toi Mahana).</p> <p>A detailed control assessment was completed by the City Council and Te Toi Mahana in early November 2023 and provided to us. We will review the assessment going forward.</p> <p>The outcome of the assessment will have an impact on how Te Toi Mahana is reflected in Wellington City Council Group. The related party transactions between the Council and the Trust are not material in 2022/23. This will change going forward.</p>
Procurement	
<p>A significant area of spend for the City Council is procuring goods and services needed to deliver their services and achieve the results sought.</p> <p>The City Council's major projects involve significant procurement decisions and the City Council needs to ensure that lower value procurements (including contract variations) are subject to robust procurement practices.</p> <p>Procurement planning should be considered alongside the Procurement Strategy and Broader Outcomes Framework and procurement undertaken in line with the Procurement Policy.</p>	<p>The City Council continues to strengthen its team's capability and capacity as part of the overall control environment for procurement practice. Process improvements recently introduced included a refresher of procurement resources and documentation protocols. The Commercial Partnership team is currently completing consultation with ELT to understand their reporting requirements.</p> <p>Current reporting is limited to available data on Māori business use and carbon emissions. Both are ad hoc and dependent on work with wider Council teams (Climate and Mataaho Aronui). Council will</p>

Audit risk/issue	Our audit response
<p>Non-compliance with the City Council’s policies and guidance and good practice results in poor procurement decisions and outcomes (including waste and unmanaged probity risks).</p> <p>In 2022 we reviewed:</p> <ul style="list-style-type: none"> • The updated Procurement Policy and Procedures and found that these documents together met the elements of good practice. • A sample of recent procurements to assess the application and effectiveness of the Council’s policies and procedures in practice and found that record keeping could be improved. <p>The Council’s continued focus on improving its procurement practices will help it achieve value for money, deliver the broader outcomes sought, and respond to evolving procurement and wider associated risks.</p>	<p>be investing in making this more robust and consistent with the new contract management system capabilities.</p> <p>Broadly, we have assessed the overall risks to be the same as last year.</p> <ul style="list-style-type: none"> • The inherent risk to the Council from its procurement activity is moderate given the scale and nature of goods and services procured. In addition, cost pressures, market interest and competition remain key risks. • The risk posed by the City Council’s controls is also moderate given there are good systems and processes in place, but the team is still working to lift the maturity of the City Council’s practices and embed further good practice developments. There are risks around non-compliance with good practice, conflicts of interest management etc. Currently, there is no formal reporting to the Executive Leadership Team (ELT) and therefore ELT has no visibility of significant procurements and overall activity. As part of the 2022/23 audit, we followed up on the prior year recommendation around conflicts of interest management and relating record keeping. Where the City Council could provide evidence, we found it demonstrated good practice. However, there was limited evidence of good practice from the documentation provided for a procurement completed by one of its Council Controlled Organisations. This indicates there is scope for further improvement to ensure consistently good practice is in place across the group.
Contract management	
<p>The City Council has many significant contracting or funding arrangements in place for the delivery of goods and services. The contract management policies and procedures that underpin the Council’s significant contract management activities are key aspects of the Council’s control environment.</p>	<p>Our review found that the City Council is heading in the right direction. The City Council continues to make updates to improve its control environment around contract management.</p> <p>During the audit we followed up on progress made by the City Council through enquiries and review of corroborating information.</p>

Audit risk/issue	Our audit response
<p>It is important that the City Council has effective contract management arrangements in place and follows good contract management practice. This should ensure that both the City Council and suppliers are able to meet their respective contractual obligations and that the contracts deliver the intended outcomes.</p> <p>In 2022 we reviewed:</p> <ul style="list-style-type: none"> the City Council’s draft Contract Management Policy and Procedures against good practice for public sector contract management and assessed it as good; and a sample of recent procurements to assess the application and effectiveness of the City Council’s policies and procedures in practice and found that there was a robust approach to contract management for the sample executed after the approval of the Contract Management Framework. For contracts executed prior to the Contract Management Framework, the approach was variable. 	<p>Process improvements recently introduced included the launch of a new contract management module in TechOne in July 2023 to enable contract managers to look after their contracts more efficiently and effectively. The new module will hold centralised contract data which overtime will help to drive better commercial and strategic decisions. Training and development were provided to staff as part of the launch. The coming period will present opportunities and challenges for the City Council as it works to put the module into practice and rollout further contract management resources.</p> <p>We will follow up on progress made by the City Council to embed the new module during the 2023/24 audit.</p>
Project, programme and portfolio management	
<p>The City Council has a number of significant projects and programmes underway at various stages, from strategic assessment through to completion.</p> <p>It is important that the City Council has appropriate governance and management arrangements in place to effectively manage significant projects and programmes and realise the expected benefits.</p> <p>Similarly, the City Council also needs to ensure that good practice project management practices are applied to small and medium size projects, appropriate to their risk and complexity.</p> <p>Project and programme management practices should be considered in light of our reported findings and recommendations to date in this area.</p>	<p>The City Council is making progress on its journey to lift its project, programme and portfolio management maturity.</p> <p>During the audit we followed up on progress made by the City Council through enquiries and review of corroborating information.</p> <p>In December 2022, the Project Management Office (PMO) released the Project Assurance Framework. The purpose of this framework is to ensure that appropriate City Council resources are adopted, and stakeholders are informed of the expectations around assurance. Other changes to the control environment around project management included the introduction of the Project Assurance Plan, and review of completed plans. As part of the assurance framework, internal reviews completed found a number of recommendations for change. The majority of these recommendations have been actioned. The PMO is also collaborating with other government</p>

Audit risk/issue	Our audit response
	<p>agencies such as the Treasury and Waka Kotahi to identify where processes could be improved and to share ideas.</p> <p>Actively managing benefits is internationally recognised good practice in project, programme, and portfolio management. The Benefits Management Framework to be introduced in 2023/24 will help to ensure that the City Council tracks and monitors whether projects deliver what was promised to justify the investment involved.</p>
Three waters reform programme	
<p>The Water Services Entities Act 2022, as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023 and the Water Services Legislation Act 2023 on 31 August 2023, establishes ten publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. Water services entities' establishment dates are staggered, with all the water services entities becoming operational between 1 July 2024 and 1 July 2026. The financial impact of the water services reform on the Council remains uncertain until the relevant water services entity's establishment date is known, and the allocation schedule of assets, liabilities, and other matters to be transferred is approved.</p> <p>The City Council should ensure that there is sufficient disclosure about the impacts of the reform (to the extent that the impact is known) within the financial statements.</p>	<p>We are satisfied that the City Council has included appropriate disclosure about the impacts of the reform within the financial statements as part of the Events after the end of the reporting period disclosure.</p> <p>As the impact could be significant, but is uncertain, an emphasis of matter paragraph in the audit report remains appropriate.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls.</p> <p>Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>From our testing we did not identify any issues that indicated management override.</p> <p>To reduce the risk of material misstatement due to fraud to an acceptable level we completed the following audit work:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Audit risk/issue	Our audit response
<p>Auditing standards require us to treat this as a risk on every audit.</p>	<ul style="list-style-type: none"> • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Tested the property, plant, and equipment valuations and fair value assessments (including key assumptions and estimates) and management’s conclusions were appropriate. • Maintained awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the City Council and its environment, and other information obtained during the audit. <p>We did not identify any issues.</p>

5 Public sector audit



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

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

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

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

We did not identify any issues.

6 Group audit



The group comprises:

- Wellington City Council
- Karori Sanctuary Trust
- Wellington Museums Trust
- Wellington Cable Car Limited
- Chaffers Marina Holdings Limited (including its subsidiary, Chaffers Marina Limited)
- Wellington International Airport Limited
- Wellington Water Limited
- Wellington Waterfront Project
- Wellington Economic Development Agency Limited (including its subsidiary, Creative HQ)
- Wellington Zoo Trust

We have not identified any of the following during our audit for the year ended 30 June 2023:

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

Appendix 1: Status of previous recommendations

Open recommendations

Recommendation	First raised	Status
Necessary		
WCC Group GHG emissions performance measures		
Ensure there are reliable systems in place to capture the data on GHG emissions and any possible impacts on the City Council's 2023/24 annual report.	2022	<p>Outstanding</p> <p>Management comment</p> <p><i>We understand and are addressing the limitations in our data to report against this measure. We may have access to more recent emissions factors for our spend-based data from December 2023, which will provide a better basis for us to report. We will continue to work with the audit team to ensure this information is reliable for reporting purposes.</i></p>
Procurement – conflict of interest management		
To ensure the City Council does not take risks outside of its risk appetite, declared issues should be reviewed management, and any resulting conflict management plans (where these are judged to be required) reviewed and approved by management.	2022	<p>Improvements made, continued focus required</p> <p>Management comment</p> <p><i>The conflicts of interest template, including a further section that requires any management plan developed to be agreed by the Commercial Lead and relevant discloser and further approved by the Manager Commercial Partnerships. This has been added to suite of templates available on Pokapūu (the City Council's intranet) and added a Probity Guide to support wider probity/code of conduct/conflicts of interest practice.</i></p>
Rating Information Database (RID)		
<p>The City Council:</p> <ul style="list-style-type: none"> put in place a process to ensure the monthly reconciliations are reviewed and signed off by an independent person; and 	2022	<p>In progress</p> <p>The City Council are aware of the need to address the recommendations.</p> <p>We will follow up progress made during the 2023/24 audit.</p>

Recommendation	First raised	Status
<ul style="list-style-type: none"> identify all the masterfile changes that can be made in the RID and develop appropriate monitoring reports for detection of anomalies. 		<p>Management comment</p> <p><i>Signed off reports are now stored in Sharepoint along with reconciliations. Further work is in progress to upgrade the reconciliation process and remains on track.</i></p> <p><i>Monitoring of Masterfile changes in the RID is now in place.</i></p>
Information technology		
<p>The City Council review Pathway users and their access rights:</p> <ul style="list-style-type: none"> Pathway users and their access rights report be generated and reviewed on a regular basis to ensure users' access is aligned with their roles and responsibilities and any obsolete users be removed in a timely manner. 	2022	<p>Outstanding</p> <p>Management comment</p> <p><i>User access management is monitored frequently as part of IT environment controls.</i></p> <p><i>The system produces reports around users with access to pathway, their functions and access rights. Generally, users are granted enquiry access (can only Read information sitting in Pathway) and additional access is only granted as required.</i></p>
<ul style="list-style-type: none"> Review of users on the network and applications to ensure appropriateness: <ul style="list-style-type: none"> establishing regular review processes to ensure user access remains appropriate to the City Council's network and applications; and establishing procedures for approval and management of generic (shared) user accounts be established. And perform regular reviews. 	2022	<p>Being progressed</p> <p>Network login accounts have been reviewed and reduced and ongoing reviews are in place.</p> <p>No reviews of Technology One (One Council) users and their access levels are being performed.</p> <p>We recommend that regular reviews of One Council system users be performed to ensure access remains appropriate.</p> <p>Management comment</p> <p><i>There is on-going work to review and remove stale accounts. We have also implemented processes to automatically disable employee accounts based on One Council/Payroll feeds. There is on-going work to address the review and removal of contractor accounts – with manual reviews being conducted while we implement more robust and automated processes.</i></p> <p><i>Many of the remaining accounts to be reviewed are shared mailbox accounts.</i></p>

Recommendation	First raised	Status
		<i>User access review processes for critical applications will be formalised in 2024 to make more regular than the current ad hoc reviews</i>
Purchase card expenditure practices		
The City Council strengthen monitoring controls for P-card claims including follow up on supporting documentation for expenses incurred.	2022	<p>Continued focus required</p> <p>Based on sensitive expenditure testing, the City Council needs to continue its focus on improving its practices in this area – currently, practices are inconsistent, the business purpose for the expenditure is not always adequately documented including the numbers of people attending an event / estimated cost per head, one-off gifts (for example, gift in lieu of attendance at Christmas function).</p> <p>Management comment</p> <p><i>The Purchasing Card Policy and Procedures have been reviewed and updated. The updates to the policy will be communicated to the wider Council in due course.</i></p> <p><i>Assurance will recommence continuous monitoring of P-card expenditure once the new guidance is in place.</i></p>
Fair value assessment of infrastructure assets		
The City Council should take into consideration asset condition information when preparing a fair value assessment for assets.	2021	<p>Outstanding</p> <p>The City Council performed a full valuation of infrastructure assets for the year ended 30 June 2022. However, as the asset condition information for non-critical assets was not available at the time of performing the valuation, this issue remains open.</p> <p>Management comment</p> <p><i>There has been a significant amount of work completed across Council and Wellington Water Limited to collect asset condition information on our assets, particularly our critical assets. We expect this to continue be an area of focus.</i></p>

Recommendation	First raised	Status
		<p><i>For 30 June 2023 the Fair value assessment of infrastructure assets was completed by WSP. The asset condition information for non-critical assets was not available at the time of performing the fair value assessment.</i></p> <p><i>For the very high criticality water pipe assets, there was an \$11.6m impairment recognised in 2022/23 due to the condition assessment on these assets.</i></p>
Timely preparation and review of reconciliations		
<p>The City Council reconcile the general ledger with the underlying systems and these reconciliations are prepared and independently reviewed monthly.</p>	2020	<p>Outstanding</p> <p>The preparation and the review of some of the City Council's reconciliations were not performed and/ or independently reviewed in a timely manner. They were bank, payroll, fixed assets and suspense accounts.</p> <p>Management comment</p> <p><i>Bank and fixed asset reconciliations have been completed and reviewed in a timely manner.</i></p> <p><i>Payroll and suspense accounts reconciliations were prepared in a timely manner, however due to changes in finance personnel changes and vacancies during the year there were some temporary time delays in reviewing these.</i></p> <p><i>With new personnel on board, the reconciliations are being refreshed to ensure all relevant information is captured in a consistent and easy to read format. The team are committed to preparing and reviewing these in a timely manner.</i></p>
Three waters customer complaints performance measure		
<p>The City Council:</p> <ul style="list-style-type: none"> record every such complaint in its system; continue discussions with Wellington Water to understand the plans in place to integrate the City Council's complaint system 	2019	<p>Outstanding</p> <p>The City Council has not yet addressed these issues (refer to section 4).</p> <p>Management comment</p> <p><i>We continue to work with Wellington Water to reconcile the total number of complaints.</i></p>

Recommendation	First raised	Status
<p>(CONFIRM), with Maximo the system used by Wellington Water's Alliance partner Fulton Hogan; and</p> <ul style="list-style-type: none"> reconcile compliant records to Wellington Water's. 		<p><i>To fully address this matter would require a significant and possibly costly changes to systems and processes. We have not prioritised this with water reform progressing as the responsibility for this measure would no longer belong with the City Council. We will consider the impact on our reporting against measures if there are changes to the water reform agenda.</i></p>
<p>Compliance with the Holidays Act 2003</p>		
<p>In 2019/20, the City Council completed a review of payroll processes, which identified instances of non-compliance with the Holidays Act 2003 (the Act).</p> <p>A project team was established to review systems configuration and business processes to better understand the areas of non-compliance with the Act. This work has continued into 2020/21. The project is split into two phases; phase one is the rectification of known system configuration and business process issues while phase two will be the remediation.</p> <p>We recommend that City Council resolve the Holidays Act 2003 compliance issue.</p>	<p>2018</p>	<p>In progress</p> <p>Phase One (Rectification) is 99% complete – the project team is considering options for external support to rectify an issue with TechOne. Acceptance testing is continuing.</p> <p>The project team is proceeding with Phase Two (Remediation). This includes calculating any leave under- and over-payments for the approximately 8,600 staff who have been on Wellington City Council payroll since 2013. This includes Zealandia, Wellington Water and Wellington Venues. Phase 2 scoping and planning has commenced.</p> <p>The Project Team has engaged a third party to produce a "Portal" for ex-employees to register a claim.</p> <p>Management comment</p> <p><i>This is now in the final user acceptance testing stage by the City Council. We expect sign off by end of November 2023.</i></p>

Implemented or closed recommendations

Recommendation	First raised	Status
Necessary		
Information systems		
<ul style="list-style-type: none"> Information systems policies need to be reviewed, updated and re issued - Information system and digital policies should be reviewed, updated and all users advised of changes. 	2022	<p>Closed</p> <p>A new Cybersecurity policy is now in place and published on the Intranet.</p> <p>Management comment</p> <p><i>A new Cyber Security Policy has been adopted by the council following extensive consultation and review. The official policy replaces the previous ICT Policy Handbook (at a high level), including the code of conduct that attended to CT matters. The intent of the Cyber Security policy is to have an official council wide (including CCO's) policy that addresses IS policies and IS Security Management.</i></p>
<ul style="list-style-type: none"> Improve network password minimum settings – Conduct a review of standards for password controls. 	2022	<p>Closed</p> <p>Changes to password settings actioned in September 2023.</p> <p>Management comment</p> <p><i>The primary source for Authentication controls is Active Directory. The majority of user accounts are created in Active directory and synchronised to Azure Active Directory.</i></p> <p><i>We have revised authentication settings in Active Directory to set the minimum password length to 10 characters for AD users with no complexity. This aligns with current best practice recommendations, and we acknowledge is not NZ ISM compliant (which is now out of synch with recommended password practices). Passwords are synchronised to Azure Active Directory. It is not possible to change the password settings, such as minimum length, for Azure Active Directory ONLY accounts as these are determined by Microsoft Azure.</i></p>

Recommendation	First raised	Status
		<i>In September 2023, Passwords length requirements will be increased to 12 characters. Complexity requirements will be removed at the same. This change will be tested in WCC's Test environment to fully determine impact before it is applied to WCC's Production environment.</i>
<ul style="list-style-type: none"> • Improve privileged network users access management: <ul style="list-style-type: none"> ○ Actions be taken to improve the management of privileged access. ○ As part of the development of information system security policies, processes for the approval, management and review of privileged network accounts be formalised. 		<p>Closed</p> <p>Privileged access management is in place and number of staff with this level of access is limited.</p> <p>Management comment</p> <p><i>We have reduced our privileged accounts to six people and have implemented PIM (Privileged Identity Manager) for all elevated accounts.</i></p>
Sensitive expenditure		
Update the sensitive expenditure policy in relation to the approval of the Chief Executive's credit card expenses to align it with the Delegation Policy and Office of the Auditor General's good practice guidance on sensitive expenditure.	2022	<p>Closed</p> <p>Sensitive expenditure policy updated.</p>
Put in place a process for all leaving staffs' P card to be returned to Finance for timely cancellation;	2022	<p>Closed</p> <p>Process in place.</p>

Appendix 2: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council (as the governing body of the City Council) of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit and the report on the disclosure requirements, we have:</p> <ul style="list-style-type: none"> • carried out a limited assurance engagement related to the City Council's debenture trust deed; • provided probity assurance over the tender process for Takina facilities maintenance; and • performed a review of the revenue and expenditure of the Clifton Terrace Car Park managed by the City Council on behalf of Waka Kotahi NZ Transport Agency. <p>These engagements are compatible with those independence requirements.</p> <p>Other than these engagements, we have no relationship with or interests in the City Council or its subsidiaries and controlled entities.</p>

Area	Key messages
Fees	<p>The audit fee for the year is \$514,406, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are:</p> <ul style="list-style-type: none"> • limited assurance engagement of Debenture Trust Deed: \$10,500; • probity assurance over the tender process for Takina facilities maintenance: \$12,200; and • review of revenue and expenditure for Clifton Terrace Carpark: \$10,500.
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council or its subsidiaries that is significant to the audit.</p>



AUDIT NEW ZEALAND

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2024-34 LTP AUDIT PROGRAMME TIMELINE

Kōrero taunaki | Summary of considerations

Purpose

1. This report provides Unaunahi Māhirahira | Audit and Risk Committee the timeline on the approach on the audit process for the 2024-34 Long-Term Plan (LTP).

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
- People friendly, compact, safe and accessible capital city
- Innovative, inclusive and creative city
- Dynamic and sustainable economy

Strategic alignment with priority objective areas from Long-term Plan 2021–2031

- Functioning, resilient and reliable three waters infrastructure
- Affordable, resilient and safe place to live
- Safe, resilient and reliable core transport infrastructure network
- Fit-for-purpose community, creative and cultural spaces
- Accelerating zero-carbon and waste-free transition
- Strong partnerships with mana whenua

Relevant Previous decisions

N/A

Financial considerations

- Nil
 Budgetary provision in Annual Plan / Long-term Plan
 Unbudgeted \$X

Risk

- Low
 Medium
 High
 Extreme

Authors	Matthew Deng, Senior Advisor Geoffrey Coe, Principal Advisor Corporate Planning Lloyd Jowsey, Team Leader, Planning and Reporting
Authoriser	Baz Kaufman, Manager Strategy and Research Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.
2. Note the LTP Audit programme timetable and that any delays will impact on the adoption date at the end of June 2024.
3. Note that the Office of the Auditor General will provide a verbal update on 2024-34 LTP audit engagement at the meeting.

Whakarāpopoto | Executive Summary

2. This report provides Unaunahi Māhirahira | Audit and Risk Committee the timeline on the approach on the audit process for the 2024-34 Long-Term Plan (LTP).
3. Note that this timeline has been discussed with Audit NZ and represents Council's preferred timeline based on our core LTP programme process.
4. There are three key audit windows for the LTP:
 1. First audit review (Cold review) (11th- 22nd December);
 2. Consultation Document audit (4th March – 29th March); and
 3. Preparation for the LTP adoption audit (3rd – 14th June).

Takenga mai | Background

5. The Kōrau Tōtōpū | Long-term Plan, Annual Plan and Performance committee has primary responsibility of oversight and decision making for the development of the 2024-34 LTP.
6. The Unaunahi Māhirahira | Audit and Risk Committee (Committee) has key responsibilities in respect to:
 - Providing assurance that the Council has an appropriate plan to meet its statutory obligations in preparing and adopting its LTP; and
 - Oversight of how the LTP preparation and the audit risks are being managed.
7. The Committee received a report on 11 October 2023 on the current progress of the 2024-34 LTP programme, including an updated on:
 - the progress of developing of the Infrastructure and Financial Strategies;
 - update the review of the Key Performance Indicators (KPIs) and identifying improvements that will enhance transparency and accountability in Council performance reporting;
 - risks related to capacity and complexity; and
 - assumptions that will impact on developing the LTP.
8. As part of the LTP process, Council are required, under the Local Government Act 2022 to have an audit conducted by the Auditor-General when producing a Consultation Document (CD) and the LTP itself prior to adoption.

9. In auditing the CD, the auditor will determine whether it the CD provides an effective basis for consultation. In particular whether the CD fairly represents the matter(s) a council proposes to include in its LTP).
10. The audit will also include a review of all supporting information on which the CD and final LTP are based on. This includes the Financial Strategy, Infrastructure Strategy, AMPs, and all relevant supporting policies.
11. In addition to auditing the CD, the Auditors will also review the adopted LTP and assess whether the whole LTP enables for long-term, integrated decision-making and co-ordination of the council's resources (as a means for the Council to be accountable to the community).

Kōrerorero | Discussion

LTP Audit programme timeline

12. The table below outlines the LTP timeline to adoption including the key phases, milestones and deliverable, and committee meeting dates.
13. It represents Council's preferred timeline based on our core LTP programme process, and Audit NZ has confirmed that they are comfortable with the timeline and will mirror their resourcing and auditing effort to align with the LTP programme as outlined below.
14. The timeline also includes key milestones/due dates when materials are due for audit, and an estimate of when audit process is expected to be completed for each phase.
15. It is important these process does not exceed the agreed timeframe. Any delays will have implications for the rest of the LTP process including meeting the adoption deadline.

Phase	Meeting	Date
Facing Trade-offs	Long-term Plan, Finance, and Performance Committee: Approve rating policy changes, engagement approach	7 Dec
	Audit - Cold Review	11-22 Dec
Adopting our Plan	Long-term Plan, Finance, and Performance Committee: Consultation deliberations, approve updated financial policies	15 Feb 2024
	Consultation Document Audit	2-29 Mar
	Long-term Plan, Finance, and Performance Committee: Consultation document agreed to audit	13 Mar
	Long-term Plan, Finance, and Performance Committee: Consultation document adopted	9 Apr
	Consultation	12 Apr - 12 May
	Hearings	9 and 23 May
	Long-term Plan, Finance, and Performance Committee: Deliberations	30 May
	LTP Adoption Audit	3 -14 Jun
	Long-term Plan, Finance, and Performance Committee: Adoption of Long-term Plan	26 Jun

First audit review (Cold review) (11th – 22nd December)

16. Officers will be seeking early feedback from Audit NZ (Cold Review in the timeline) on the documents below. The aim of early review is to:
- identify gaps or significant issues, as part of preparing for the CD audit in March 2024; and
 - ensure that statutory requirements are met.
17. Cold review also provides an opportunity to brief Audit NZ on Council's LTP issues and planning approaches to ensure a good level of understanding of key challenges, risks and assumptions in our LTP to help to confirm the scope of later audit activity.

Documents required for audit.

- Significance & Engagement Policy
- Assessment of significant issues for consultation
- Infrastructure Strategy
- Financial Strategy
- Asset planning model
- Significant Forecasting Assumptions
- Key Performance Indicators
- Revenue and Financing Policy

Consultation Document audit (4th March – 29th March)

18. Audit of the Consultation document is a key audit activity in developing the LTP. This includes assessing all underlying information to the Consultation Document, and the overall long-term planning processes and practices that have led to the development of consultation material.
19. From now until 5 February 2024, Officers are developing a final draft budget and other supporting materials to be used for community engagement and supporting the Consultation Document.

Documents required for audits.

- Consultation Document
- Infrastructure Strategy
- Financial Strategy
- Asset Management Plans
- Significant Forecasting Assumptions
- Activity Group summaries
- Key Performance Indicators
- Revenue & Financing Policy
- Forecast financial statements
- Financial Impact statements

- Consultation Option Material
2. **Preparation for the LTP adoption audit (3rd – 14th June)** Following consultation in April - May 2024, Officers will finalise the draft LTP, based on community feedback and any final budget adjustments. The auditors then review the final LTP including statutory compliance, consistency with forecasts (i.e., whether the Councils' forecasts are consistent with what we say we will do) and the presentation of information in the final LTP document. The final Audit opinion will be included in the published LTP.
 20. The final audit is normally a shorter piece of work as the substantial assessment of Council planning practices and underlying information has already been carried out through the audit of the Consultation Document. Final audit focuses on changes since the Consultation Document audit.
 21. The material required for the final audit will depend on the scale of change to Council plans and budgets from the Consultation Document, but may include reviewing the following updated documents:
 - Infrastructure Strategy
 - Financial Strategy
 - Significant Forecasting Assumptions
 - Revenue & Financing Policy
 - Forecast financial statements
 - Financial impact statements
 - 2024-34 Long-term Plan (two volumes)

Risks

22. While the proposed timeline in this report is subject to final agreement agreed with the auditors, both Council and Audit NZ recognise that any delay to the audit will have risk and implications to the LTP process.
23. Any delay on the audit process and compression of the timeline increases the risk of:
 - rework, errors and/or inaccuracies in consultation material from last minute changes;
 - uncertainty on the changes required to deliver a final LTP on time; and
 - late adoption of the LTP - the consequences of which include:
 - Operational Challenges (disruption on BAU)
 - Missed Opportunities (may result in missed opportunities for implementing planned initiatives, potentially hindering the council's ability to meet community expectations)
 - Financial Implications (Delays in plan adoption can affect the council's ability to manage its finances effectively, including the inability to strike rates for the new financial year.)
 - Regulatory Compliance (Delays could lead to non-compliance with regulatory obligations, potentially exposing the council to legal consequences)
 - Inability to Address Urgent Issues (delays may impede the council's ability to respond promptly to pressing matters, such as infrastructure emergencies, environmental concerns, or public health crises)

-
24. A key learning from the previous LTP's is that an efficient and on-time LTP audit programme is based on:
- early discussions on key LTP issues, including consultation issues and key LTP assumptions to identify key risk areas and areas of focus for audit.
 - early engagement with audit on core LTP components to avoid significant rework during the core audit process. This includes providing near final Infrastructure and Financial Strategies for cold review by auditors.
 - Ensuring full complete supporting information is available on time for the beginning of the audit process. This enables effective document version control and, an efficient process for incorporating feedback.
 - Sufficient time for internal Quality Assurance, OAG Hot Review and OAG opinion review to avoid delays at the back end of the audit process.


Audit engagement

25. Officers are working with Audit NZ on the audit approach for the 2024-34 LTP. The Office of the Auditor General are currently confirming Audit engagement letters and planning material for the 2024-34 Long-term Plan audits and are planning to write to all Councils in the week of the 27 November 2023 on scope of the LTP audits, the engagement and fees. A verbal update will be provided at this meeting.

Ngā mahinga e whai ake nei | Next actions

26. Between now and mid-December 2023, Officers will:
- agree an audit plan with Audit NZ, including timelines for submitting materials for auditing and establishing agreed response dates; and
 - continue the 2024-34 Long-term Plan work programme, including and preparing the CD for audit and community consultation and the full LTP for adoption.

Attachments

- Attachment 1. WCC - Memo to Audit and Risk Committee for 29 November 2023 meeting [↓](#)  Page 57



MEMO

To: Wellington City Council Audit and Risk Committee

From: Laura Cannon, Sector Manager - Local Government, OAG

Date: 22 November 2023

Subject: **OAG Update**

This memo provides an update to the Audit and Risk Committee (the Committee) on the OAG's current work programme and areas of focus for the local government sector.

1 Status of 2022/23 local authority audits

Most entities have adapted well to the removal of the statutory deadline extensions we had in the previous two years and had their 2022/23 audits completed on time.

There were 22 local authorities which did not meet the October 2023 statutory deadline due to their own capability and capacity issues (i.e., this was not due to auditor capacity). The majority of these are due to sign during November, and all are due to sign before Christmas.

2 2024-34 Long-term plans

We are waiting for decisions from the new Government regarding the Water Services Reforms, which will impact LTPs. We are liaising with Taituarā and DIA on these matters. In the interim we are proceeding on the basis that, excluding the cyclone-affected councils, LTPs will be prepared and audited in accordance with the usual timetable and will exclude water assets and services after Year 2.

Other than assessing the impacts of the Water Services Reforms, our focus areas for the 2024-34 LTP are largely the same as those in the 2021-31 LTP round. However, we note that this LTP will be the most challenging yet from an affordability perspective.

Auditors will assess the underlying information and assumptions which support your LTP, with a particular focus on the following:

- Consultation document – assessing whether a council's consultation document is fit for purpose i.e., whether it provides an effective basis for public participation by setting out the key options, risks and trade-offs in a clear and understandable way.

- Condition and performance of critical assets – assessing the underlying condition and performance information used by a council to make investment decisions (i.e., for repairs, maintenance and renewals) for its critical assets.
- Capital expenditure ‘do-ability’ – assessing how realistic/achievable a council’s capital expenditure programme is, given past history of delivery, and resource and funding constraints.
- Climate change – many councils identified climate change as a key issue in their 2021-31 LTPs. We expected councils to consider the potential impacts of climate change on their critical assets and communities and how this was included in long-term planning. For the 2024-34 LTPs, these expectations remain and we are interested in how these considerations have developed since 2021. For example, consideration of adaptation or managed retreat strategies, and how councils plan to fund their share of the costs when a severe weather event or other climate emergency occurs.

An additional area of focus for the 2024-34 LTP is the performance framework. Our very first LTP report to Parliament on the 2006-16 LTCCPs set out the performance framework in the Local Government Act which all councils were required to present in their LTPs.

We have not seen much change to councils’ performance information since then and we need to ensure it remains appropriate as a well developed performance framework is critical for effective accountability.

For those councils directly affected by the Water Services Reforms and, therefore, with significantly changed operations going forward, this is an opportunity to review and refresh the performance framework to ensure it is appropriate.

We are likely to focus on:

- How well documented are a council’s judgements as to how it decides on the performance measures to be included in the LTP.
- Confirming that the performance measures included in the LTP are also used for internal reporting and decision-making.

We expect audit and risk committees (some councils also have a specific LTP committee/working group) to exercise good governance and oversight of the LTP throughout its development and production.

Our reports and elected member bulletins from the 2021-31 LTP round are available on our website:

- [Matters arising from our audits of the 2021-31 long-term plans](#)
- [Consulting matters: Observations on the 2021-31 consultation documents](#)
- [Long-term plan bulletins](#)

The OAG is working through the approach to LTP audit fees. We will have an open conversation with councils about the effort, in terms of the hours it will take to deliver an efficient long-term plan audit, and other cost factors that influence the fee.

We expect to be in a position to have these conversations with councils before Christmas.

3 Good practice guidance on performance reporting – local government

As set out in our [2023/24 Annual plan](#) we seek to influence more meaningful and useful performance reporting across the public sector. For reporting to be meaningful, the public needs to be able to understand what services are being delivered at what cost, and the difference that is being made through the delivery of those services. We want to improve the relevance and transparency of performance information and how public organisations report on their performance.

As part of this work, we plan to publish good practice guidance on performance reporting for local government to support the development of councils' long-term plans. This guidance should be available in November 2023.

4 Climate change and local government

Also in our [2023/24 Annual plan](#) is a performance audit to look at how councils are responding to the effects of climate change. This will assess how a cross-section of councils are preparing, and setting priorities, for their response to climate change, including steps they are taking to transition to a low-carbon economy and adapt to climate change effects.

We will also evaluate how these councils assess and report on progress towards the climate actions they have committed to, and the resourcing and governance arrangements they have in place. This work will provide us with a baseline to evaluate future progress. Our audit should help councils that are yet to decide on their climate actions by sharing information and good practice. This report is scheduled to be tabled in Parliament in July 2024.

STRATEGIC RISKS UPDATE

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Unaunahi Māhirahira | Audit and Risk Committee introduces one new Strategic Risk Profile *Inadequate Implementation of Tūpiki Ora and Tākai Here*. This is now part of the Wellington City Council Strategic Risk Register.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
 - People friendly, compact, safe and accessible capital city
 - Innovative, inclusive and creative city
 - Dynamic and sustainable economy
- Strategic alignment with priority objective areas from Long-term Plan 2021–2031**
- Functioning, resilient and reliable three waters infrastructure
 - Affordable, resilient and safe place to live
 - Safe, resilient and reliable core transport infrastructure network
 - Fit-for-purpose community, creative and cultural spaces
 - Accelerating zero-carbon and waste-free transition
 - Strong partnerships with mana whenua

Relevant Previous decisions

The development of this paper was noted at the February 2023 Unaunahi Māhirahira Audit and Risk Committee.

Financial considerations

- Nil Budgetary provision in Annual Plan / Long-term Plan Unbudgeted \$X

2. There are no financial considerations related to this paper.

Risk

- Low Medium High Extreme

3. This paper specifically addresses strategic risks to Wellington City Council and how they are being managed.

Authors	Kim Wright, Principal Advisor Risk Management Richard Leverington,
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.
2. Approve the inclusion of the Risk Profile *Inadequate Implementation of Tūpiki Ora and Tākai Here* as one of Council's strategic risks.
3. Note that the *Inadequate Policies and Controls* risk profile will be presented to the Committee at its next meeting in February 2024.

Whakarāpopoto | Executive Summary

4. The new Strategic Risk Profile *Inadequate Implementation of Tūpiki Ora and Tākai Here* focusses on risks to achieving strategic Māori outcomes and effective partnership with mana whenua.
5. The *Inadequate Policies and Controls* risk profile is in development. This will be presented at the February 2024 Audit and Risk Committee meeting. It is a subset of the wider programme to lift the internal controls assessment from core to good.

Takenga mai | Background

6. The risk was previously captured within the Inadequate Partnership Practice strategic risk. With the adoption of *Tūpiki Ora* and *Tākai Here* this dedicated profile now gives greater visibility.
7. The *Tūpiki Ora* strategy and subsequent Action Plan outline a 10-year shared Council and Mana Whenua commitment to the future wellbeing of Wellington through nourishing environmental vitality, fostering whānau wellbeing and embracing Te Ao Māori. The strategy aligns and connects with the Long-term Plan, District and Spatial Plan and other key strategies. The outcomes and waypoints described in *Tūpiki Ora* provide a guide for the Council to build its own cultural competency and capacity and to partner with Māori to improve wellbeing for Wellington.
8. The *Tākai Here* agreement was signed in 2022 and is a binding pact that recognises the Council's partnership responsibilities and accountabilities to Mana Whenua. Strong partnerships with Mana Whenua provide us with the local knowledge and expertise to support strategic, inter-generational decision-making to achieve *Tūpiki Ora* outcomes.
9. In the Local Government Act 2002, there are specific requirements for Territorial Authorities to enable and facilitate participation by Māori in decision making processes. *Tūpiki Ora* and *Tākai Here* are both foundational documents that guide Wellington City Council in living up to these legal requirements as an organisation.

Kōrerorero | Discussion

10. The *Inadequate Implementation of Tūpiki Ora* and *Tākai Here* Strategic risk profile describes the risks to the Council if we fail in, or neglect, our partnership commitments. It also covers the risks to achieving strategic outcomes for Wellington if we do not deliver on the vision and outcomes of *Tūpiki Ora*.

11. The Maximum Credible Risk is rated critical/high and the target achievable risk as low. The target risk considers a 10-year horizon, in line with the Tūpiki Ora Action Plan timeframe.
12. Subject Matter Experts from Mataaho Aronui have agreed that the activities underway and planned for future years will adequately address risks posed by this threat.

Ngā mahinga e whai ake nei | Next actions

13. Reporting on this risk profile will be by exception and its risk ratings will be included in the summary dashboard reporting to future Committee meetings.

Attachments

Attachment 1. [Tupiki Ora and Tākai Here implementation risk profile](#)  

Page 65

This Wellington City Council Strategic Risk Profile – INADEQUATE IMPLEMENTATION OF TŪPIKI ORA AND TĀKAI HERE

Threat Title	INADEQUATE IMPLEMENTATION OF TŪPIKI ORA AND TĀKAI HERE		
Threat Description	Inadequate alignment of strategies, plans and programmes with Tūpiki Ora outcomes and/or inadequate recognition and implementation of our Tākai here partnership commitments.	Last Review Date	September 2023
Risk Owner	Tatai Heke Māori Chief Māori Officer	Next Review Date	September 2024

Governance	
Governance Body	Topics Reported On:
Unaunahi Māhirahira Audit and Risk Committee	<ul style="list-style-type: none"> Overall strategic risk rating status
Kōrau Mātinitini Social, Cultural, and Economic Committee	<ul style="list-style-type: none"> Māori strategic development, Māori partnerships, arts, culture, and community services, economic development and city social housing
Kōrau Tūāpapa Environment and Infrastructure Committee	<ul style="list-style-type: none"> Environmental and city planning outcomes Planning and environmental risk management aligned with Tūpiki Ora outcomes
Kōrau Tōtōpū Long -Term Plan, Finance and Performance Committee	<ul style="list-style-type: none"> Performance and risks associated with CCOs
Executive Leadership Team (ELT)	<ul style="list-style-type: none"> Delivery of Tūpiki Ora action plan (quarterly) Chief Executive's KPIs Tākai Here partnerships

Monitoring and Exception Reporting
<ul style="list-style-type: none"> This risk profile summarises actions up until September 2023 to manage the risks from inadequate implementation and also gaps and opportunities of future risk management.

Current Risk Treatments/Controls/Mitigations
<ul style="list-style-type: none"> Governance representation through dedicated Māori ward elected member on Council and Pouwiwi representatives from mana whenua. Pouwiwi representatives sit on all Council committees. Co-designed Tūpiki Ora Māori Strategy. Principles, vision, outcomes and waypoints for Māori wellbeing launched May 2022. A 10-year strategy with multigenerational focus. Monitoring and reporting framework in place – reporting progress to mana whenua, governance and ELT Tākai Here agreement signed in May 2022 with Te Rūnanga o Toa Rangatira, Taranaki Whānui ki Te Upoko o Te Ika and Te Rūnanganui o Te Āti Awa. Tākai Here leadership forum established. Tātai Heke Māori - Chief Māori Officer on Executive Leadership Team. Dedicated Mataaho Aronui team focused on strengthening relationships, presence, and intelligence so that Māori are engaged in Wellington's future All Business Unit Plans are renewed annually and contain specific sections on how each Business Unit will work with mana whenua. Cultural capacity building for Council workers through te reo Māori training available to all staff, and active kapa haka group. All of Council work programme to implement Tūpiki Ora Action Plan approved by ELT in July 2023

Document Owner: Risk Management Team
Template last updated: July 2023
Next template review: July 2024

Risk Assessment – Consequences		
Consequence Categories	Consequence Rating	Consequence Rating - Rationale
Democracy and Governance	Moderate	Wouldn't expect the mana whenua representation to reduce this cycle but this could change in the future because Council has 'opted in' to the inclusion of a Māori ward and Pouwiwi representation on Council and Committees. If we aren't good partners mana whenua can choose to opt out.
Partnerships, Relationships and Influence	Severe	The relationship is strong now but neglecting our partnership commitments and not giving effect to Tūpiki Ora would cause serious harm to the relationships with mana whenua. Mana whenua take a long-term view, seriously harmed relationships will take time to rebuild trust.
Critical Services Delivery	Minor	There is currently no significant Māori input into the delivery of these services (but some input into the design of them). The main impacts would be in lost opportunities or increased costs/delays through not incorporating Mātaraunga Māori (e.g. in proposed road corridors or debris disposal).
Wellbeing Outcomes Services Delivery	Severe	This is a critical element and Tūpiki Ora is a strategic planning for delivering community wellbeing - particularly for Māori. Inadequate implementation could result in short-term thinking, and a lack of strategic view on intergenerational outcomes. Māori need to see themselves in community services and outcomes.
Community Health and Safety	Moderate	Not likely to have a significant outcome on community physical health and safety short-term but longer term deprioritising Tūpiki Ora priority on safe spaces for whanau and tamariki could have some impact on how safe our spaces are for all ages.
Priority Investments, Projects, and Programmes of Work	Moderate	There are no Priority Investment projects currently focussed primarily on Tūpiki Ora outcomes but many major projects would benefit from greater and more timely input from mana whenua. There is a lack of capability and capacity to do this effectively currently and also limited capacity with our mana whenua advisors. This can lead to delays and increased costs for projects that have to change scope part way through.
Environmental	Minor	Tūpiki Ora doesn't specify targets but advocates for a Mātaraunga Māori approach to te Taiao. Inadequate implementation impacts are more likely to result in lost opportunities for better environmental outcomes than direct harm,
Reputation, Perception and Trust	Major	Pōneke is a progressive city with strong community support for greater representation of pre-European history, Te Ao Māori and te reo Māori in the city. If the Council is seen to reverse course on well-supported initiatives it will erode trust and reputation with Māori and many non-Māori.
Worker Health and Safety	Minor	Not expected to directly impact kaimahi physical health and safety. However could potentially reduce psychological safety for Māori staff who feel less valued by Council.
Capability and Capacity of Council People	Moderate	We would be seen as deprioritising cultural safety through reducing our commitment to cultural safety training and capability as kaimahi would be less equipped to work effectively with Māori. Could reduce morale, trust in Council for Māori staff affecting recruitment and retention.
Critical Assets	Minor	The physical condition or value of existing assets would not be effected but there is a risk of lost opportunity if local knowledge of vulnerable sites etc is not applied. Mātaraunga Māori can add valuable information to asset planning for resilience for example.
Finances	Minor	Investment considerations are one sided, with costs considered but little to no economic or financial benefit articulation. The value of a culturally rich and diverse city is not well evidenced from an economic perspective. Council currently operates a 10-year Māori Outcomes budget with no budget overruns. Savings have been made, when required, in line with wider Council cost pressure savings.
Data Information Technology and Tools	Minor	Not expected to impact on the data, information and technology Council needs to function. If there is a lack of trust in Council due to lack of support for Tūpiki Ora and Tākai Here, information from mana whenua could be slower or not forthcoming which could impact on the completeness and timeliness of Council service delivery. For example, delayed review of resource consents.
Legal, Regulatory and Compliance	Minor	No breaches or direct legal consequences. Prolonged lack of support for Tūpiki Ora and Tākai Here or severe reversal of partnership commitments could be grounds for discourse.

Future Risk Treatments/Controls/Mitigations

- Reporting measures and indicators being developed, review of available data and data collection process across Council being developed – will be implemented in 2023-24
- Reflection of priorities and outcomes aligned with Tūpiki Ora in the 2023-2026 Long-Term plan
- Risk appetite statement to be developed to reflect Council’s tolerance for risks to our mana whenua partnerships
- Kōkiritia Māori capability framework for all staff in development – due for roll out in September 2023

Gaps, Issues or Opportunities

- **Opportunity:** To leverage data from across the organisation to provide meaningful insights
- **Issue:** Central government and Council leadership have a strong influence on the delivery of outcomes

References

Relevant Legislation	Related Plans, Policies, and Strategies	Related Procedures, Information and Documents
<ul style="list-style-type: none"> • Local Government Act 2002 • Resource Management Act 1991 	<ul style="list-style-type: none"> • Tūpiki Ora Māori Strategy (May 2022) • Tākai Here Partnership Agreement (April 2022) • Te Tauihu o Te Reo Māori – Māori Language Policy • Te Atakura – First to Zero • Housing Strategy • Accessible Wellington Action Plan • Aho Tini 2030 – Arts, Culture & Creativity Strategy • Economic Wellbeing Strategy • Heritage Policy – Our Capital Spaces • Strategy for Children and Young People • Delegations Policy (for support to Mana Whenua during emergencies) 	<ul style="list-style-type: none"> • Treaty of Waitangi 1840 • MoUs with central government agencies and departments • MoUs with community groups

Relevant Reports to Other Committees

- **Social, Cultural and Economic Committee (25 May 2023)** - Tūpiki Ora Progress Report (signalled high volume of projects but low impact and exceeding mana whenua capacity); Completed Monitoring and Reporting Framework; External Report Review: State of Māori Wellbeing Snapshot

Additional Commentary

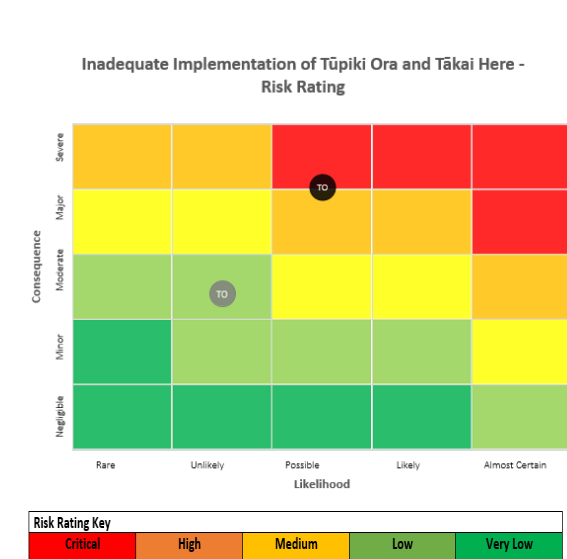
Links to Other Threats and Risks

- This risk profile is strongly aligned with our Inadequate Partnership Practice profile which covers risks arising from the threat of poor partnership with key agencies other than mana whenua: central government agencies, CCOs, community agencies and business groups. There is also strong alignment with risk profiles for the Inadequate Strategic Planning and Inadequate Climate Change response threats, due to their focus on strategic outcomes for Wellington, which in turn are aligned with Tūpiki ora outcomes.

Underlying Trends and Influencers of the Risk

- National level guidance and policy frameworks and governance structures continue to reflect an increased commitment to Māori participation and representation. For example, governance arrangements for the Affordable Waters initiative. Council has made its own commitments but should remain aware of and compliant with national level requirements. The national level commitments will likely influence the availability of partners due to increased expectations on partners from agencies other than the Council.

Risk Analysis



Field	Descriptor/Rating
Inherent Risk Rating	Severe/High
Target Residual Risk Rating	Low
Likelihood	Possible
Consequence	Major

Maximum credible scenario (Inherent risk):

Inadequate implementation to our Tākai Here partnership through piecemeal collaboration and engagement, meeting minimum legal requirements. Inadequate capability, capacity commitment and methods to incorporate Tūpiki Ora into strategic planning and Business Unit workplans. Inability to measure alignment, progress our outcomes for Māori.

Note: Tūpiki Ora is a 10-year strategy focussing on multigenerational outcomes. The target risk rating is based on expected risk in 10-years following delivery of current and future activities covered in the action plan.

CCO RISKS THAT IMPACT ON COUNCIL'S STRATEGIC RISKS

Kōrero taunaki | Summary of considerations

Purpose

- This report to Unaunahi Māhirahira | Audit and Risk Committee outlines:
 - How Council Controlled Organisation (CCO) risks are managed and reported.
 - CCO risks that have an implication for WCC strategic risks.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- | | |
|--|---|
| Strategic alignment with priority objective areas from Long-term Plan 2021–2031 | <input checked="" type="checkbox"/> Sustainable, natural eco city
<input checked="" type="checkbox"/> People friendly, compact, safe and accessible capital city
<input checked="" type="checkbox"/> Innovative, inclusive and creative city
<input checked="" type="checkbox"/> Dynamic and sustainable economy

<input type="checkbox"/> Functioning, resilient and reliable three waters infrastructure
<input checked="" type="checkbox"/> Affordable, resilient and safe place to live
<input type="checkbox"/> Safe, resilient and reliable core transport infrastructure network
<input checked="" type="checkbox"/> Fit-for-purpose community, creative and cultural spaces
<input checked="" type="checkbox"/> Accelerating zero-carbon and waste-free transition
<input checked="" type="checkbox"/> Strong partnerships with mana whenua |
|--|---|

Relevant Previous decisions

CCO risk registers were presented as part of the process of approving the 23/24 CCO Statements of Intent at the June 2023 Finance & Performance Committee meeting.

Significance

The decision is rated low significance in accordance with schedule 1 of the Council's Significance and Engagement Policy.

Financial considerations

- | | | |
|---|--|---|
| <input checked="" type="checkbox"/> Nil | <input type="checkbox"/> Budgetary provision in Annual Plan / Long-term Plan | <input type="checkbox"/> Unbudgeted \$X |
|---|--|---|

Risk

- | | | | |
|---|---------------------------------|-------------------------------|----------------------------------|
| <input checked="" type="checkbox"/> Low | <input type="checkbox"/> Medium | <input type="checkbox"/> High | <input type="checkbox"/> Extreme |
|---|---------------------------------|-------------------------------|----------------------------------|

- This paper is reporting on risk. It does not create or exacerbate risks to the Council. It provides a summary of CCO risks and those that have an implication for WCC.

Author	Jamie Crump, Manager CCO Partnerships & Planning
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion

That Unaunahi Māhirahira | Audit and Risk Committee:

- 1) Receive the information.
- 2) Note the Council Controlled Organisation (CCO) risks that have an implication for Council group risk.
- 3) Note that more fulsome CCO risk information is contained in CCO Statements of Intent and regular reporting through the Kōrau Tōtōpū - Long-term Plan, Finance and Performance Committee.

Takenga mai | Background

How CCO risks are managed and reported

3. CCOs independently manage Council facilities and deliver services and activities to Wellington residents and visitors to Wellington.
4. Each CCO has a robust risk management framework and register that is reviewed regularly at executive and Board level to identify events and/or circumstances as well as the probability and impact that these have on their operation. Each CCO risk register is available to Council to view on request.
5. Each CCO Board operates a Finance, Audit & Risk Committee that meets regularly throughout the year (the only exception being the Cable Car due to the size of the organisation).
6. CCO risks are operational risks as opposed to strategic risks. These operational risks are managed through existing work programmes.
7. Each CCO has a business continuity plan, and where applicable has a plan for each individual site/venue that it manages.
8. CCO risks are formally highlighted and reported as and when necessary as part of their quarterly reports to Council and in their Statement of Intent to the Finance and Performance Committee. On an informal basis risks are highlighted as part of regular in person meetings that the WCC Economic Wellbeing and CCO team has with each individual CCO.

CCO risks that have an implication for WCC Strategic Risk

9. Some CCO risks have implications for Wellington City Council (WCC), these are captured through our strategic risk assessment and reporting framework to the Audit & Risk Committee.
10. These CCO risks are not assessed as standalone threats to WCC but as possible contributors to WCC's strategic risks.
11. The ongoing financial impact of COVID-19, has been a significant challenge for several of our CCOs. This was captured in our strategic risk reporting in our COVID-19 risk profile (Note: this profile is now refocussed as our *Pandemic* risk profile, focusing on future novel diseases). We noted that the pandemic impacted delivery of our community wellbeing services, including those of our partners/CCOs. These impacts would be expected to be repeated in future pandemic breakouts.

12. A further key cost driver for all CCOs is personnel costs due to the nature of their service operations. The additional challenge in the current environment of low unemployment rates has been the ability to attract and retain staff in such a competitive market. This has added to the costs of salaries and wages over and above the already high inflationary increases. A potential budget risk for Council is the requirement of additional financial support for CCOs. This challenging environment is reflected in the *Workforce constraints and future of work* risk profile.
13. Cybersecurity risks to our CCO's have been added to our *Cyberattack* risk profile. In addition, Experience Wellington recently began receiving their IT services through Smart Council which improves the mitigations of their cybersecurity risks.
14. CCOs are helping to mitigate the new strategic risk of Council not adequately implementing Tūpiki Ora and Tākai Here. A collective CCO Tūpiki Ora action group has been set-up and is making good progress on helping deliver a range of actions under the strategy including helping pilot a Rangatahi Pathways programme in conjunction with Council's PSR team.
15. The changing insurance landscape for CCOs could have financial implications for WCC. A risk treatment recorded on our Inadequate Financial Planning and Practice risk profile is part of an all-of-Council Insurance Maturity Roadmap. This includes considerations such as future pricing and availability of insurance in a city known to be seismically active, and taking climate change impacts on other natural hazards into account. Incorporating climate change impacts into CCO planning helps mitigate the *Inadequate Climate Change* response strategic risk.
16. A further CCO risk that has an implication for WCC strategic risk is how we manage building safety of our assets (e.g. the Opera House, Michael Fowler Centre and the Bond Store) to make them more resilient to natural disasters. Resilience improvements help to mitigate our *Major Earthquake and Tsunami* strategic risk and our *Other Hazard Emergency* risk.
17. The risks referred to in this paper do not include Wellington Water Limited (WWL). Reporting on risks associated with major infrastructure projects delivered in partnerships, including with WWL, is provided to Kōrau Tūāpapa - Environment and Infrastructure Committee. It is also captured in WCC's Inadequate partnership practice strategic risk.

Kōwhiringa | Options

18. A potential improvement to how CCO risks are reported could be for the Strategic Risk Register dashboard 'Emerging Risks' content to include commentary on any new or increasing CCO risks that may have implications for WCC in the future.
19. Continue with the current frequency and process of formally reporting CCO risks to Council (i.e. via formal CCO Quarterly Reporting, Statements of Intent and an annual summary paper on CCO risks that have an implication for WCC), OR should they be desired, suggest enhancements for reporting CCO risks.

Ngā mahinga e whai ake nei | Next actions

20. Make any desired enhancements to how CCO risks are formally reported to Council.

Attachments

Nil

QUARTER TWO INSURANCE UPDATE

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Unaunahi Māhirahira | Audit and Risk Committee provides an update on the year's insurance policy renewal activity and a summary of insurance reserve expenditure.
2. It also provides an update on the progress that officers have made against the insurance roadmap.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
 - People friendly, compact, safe and accessible capital city
 - Innovative, inclusive and creative city
 - Dynamic and sustainable economy
-
- Functioning, resilient and reliable three waters infrastructure
 - Affordable, resilient and safe place to live
 - Safe, resilient and reliable core transport infrastructure network
 - Fit-for-purpose community, creative and cultural spaces
 - Accelerating zero-carbon and waste-free transition
 - Strong partnerships with mana whenua

Strategic alignment with priority objective areas from Long-term Plan 2021–2031

Relevant Previous decisions

Kāwai Māhirahira | Audit and Risk Subcommittee 14 September 2022 received the Insurance roadmap report and endorsed the workplan set out in that report, instructing officers to report back to the committee on a regular basis outlining progress against the workplan.

15 February 2023 report to Unaunahi Māhirahira | Audit and Risk Committee provided an update on the 2022/23 insurance renewals process and Insurance Roadmap workstreams.

9 November 2023 meeting of the Kōrau Tōtōpū | Long-term Plan, Finance, and Performance Committee discussed risks associated with existing Council-owned income-generating assets and recommended consulting on diversifying the portfolio to reduce risk, including insurance risk, and better align investment with Council's strategic objectives.

Financial considerations

- Nil Budgetary provision in Annual Plan / Long-term Plan Unbudgeted \$X

3. Insurance policy purchases are all budgeted within the Annual Plan / Long term plan

Risk

- Low Medium High Extreme
4. The risk topics discussed throughout this paper are becoming clearer and better understood as more work is completed on the Insurance Roadmap workstreams. The level of detail provided is telling a story of an evolving understanding of the Insurance risk and how we can put in place a long term strategy to meet this risk through traditional risk transfer methods as well as new, more sophisticated tools for self management of the risk.

Author	Sarah Houston-Eastergaard, Treasurer
Authoriser	Andrea Reeves, Chief Financial Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.
2. Note the workplan updates and summary.
3. Endorse the ongoing execution of the work plan given the challenging economic climate.

Whakarāpopoto | Executive Summary

5. The insurance market remains hard with Global natural catastrophe claims, especially those related to climate change, continuing to occur at high rates, with high associated costs being passed on to insureds.
6. Overall, Council's insured position has improved slightly since last update in February 2023. Insurance remains expensive and challenging to come by, with capacity on offer to the Wellington market restricted by our unique risk profile and capacity of insurance on offer particularly in light of a very expensive year due to a number of large scale events across the globe.
7. The Insurance Roadmap has recently stepped in to its second year, with development occurring across all four workstreams, enabling a better understanding of the risk faced by Wellington City Council and how this risk is to be managed on a strategic and sustainable basis.
8. In parallel to the work being performed on the Insurance Roadmap, development towards solutions has occurred in November with Council agreeing to consult on options to better address balance sheet risk and diversify risk away from the geographic concentration of the Wellington Region.
9. This report to the Unaunahi Māhirahira | Audit and Risk Committee provides the update agreed to in the resolutions of the 14 September 2022 Kāwai Māhirahira Audit and Risk Subcommittee – specifically that Council officers will report back to the committee on a regular basis as a standing item.

Takenga mai | Background

10. Council holds 14 insurance policies which cover a wide range of risks that Council faces in its day-to-day operations. Of these, four policies are material damage policies which cover risks relating to physical damage. Six policies cover council's liability risks, ranging from damage we may do to third party assets to liability arising from services we provide or advice we give. The remaining four policies cover minor risks.
11. Our material damage policies are intended to cover catastrophic losses, as such, they have high deductibles. Any day-to-day losses are covered by the Insurance Reserve fund. These policies are also loss limited (a maximum pay out regardless of damage is set), this limit is set based on the expected losses to the portfolio, the availability of capacity in the market, the associated premiums, and budgetary constraints.
12. Any losses which fall outside of the insured limit are covered by Council's balance sheet. A level of headroom is held within debt to ratio limits to maintain an appropriate level of debt capacity should it be required to cover these losses.
13. Officers work with our brokers to place these policies in both the local and international markets. These policies have over 50 different insurers covering different portions of

the policies. A number of these are London based markets, due to the lack of capacity available in the New Zealand insurance market.

14. The 2023/24 annual renewal has now been completed. This paper provides a summary of the renewals that have taken place since our February 2023 update to the Unaunahi Māhirahira | Audit and Risk Committee including the current insured position of the Council leading up to the next renewals.
15. At the September 2022 Audit and Risk Committee, officers presented the Insurance Roadmap to the committee. This paper provides an update on the progress officers have made on the workplan, under the four workstreams described in that Roadmap.

Kōrerorero | Discussion

Insurance Market Update

16. Global natural catastrophe claims, especially those related to climate change, have continued to occur at high rates. Global economic losses reached USD194bn.
17. High levels of uncertainty continue to contribute to conservatism for investors into the market, though improving re-insurance capacity has helped to ease some of the capacity pressure being felt.
18. Markets are increasingly requiring high quality information and ample time to review that information. Early provision of information is considered key to an orderly renewal with opportunity to review quotes. Anecdotally, the insurance market visit to London this year came very soon after the dual catastrophes of the Anniversary Day floods in Auckland and Cyclone Gabrielle. Insurers were genuinely surprised when officers informed them that Wellington City was not impacted by either of these events due to our geographic distance from both impact zones. This demonstrates a need for us to put our best foot forward when providing detailed information to the markets, particularly in Europe to get the best outcomes possible for the Council.
19. Inflation is proving to be more persistent than expected, increasing both the cost of claims and causing a more prolonged period of rate increases across the board. Inflation continues to impact asset valuations also with replacement costs increasing significantly since the end of the covid pandemic.
20. Generally, premium rates are following an upward tendency with minimum increases of 5-15% and some accounts experiencing 30% uplifts.
21. Generally the availability of capacity has grown recently with the following information received from Councils insurance brokers:

“Favored and well-performing risk types, including significant portions of the Financial Lines market, experienced an expansion of underwriting appetite, an increase in available capacity from new and established insurers, and healthy competition, driven largely by insurers’ return to rate adequacy, an interest rate driven boost in insurer performance, and confidence that coverage language had been (re)aligned with insurer intent.”
22. Higher-risk, natural catastrophe-exposed, and claims-impacted risks, as well as those not demonstrating mature risk management practices, experienced the most significant price increases and capacity constraints, driven largely by natural catastrophe-driven volatility, a challenging early-2023 reinsurance market environment, and rising legal settlement amounts (e.g., “nuclear verdicts”).

-
23. Across all risk types, the underwriting environment was disciplined and focused on risk differentiation. Superior results were achieved through early engagement with insurers and robust, differentiating submission details, including valuation methodologies, risk control practices, improvements implemented, and lessons learned from past claims.”
 24. From Council Officers’ perspective, and through conversations with our insurers, Council sits well within the last section described above through the work we are carrying out to understand our risk profile and telling our story directly to the insurance market, we set ourselves apart in our risk profile and provide the market with good reason to offer us the capacity we require and can afford.

2023 Insurance Renewals

25. All 2023 renewals have been completed successfully within the overall insurance policy budget.
26. Total Material Damage capacity increased by 8% (year on year), with premium increases of 20% overall. In the face of a challenging insurance environment this is a good result, with reports of premium increases of as much as 50% across the market. Most insurers had indicated an approximate 30% increase for portfolios without recent loss history, exceeding this level for those with recent losses.
27. Work towards the 2024/25 Material Damage policies has commenced. Next year’s policy renewal looks to be challenging with added complexity around a change in government and the resulting changes to reforms and legislation that will impact the sector. Officers continue working to the assumption that the belowground infrastructure policy will remain with Council for the foreseeable future. This policy is well positioned, as a stand alone policy, to be uplifted in to a new entity should that be the eventual outcome of water reforms.
28. Above ground infrastructure assets are also likely to become more difficult to insure with increasing resilience issues and growing valuations due to increased costs of input materials and labour costs, along with the assumed increase in the risk profile for Wellington as a result of the National Seismic Hazard Model ([NSHM - National Seismic Hazard Model - GNS Science | Te Pū Ao](#)).
29. Liability policies have recently been completed for the year also, with premiums increasing by 8% for the same level of cover as the previous year which is a positive result after indications of ongoing increases in excess of 15%.
30. All minor policies were also successfully renewed. Notably, the motor vehicle premium increased by 66% due to poor claim performance over the previous policy period.
31. Overseas travel, while a minor cost, increased by 90% as a result of significant increases in days travelled.
32. Additional policies are procured as necessary to cover additional risks during construction. These policies operate in tandem with the main covers discussed earlier when assets are pre-existing, or standalone where assets are built new. Officers have placed or extended policies to cover the construction for Te Matapihi, Let’s get Wellington moving and the Sludge Minimisation facility being constructed at Moa Point.

Insurance Reserve Performance

33. The insurance reserve is a balance sheet reserve that has been building up since 2001, with a current balance of \$13.8m as at 30 June 2023. The reserve is funded through rates each year with a current year allocation of approximately \$1.6m being collected for the purposes of self insuring transactional losses (below excess claims) relating to Council's day to day operations.
34. The insurance reserve ensures that day to day losses which would normally be an insurance claim except that they fall below the excess on the Council's policies, are managed appropriately.
35. In any year if the reserve expenditure is below the budgeted amount, the remainder is applied to the insurance reserve fund on the balance sheet, which is intended to build up in order to pay for the material damage excess in a major event.
36. For the year ended 30 June 2023, a total of \$1.1m of the \$1.6m budget for the period has been paid from the insurance reserve fund, with the remainder to be applied back to the reserve fund. With the intention of continuing to build the reserve.
37. Post 30 June 2023 there have been a number of notable claims – including the St James flood, Shelly Bay fire, and a high number of slips, which will put pressure on remaining within the budget for the fund for the current financial year.
38. Over recent years, the number of claims to the fund have been steadily decreasing, while the average cost of claims is rising. This is resulting in decreasing average contributions to the reserve fund.
39. As a result of this, Officers will look to test the assumptions around the level of contribution to the fund. The annual contribution to the reserve has remained static at approximately \$1.5m since the 2015/25 Long term plan and with increasing pressure on both household and council finances of late, this conversation will be held through the LTP process to assess best timing for introducing an increase to the annual budget for this.
40. A separate report will be provided in due course.

Insurance Roadmap Update

41. In 2015 WCC launched the Insurance Management Strategy, described as follows in the 2015-25 LTP
42.
 - Implement our Insurance Strategy which balances externally-procured insurance, internal 'self-insurance', and risk retention and transfer. Our insurance policy aims to achieve an adequate level of insurance with a balance of insurers from local and international markets. Our insurance is mainly for material damage and business interruption. Material damage covers catastrophic losses only, with an internal \$10 million insurance reserve fund (being increased over time) to cover excesses and day-to-day working losses. The insurance coverage includes natural disasters to a limit of liability of \$400 million material damage (buildings, infrastructural assets and contents) and business interruption combined over an asset portfolio of \$4.658 billion (2014/15). Our cover for earthquakes and other natural disasters is informed by Geological and Nuclear Sciences (GNS) on potential losses caused by these events.
43. Since then the markets have changed and hardened significantly making the 2015 strategy insufficient to cover the risks currently faced by the Council.
44. Officers have commissioned work to improve Council's insurance position in the face of challenging markets and increasing local and global risks. This resulted in the Insurance Roadmap, which was endorsed at the September 2022 meeting of the Kāwai Māhirahira | Audit and Risk Subcommittee. The Insurance Roadmap sets out a

workplan including four workstreams – Governance, Internal Partnership, purchasing decisions and Risk modelling.

45. During the first year of the Roadmap – to September 2023, officers have engaged extensively in the Governance and Purchasing decision workstreams of the Insurance Roadmap and have begun work on Risk modelling, in conjunction with AON.
46. For full detail on the workplan and workstreams included in the Insurance Roadmap, this document has been attached to this report.
47. Officers have completed or begun action on all identified activities in Year 0, and have made significant progress against Year 1 activities. Year 0 ran from September 2022, when the Roadmap was presented to this committee to June 2023. Year 1 is the current year.
48. The following sections focus on the workstreams described in the Insurance Roadmap, a brief update on each is provided for work completed to date, followed by work to be performed in the next 6 months.

Governance Workstream

49. This workstream focuses on increasing understanding within our governance structures, ELT and Council, enabling better informed decision making.
50. Insurance officers have not run specific workshops with Council, instead have partnered with the Council's Strategic Risk team to deliver risk appetite statements along with other finance papers highlighting insurance issues as needed. Most notably, the recent Balance Sheet Review workshop and report to Council which included material to better quantify and understand the Insurance risk profile Council faces now and in to the future.
51. Though work with the Strategic Risk team the risk appetite relating to insurance was discussed, but has not been finalised. As an interim measure the following statement was agreed to be used. "We will not tolerate actions that have a significant negative impact on long-term financial sustainability. We will hold balance sheet capacity to cover 40-80% of un-insured/accepted expected losses in a major event. We will seek a mix of external insurance and self-insurance cover based on criteria relating to availability, cost, benefit and criticality. Alternative and innovative risk funding will be considered for non-critical assets."
52. The current maximum capacity available on the balance sheet (2023/24) would cover 27% of the un-insured risk across all WCC assets.
53. To meet the risk appetite statement additional insurance or alternative funding or a reduction in the size of the remaining risk would be required.
54. Officers have also engaged with Aon to complete a financial risk tolerance and capacity report. Paper is attached to this paper for reference. This report quantifies Council's risk bearing capacity and will be a key input to inform updated risk appetite statements and the level of alternative risk funding Council should hold. This report is described in more detail in the Purchasing Decisions section.
55. The report highlights that Council's ability to respond fully to a large scale loss is limited to below the level which may be required, based on the current balance sheet capacity

of the Council. This reiterates the need for the insurance roadmap work to be carried out and improving Council's financial capacity to respond.

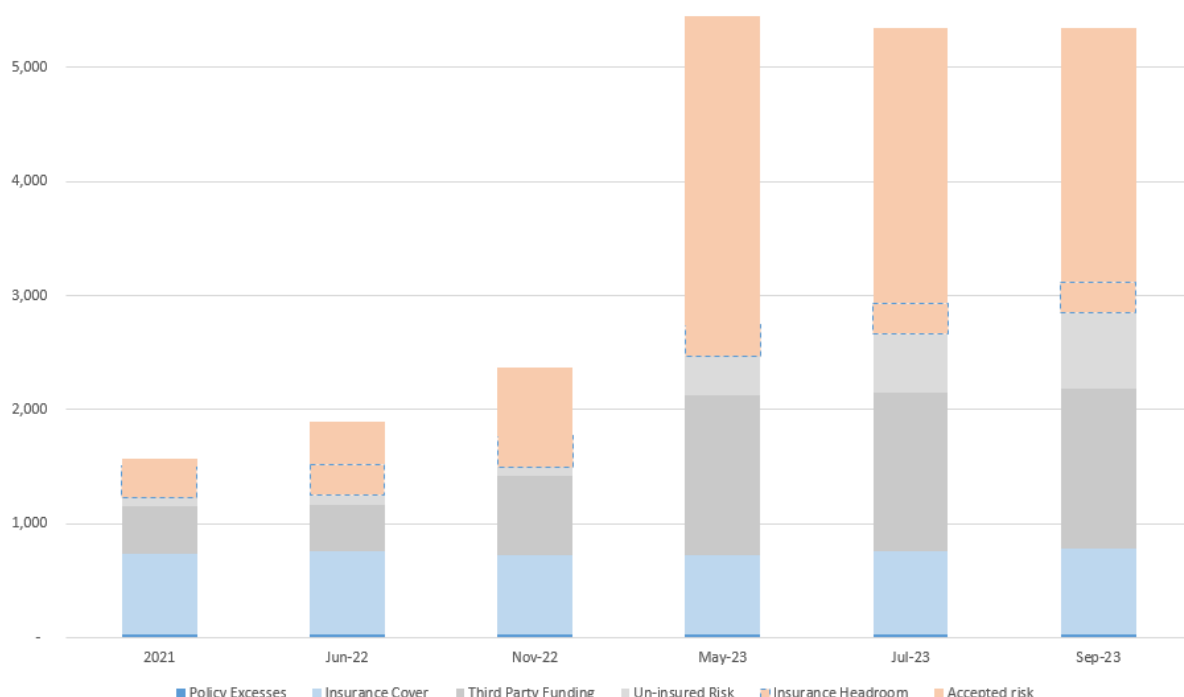
- 56. The Citizens Assembly also informs the current development of the LTP, insurance availability and cost was recognised as a key issue in that report.
- 57. The assembly advocates for efficient use of Council resource, prioritisation of assets and diversification of investments/revenue streams.
- 58. Prioritisation of assets through multi-purpose venues and asset recycling alongside diversification of investments/revenue streams will both help to achieve efficient use of resource in regards to insurance premia.

Internal Partnership

- 59. This workstream focuses on improving relationships and communication across Council.
- 60. Officers have enhanced and maintained relationships across key partners including, Legal, Strategic Risk, Consenting and Assurance.
- 61. Officers are currently working to provide updated and improved guidance, which will facilitate improved insurance management for Council.
- 62. Internal partnerships were further strengthened through the recent Balance Sheet review work where a cross functional team set forth the proposal to consult on diversifying the councils investment portfolio to better respond to geographic concentration risk.

Risk Modelling

- 63. This workstream focuses on improving the expected loss information Council holds, to better inform decision making and the strategic direction of insurance activities.
- 64. The current working assumption defining Council's risk positions is shown below:
- 65.



-
66. This work has developed since 2021 and is updated each time a significant impact or reporting milestone has occurred.
67. The most recent three events that have caused a reforecast are as follows:
- a. Nov 2022 – Jun 23 revaluation of Councils infrastructure assets is recognised – larger risk profile with increased valuations
 - b. May 2023 – Delivery of deterministic modelling and application of high level understanding of the outputs, WCC’s potential exposure is updated – National seismic hazard model (NSHM) delivered in October 2022 – risk profile of Wellington increased significantly with risk assumptions update by GNS
 - c. September 2023 – Completion of 2023 material damage renewals – bettering of position with additional insurance capacity achieved through rationalisation of asset portfolio
68. The next step in this risk modelling work is to update the Loss modelling / PML which will be performed by Aon using the GNS (Institute of Geological & Nuclear Science limited) and NIWA (National Institute of Water and Atmospheric Research limited) system called RiskScape which is currently the only system capable of interacting with the massive database of the NSHM.
69. This workstream has been delayed by the inability of GNS (Institute of Geological & Nuclear Science limited) to loss model using the new NSHM model due to the size and complexity of the model and there being limited systems that could interact with the immense amount of data.
70. To be ready to interact with the NSHM, officers have updated all asset schedules for insurance requirements and completed a provision of data to inform loss modelling to a high level of detail, saving council in external consulting fees through data cleansing activities.
71. Loss modelling results across the Material Damage policies are expected to be delivered by Q3 2024 when systems will be in place to interact with the outputs of the model.

Purchasing Decisions

72. This workstream focuses on improving the process and analysis used to make insurance purchasing decisions at Council.
73. Reviews of the placement strategies across the Material Damage policies have resulted in an 8% increase in total insurance cover purchased. This has been delivered within budget and in the face of hard insurance markets.
74. Officers have made improvements to how the reserve fund expenses are recorded, enabling better analysis. Additionally, the reserve fund purpose and contributions will be reviewed as part of the 24-34 LTP.
75. Alternative risk funding models are being investigated and will depend on a number of the actions mentioned above, including loss modelling, financial risk tolerance and ongoing purchasing decisions.
76. As a discrete piece of work, officers have commissioned AON to assess Council’s risk tolerance based on the current balance sheet position to inform how much damage we can withstand before our financial metrics are impacted.

77. This work covered our risk bearing capacity along with the risk tolerance, both based on the 2023/34 annual plan projected balance sheet.
78. These two measures are defined as follows:
 - a. Risk bearing capacity is a monetary measure of an organisation's ability to withstand losses above the amounts budgeted for loss and expense arising from risk. Alternatively, defined as the maximum acceptable aggregate cost in excess of the budgeted cost of risk. This is a high level guideline based upon the relative size and financial strength of the Council at this point in time.
 - b. Risk tolerance is the level beyond which losses have a material impact on the organisation and third parties (e.g. credit rating down grade). It represents the amount of risk an organisation is financially capable of taking on based on its financial position and strategic objectives.
79. The benefit of this analysis to Council includes providing some tangible guidance on how much of a financial impact Council can withstand after a significant event before it starts impacting our ability to continue under a business as usual scenario. Also outlines a tipping point for when we start to put high levels of stress on across a number of key financial metrics that indicate the Council's ongoing operations are impacted.
80. The work performed differs from the Risk modelling exercise that is still to be undertaken as it does not look at what is causing the risk (i.e. our physical assets), rather it allows us to quantify the financial impact we are capable of absorbing with our current balance sheet structure.
81. This work starts a conversation for how much capital Council might need to deploy towards a Perpetual Investment Fund and/or a captive or other risk transfer mechanism.
82. The full report is attached to this report and any further information can be provided by AON who have agreed to attend the Audit and Risk committee meeting – should they be required.
83. Some CCO (Council Controlled Organisation) assets are already included in Council's policies, officers have reviewed these arrangements. Cable Car assets will be included in the Loss modelling work due by February 2024, described above.

Ngā mahinga e whai ake nei | Next actions

84. During the upcoming year (Year 1), officers will continue work in line with the plan set out in the Insurance Roadmap.

Governance

85. The financial risk tolerance work will be used to inform the development of an alternative risk financing framework.
86. Officers will work with the Strategic Risk team to further define the risk appetite statement.
87. Reports to Council will increasingly include their insurance impacts. Insurance will be a consideration in the LTP and the results of the Risk modelling will be reported back to this committee.

Internal Partnerships

88. Officers will continue to partner with other teams, and will produce updated and improved guidance to support insurance management at council. This will include developing consultation documentation relating to the outcomes of the Balance Sheet Review presented to Council on 9 November 2023.
89. Relationships with key partners will continue to be developed.

Risk Modelling

90. The outputs of the risk modelling work, due by Q3 2024, will be used to inform the development of an alternative risk financing framework and to inform future purchasing decisions.
91. Once earthquake modelling is completed, using the NSHM, officers will consider the need for cumulative loss modelling, which would include flood risk, and climate change risk modelling, noting this will require additional (as yet unbudgeted) cost.

Purchasing Decisions

92. Further review of the placement strategy for 2024 will be informed by the risk modelling and financial risk tolerance, with options to implement alternative risk financing models considered. Further update on this process will be provided in the next report to the Unaunahi Māhirahira | Audit and Risk Committee.
93. The benefit of further CCO inclusion in the Council Material Damage policies will be considered.

Alternative Risk Financing Options

94. Officers will engage with the 'Parametric Thinktank' led by Aon and contributed to by Tonkin & Taylor, Holmes Consulting and Underwriters. The thinktank will look to innovate a parametric solution using Wellington City Council's assets as example inputs. Innovation could lead to better risk understanding, more equitable insurance options for insureds and positive alternative solutions for the Local government sector.
95. The insurance reserve fund is currently the only alternative risk finance option Council has. This fund is used to cover operational losses which fall below excess and to cover material damage excesses in a major event.
96. The reserve fund is not currently sufficient to fulfil the second of these purposes.
97. Officers will analyse the reserve fund expenditure and propose options to expand Council's alternative risk finance options including a captive solution, which could be a multi-purpose vehicle to improve Council's insured position.

Attachments

- | | | |
|---------------|---|----------|
| Attachment 1. | Alternative Risk Financing Feasibility Study ↓  | Page 81 |
| Attachment 2. | Insurance Roadmap report ↓  | Page 101 |
| Attachment 3. | Roadmap - workplan ↓  | Page 132 |

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Wellington City Council

Alternative Risk Financing
Feasibility Study

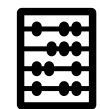
27 September 2023



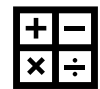
Introduction

This document sets out the results of the first phase of a feasibility study for Wellington City Council (“WCC”) to consider the alternative risk financing options available and what will be a sustainable approach for the future.

In particular this report covers:



1. Benchmark Risk Bearing Capacity Analysis



2. Quantitative Tolerance Analysis



3. Proposed MDBI Loss Limit Scenarios



4. Next Steps

1

Benchmark Risk Bearing Capacity Analysis

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Risk Tolerance Background

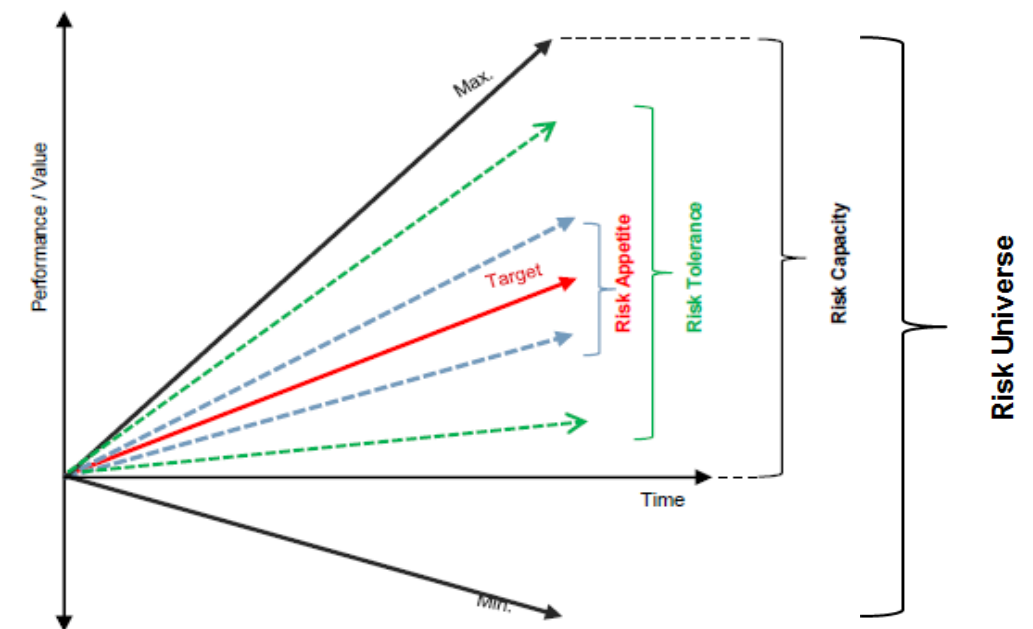
The level of risk an organisation can retain depends on a number of factors, including:

- . Financial position
- . Culture
- . Future plans

Generally, risk appetite can be considered as the amount of risk that an organisation is comfortable retaining, i.e. it feels it can manage the potential financial impact of a loss within its internal resources without placing undue strain on cash-flow or solvency. In other words, it is the amount of risk an organisation is *willing* to take on.

Risk tolerance is the level beyond which losses have a material impact on the organisation and third parties (e.g. credit rating down grade). It represents the amount of risk an organisation is financially capable of taking on based on its financial position and strategic objectives.

This section focuses on the latter definition: an independent review of risk tolerance. However, we start with a wider evaluation of risk capacity, or more completely, risk bearing capacity.



Benchmark Risk Bearing Capacity Model

Risk Bearing Capacity ('RBC') is a monetary measure of an organisation's ability to withstand losses above the amounts budgeted for loss and expense arising from risk or, in other words, the maximum acceptable aggregate cost in excess of the budgeted cost of risk. RBC offers a high level guideline based upon the relative size and financial strength of a company or group.

It should be recognised that the RBC estimate:

- . Provides an indicative benchmark only and, therefore, should not be relied upon in isolation for decision making purposes.
- . Is inclusive of unbudgeted cost arising from both the risk classes that are traditionally classed as insurable and also those that are "uninsurable" or currently uninsured, which can also exhaust a company's risk bearing capacity.

The methodology of the desktop risk tolerance calculation is in two stages.

- . Firstly a score is derived from three measures (Modified Altman's Z-Score, credit rating and current ratio), which is used to position Wellington City Council (WCC, the Council) in the range of risk tolerance.
- . Secondly, ratio analysis on key financial measures to provide a risk tolerance. The ratio analysis uses a risk range between low to high to estimate the risk tolerance.

WCC risk bearing capacity analysis

Criteria			Score 2024
Credit Rating	If Credit rating lies between AAA and A- the value will be 1; If		
	Credit rating lies between BBB and B- the value will be 0.5;	AA+/A-1+	1.0
	If Credit rating lies between CCC and D the value will be 0;		
Altman's Z-Score	If Z-Score > 2.9 the value will be 1;		
	If Z-Score > 1.2 and < 2.9 the value will be 0.5;	1.58	0.5
	If Z-Score < 1.2 the value will be 0;		
Current Ratio	If Current Ratio > 1.5 the value will be 1;		
	If Current Ratio > 0.5 and < 1.5 the value will be 0.5;	1.00	0.5
	If Current Ratio < 0.5 the value will be 0;		
Total			2.0

Risk Bearing Capacity

A monetary measure of an organisation's ability to withstand losses

The maximum acceptable aggregate cost in excess of the budgeted cost of risk

WCC risk bearing capacity analysis

The criteria above indicate that the maximum possible total score under the above analysis is 3.0, so the Council's score of 2.0 based on its 30 June 2024 Annual Plan indicates an above average risk bearing capacity.

A stress test indicates that an unbudgeted loss of \$260m will increase the Net Debt to Operating Income ratio from 176% to 293%, and from S&P Global's Research Update on WCC late last year, a ratio in excess of 240% will result in a downgrade from the current credit rating of AA+/A-1+. In addition, the Altman's Z-score drops to just below 1.2 distress threshold.

At this level of unbudgeted loss, the Council's risk bearing capacity score will decrease from 2.0 to 1.0, as set out in the table below. We therefore conclude that the Council's risk bearing capacity is approximately \$260m.

WCC risk bearing capacity analysis (post \$260m unbudgeted loss)

Criteria			Score 2024
Credit Rating	If Credit rating lies between AAA and A- the value will be 1; If		
	Credit rating lies between BBB and B- the value will be 0.5;	BBB	0.5
	If Credit rating lies between CCC and D the value will be 0;		
Altman's Z-Score	If Z-Score > 2.9 the value will be 1;		
	If Z-Score > 1.2 and < 2.9 the value will be 0.5;	1.20	0.0
	If Z-Score < 1.2 the value will be 0;		
Current Ratio	If Current Ratio > 1.5 the value will be 1;		
	If Current Ratio > 0.5 and < 1.5 the value will be 0.5;	0.58	0.5
	If Current Ratio < 0.5 the value will be 0;		
Total			1.0



2

Quantitative Risk Tolerance Analysis

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Stress Test Modelling

Aon's approach has been to build a robust financial model to capture the financial results of the company. A number of key performance indicators have been selected, the calculation of which are set out in Table 3 below.

Having established this model, we have then stress tested it by assuming a series of unexpected loss scenarios and determined how these impact the key measures across the period.

We have used the following scales to classify the decrease in these key measures following an unbudgeted loss:

- Low: < 5%
- Medium: 5% - 10%
- High: > 10%

It should be noted that the low, medium and high thresholds within this model can also be altered to reflect the materiality that is specific to the Council.

Key Measures before having applied a range of loss scenarios

Key Measures	Calculation
Debt Servicing BM	Ratio of borrowing costs to revenue
Debt Affordability BM	Ratio of net closing debt to operating income
Current Ratio	Ratio of current assets to current liabilities
SBITDA Margin	SBITDA as a ratio of operating Income
SBIT	Surplus before interest and tax
SBIT Margin	SBIT as a ratio of operating Income
NSAT Margin	NSAT as a ratio of operating Income

WCC Accounts

We have included scenarios at \$10m million loss increments starting at \$10 million and up to \$60 million where all metrics experience “high” deviation.

As the loss scenarios increase, the impact on key measures is reflected through deteriorating outcomes. We have found that measuring the impact according to low, medium and high helps to assess whether the relative deteriorations fall within tolerance thresholds.

Some outcomes of this stress testing is shown in the table below

Loss Scenario:		1	2	3	4	5	6
KPI	Plan Jun 2024	\$10m Loss	\$20m Loss	\$30m Loss	\$40m Loss	\$50m Loss	\$60m Loss
Debt Servicing BM	7%	low	low	medium	medium	medium	high
Debt Affordability BM	176%	low	low	medium	medium	medium	high
Current Ratio	1.00	low	medium	medium	high	high	high
SBITDA Margin	38.18%	low	medium	medium	high	high	high
SBIT	\$125.8M	medium	high	high	high	high	high
SBIT Margin	14.91%	medium	high	high	high	high	high
NSAT Margin	7.68%	high	high	high	high	high	high

Stress testing loss scenarios

All measures experience “high” impact by a \$60m loss scenario.

AON There is greater sensitivity to certain measures, such as NSAT margin.

Risk Tolerance Analysis - Conclusions

Aon have conducted risk tolerance analysis on WCC's 2024 Annual Plan. The analysis suggests the following results:

- 2024 Risk Bearing Capacity (Benchmark): \$260m
- 2024 Risk Tolerance (Stress Testing): \$60m

The risk tolerance stress tests focus on revenue measures and therefore have a lower threshold than the benchmark risk capacity test. The \$60m risk tolerance limit is in a similar order to an annual rates increase of 12%.

However, the risk bearing capacity is more focused on assets, liabilities and debt measures, i.e. it takes into account the flexibility provided by the debt ceiling, i.e. the ability to spread costs over a future generation of ratepayers, so inter-generational equity is an important consideration when comparing these two results.

2024 Risk Bearing Capacity (Benchmark) –\$260m

2024 Risk Tolerance (Stress Testing) – \$60m



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Proposed MDBI Loss Limit Scenarios

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Proposed Risk Retention Scenarios

Based on the results of the risk bearing capacity and risk tolerance analysis, we suggest modelling the following risk retention scenarios (in addition to modelling the existing insurance terms as scenario 0), subject to discussion with WCC:

Scenario	Description
1	\$30m limit captive
2	\$60m limit captive
3	\$90m limit captive
4	\$120m limit captive

The limits suggested above reflect WCC’s balance sheet and ability to increase debt in the event of a significant loss event, noting the intergenerational effect of doing so.

Scenarios 1 and 2 are aligned to the risk tolerance analysis results, meaning that if a loss event were to occur up to \$60m, WCC would be able to absorb much of this within normal operating expense and the ability to increase rates. Pre-funding the captive would provide an additional cushion against the maximum retained loss.

Scenarios 3 and 4 are within the current risk bearing capacity of WCC, meaning that if the maximum retained loss of \$120m were to occur, WCC could absorb through normal operating expense and assets / ability to raise debt.



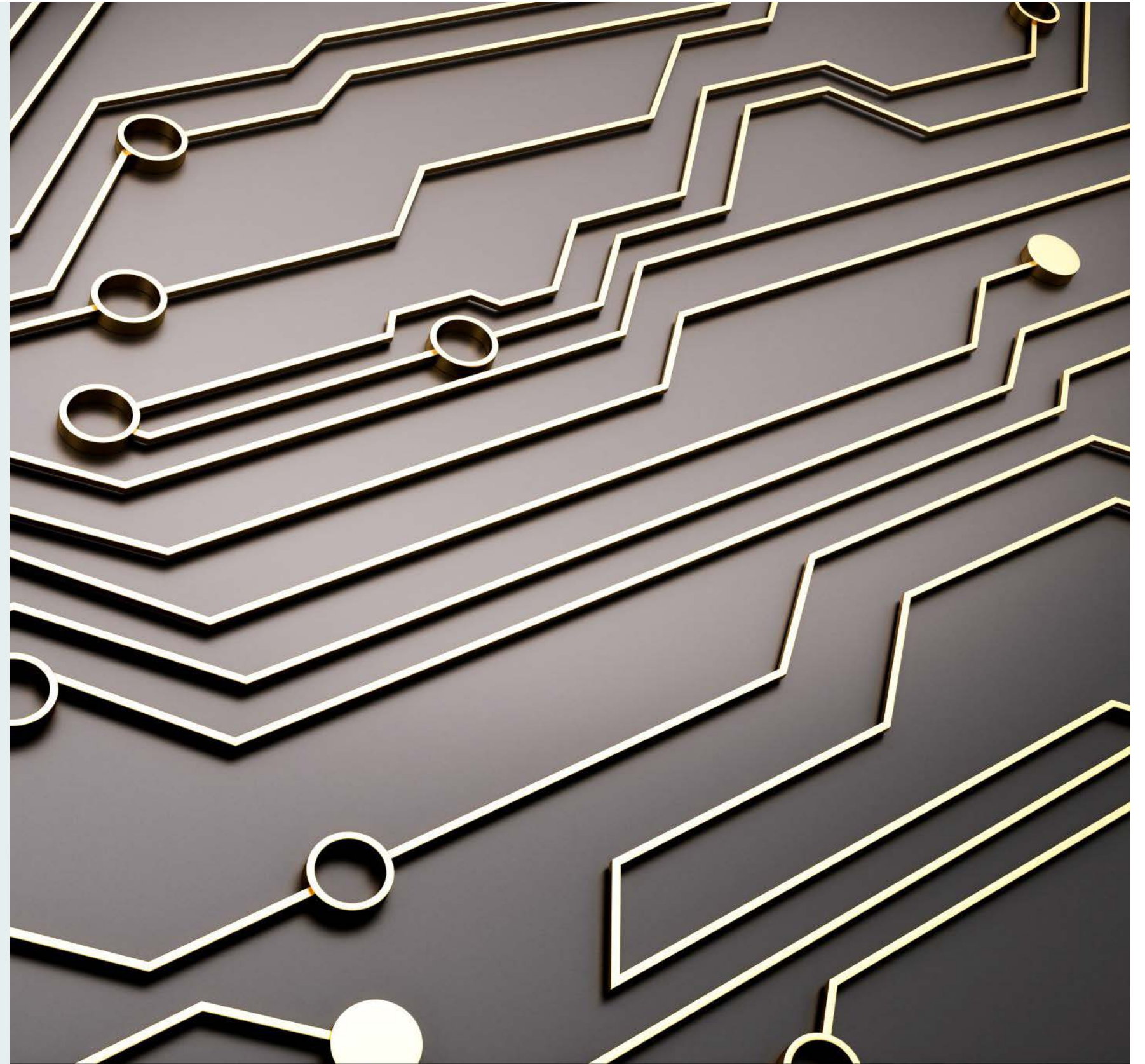
Loss Modelling Approach

We can model the expected annual loss to WCC with different levels of confidence for each of the above scenarios, considering the total cost of risk, reflecting the retained loss and estimated impact on premium.

4

Next Steps

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Next Steps

1. Development of loss distributions
 - Limited MDBI claims experience
 - Can leverage past natural hazard modelling
 - Adjustments can be made to reflect most recent available valuations

2. Loss event modelling
 - Stochastic modelling using loss distribution derived above
 - Modelling of each risk retention scenario

3. Discussion of loss modelling results

About us

Aon exists to shape decisions for the better — to protect and enrich the lives of people around the world.

We provide our clients with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

Aon is in the business of better decisions.



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Notice

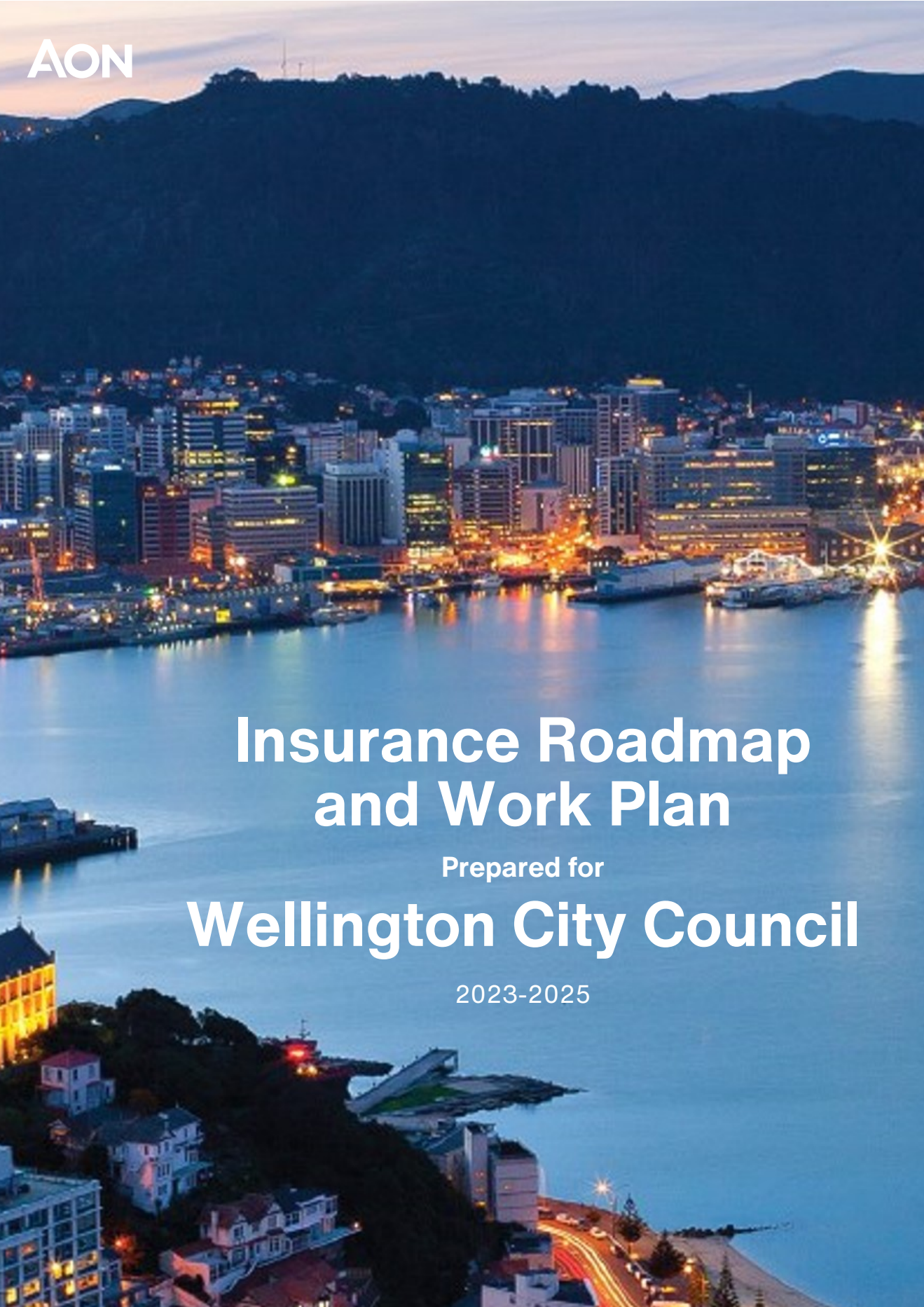
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AON



**Insurance Roadmap
and Work Plan**
Prepared for
Wellington City Council
2023-2025



Wellington City Council
Level 16
113 The Terrace
Wellington

For: Sarah Houston-Eastergaard & Andie Thompson

Dear Sarah and Andie

Thank you for giving Aon the opportunity to develop an Insurance Work Plan for the Council. We thank you for the time and resources you have provided and in supporting and championing this important piece of work. We have enjoyed every interaction with yourselves and your wider teams and have gained better knowledge and understanding of the Council through the process.

In the following pages we outline the roadmap, reflecting our current understanding of your objectives, and the current state of Council's insurance maturity journey against the outcomes sought.

We look forward to continuing to support you throughout this process of implementing and embedding the insurance roadmap. Our aim is to provide the best value, best talent, and optimised results to the Council, its ratepayers and the communities it serves.

It has been our pleasure working with you and we look forward to continuing our relationship with you further.

Sincerely,

Aon New Zealand
September 2022



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Executive Summary

Against a backdrop of accelerated change globally, nationally, and regionally, the way organisations view risks and purchase insurance is evolving. Global insurance markets have been severely impacted by natural catastrophe events, Covid-19, and major cyber-attacks. This creates challenges such as increased market pricing, reduced coverage and reduced capacity for organisations that use insurance as a risk management tool.

Wellington's geography and built environment raise unique seismic challenges. The city is located on a major fault line, and much of the central city is built on reclaimed land - these characteristics combine to increase the risk posed by earthquakes in Wellington. Additionally, legislative and proposed regulatory reforms and stakeholder expectations necessitate a more informed and strategic approach to optimising insurance and risk management strategies.

Historical approaches, typically transactional in nature, need to be replaced by a more strategic approach to ensure insurance can be used as a long-term sustainable source of risk financing.

Wellington City Council engaged Aon's expertise to develop an insurance roadmap and plan. Throughout this engagement Aon consulted with Council staff, reviewed information and data provided by Council, considered internal and external drivers, risk optimisation options and available procurement strategies to optimise insurance outcomes.

This Insurance Roadmap is developed with the following objectives and outcomes in mind:

- Protect the Council from financial loss, by ensuring that the required financial resources are made available when needed to help Council recover from unforeseen losses impacting on its assets and service operations.
- Enable the continuity of services to the community.
- Ensure that any risk transfer is carried out in a cost effective and prudent manner that best serves the community.

Based on the analysis the following is an outline summary of the Insurance Roadmap for the Council:

1. Informed Insurance Purchasing

The Council's insurance procurement is informed by reliable and up-to-date information. This includes data, analytics and information about its key risk exposures including its risk tolerance.

Council will insure exposures where the risk exceeds Council's risk appetite/tolerance and the benefits exceed the costs, or where there is a contractual or legal requirement to insure. Council's risk tolerance and appetite should be understood and applied in decision-making.

We understand that a central asset database for the Council is being developed collating the various systems into one place, and in the long-term creating a single 'source of truth'.

2. Regularly Reviewing and Validating Assumptions

Council regularly reviews and tests assumptions that underpin key decisions to ensure they remain valid and fit for purpose taking into account internal and external drivers including changes to legal or regulatory requirements and the external insurance market.

Council will undertake relevant data analytics, scenario and loss modelling analysis to inform decision-making for example the basis of valuations for insurance purposes, the exposures to hazards and the potential impacts on funding/ revenue stream for future transfer of risks.

3. Leveraging on size and scale

Where appropriate, the Council procures insurance in a group programme where it is cost efficient and effective to do so. This includes incorporating insurance procurement from within Council departments and CCOs.

For example - inclusion of Council groups and selected CCOs within Council's insurance programme.

4. Risk Management Maturity

The Council continues to focus and prioritise resources to lift Council's risk management maturity to respond to potential limitations of insurance coverage in some markets, as well as differentiating Council as a better risk to underwrite for insurers. The Council takes a holistic approach to risk management and considers other options for risk management (apart from risk transfer) as appropriate.

5. Move to a Strategic Purchaser of Insurance

Council moves towards becoming a strategic insurance purchaser, taking actions now that will positively impact in the medium to long term. Examples include exploring alternative ways to finance risks for example managed funds, self-insurance, parametric solutions, and captives.

6. Internal processes and Communication

Council continues to improve its internal processes and communication to maximise shared knowledge and learnings on key risk and insurance issues across the Council. For example, there are subject matter experts sitting within the Legal, Risk, IT and Procurement teams that can provide valuable input into the Council's wider risks and impacting on Council's risk profile and ultimately insurance procurement decisions.

Related to this is the review of Council's existing accountabilities to support good decision-making on risk and insurance matters. For example, delegations relating to placement of annual insurance programmes and the relationship with governance Committees and the Council which has ultimate accountability.

7. Internal Engagement and Development

Council regularly engages with staff and elected members on risk and insurance topics and provide opportunities for upskilling and engagement where required. These could be by way of workshops, forums and formal training and development for key staff.

8. Regular monitoring of trends and lessons learnt

Council implements regular and continuous monitoring and improvement processes to understand trends and investigate incidents and near-misses, incorporating the outcomes into business improvement processes to improve overall risk management.

9. Build Long-term Relationships

Council continues to invest in building strong relationships with its broker and insurers, CCOs and other partners and stakeholders, focusing on long-term partnerships.

10. Insurer Marketing and Competitive tension

Council continues to work with its broker to implement an insurer selection strategy having regard to the financial strength of insurers, diversification of Council's programme portfolio and taking into account market dynamics.

A suggested workplan is outlined in Appendix A.

Introduction

Risk Management Overview

Wellington City Council (Council) undertakes a diverse range of activities and faces a wide range of risks which can affect the organisation's ability to meet its objectives as outlined in the Long-term Plan. It is the organisation's responsibility to identify these risks and determine appropriate responses. There are various risk management options available, including:

- **Terminating** – electing to not undertake any activity that creates the risk in the first place, or terminating the activity, thereby eliminating the risk.
- **Treating** – using a range of techniques or activities to prevent the risk occurring or mitigate the consequences if it does.
- **Tolerating** – acknowledging the risk and choosing not to avoid or further reduce or transfer the risk.
- **Transferring** – assigning or moving the consequences of the risk to a third-party.

Risk management involves selecting from the above options to modify the risk to a residual level that is acceptable to the organisation based on its risk tolerance, risk appetite and risk criteria.

However, what has worked up until today, might not work for tomorrow and beyond. Risk management methods evolve, and their effectiveness can vary significantly over time. An increase in the cost of one method, for example the cost of risk transfer, can act as a stimulus for the development or application of alternative methods, such as enhancements in risk reduction or informed risk acceptance.

Over the past three years the Council has put plans in place to ensure that Wellington is a capital city fit for the future. The core purpose of local government is to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

As part of its Pre-election Report 2022¹, the Council has identified some key opportunities and challenges it expects to face over the next 3 years as “**A city in transition, a sector in transition**”. These include the changing local government sector through reforms, infrastructure and planning for future growth, funding, and resourcing, and developing resilience and adaptability to climate and environmental impacts.

Wellington's geography and built environment raise unique seismic challenges- the city is located on a major fault line, and much of the central city is built on reclaimed land. These characteristics combine to increase the risk posed by earthquakes in Wellington. The Council continues to undertake seismic strengthening work on its buildings to meet new guidelines affecting the City's building stock in the next three years. Issues surrounding insurance affordability and accessibility, understanding of natural hazards and data availability have been the topic of discussions raised in the past, including in the Mayoral Insurance Taskforce² in June 2019.

The Council owns more than \$6 billion worth of assets, including tunnels, bridges, reservoirs and retaining walls. The rising cost of insuring the Council's risk for the same level of cover is a challenge as these assets are potentially impacted by seismic and other natural disaster events.

¹ [Elections - Pre-election report - Wellington City Council](#)

² [Mayor's Insurance Taskforce - Discussion document, November 2019 \(wellington.govt.nz\)](#)

Additionally, the impacts of climate related changes will mean that risk exposure move from the *sudden and unforeseen* to the *known and anticipated*, which impacts on the availability of insurance coverage over time.

Insurance as a Risk Management Tool

Insurance is one of the most important and commonly implemented methods of risk management. It is a form of risk transfer for unforeseen events that result in financial loss, for example through loss of, or damage to, property or liability to a third party.

Insurance is currently the Council's major risk transfer vehicle. The management of Council's risk through transfer is a key focus as the council continues to explore how the city can better manage its risks with an improved mix of transfer, treatment, tolerance, and termination of risks.

Future trends observed includes the following:

- Provision for emerging and less tangible risks – for example impacts of climate change, risks relating to Intellectual Property and reputation
- Some covers are becoming more restricted – for example Cyber, some liability with this trend continuing to accelerate
- More consideration of alternative risk transfer options - for example resurgence of captives, parametric solutions.

This trend has triggered the need for the Council to adopt an Insurance Roadmap, supported by a plan of action to future proof the Council's position as part of the consideration on how it manages key risks.

Insurance Objectives and Principles

The core objectives of Council's Insurance are to:

- *Protect the Council from financial loss, by ensuring that the required financial resources are made available when needed to help Council recover from unforeseen losses impacting on its assets and service operations.*
- *Enable the continuity of services to the community.*
- *Ensure that any risk transfer is carried out in a cost effective and prudent manner that best serves the community.*

To achieve these objectives, the Council's roadmap takes into consideration the following:

1. **Drivers:** Critical elements of internal and external context that influence the optimal insurance strategy.
2. **Risk Profile Optimisation:** Methods to improve the effectiveness, transparency, and cost-efficiency of internal decisions around risk and insurance.
3. **Strategic Purchasing:** Methods of strategic transactions that extracts the most value from risk transfer and the insurance markets.

The high-level framework guiding the development of the Insurance Roadmap are shown in the tables 1, 2 and 3.

Table 1:

Drivers
<p>Legal & Regulatory</p> <p>Meeting Council's legal and regulatory obligations under various legislation including (but not limited to) the Local Government Act 2002, Building Act, Resource Management Act, and taking into consideration proposed changes to legislation including RMA and 3 Waters reforms.</p>
<p>Fit for purpose Council Insurance Programme</p> <p>Council's size, financial position, assets, activities, Long-term Plan, and internal policies are factored in. Council operates under the principles of transparency and accountability, ensuring prudent stewardship and efficient use of resources.</p>
<p>External Insurance Market Dynamics</p> <p>Local and international insurance market dynamics and factors, such as market pricing, coverage and capacity availability are considered as well as their impacts on the financial sector and ultimately the consumer.</p>
<p>Commercial Considerations</p> <p>Conducting commercial transactions according to sound business practices.</p>
<p>Role of Government / Crown</p> <p>Potential funding and support from Central Government is understood and considered and leveraged where appropriate.</p>
<p>Regular Reviews</p> <p>Regular monitoring and reviewing of changes to both the internal and external environment and adapting the strategy to respond to impacts of any changes.</p>
<p>Communication, Understanding and Awareness</p> <p>Regular communication and training to relevant Council staff (including elected members) to enhance awareness and understanding of Council's insurance programme.</p>

Table 2:

Risk Profile Optimisation
<p>Risk Management & Insurance</p> <p>The Council's Enterprise Risk Management sets the overarching basis of Council's approach to insurance. Other options for risk management have been considered and transfer of risk is evaluated as the most appropriate option.</p>
<p>Decision-making</p> <p>In general, decisions on procurement of insurance / risk transfer are deliberate and:</p> <ul style="list-style-type: none"> • aligns with Council's risk appetite / tolerance • in line with legal / contractual obligations • protects assets deemed critical to Council's business • enables continuity of services to the Community (for example providing regulatory services) • the cost of insurance justifies the expected benefits which may not be purely financial.
<p>Insurable exposures</p> <p>Insurable exposures are accurately identified, analysed, and evaluated when considering options on risk management.</p>
<p>Evidence based</p> <p>Decision-making on the scope of insurance and key insurance parameters (for example retentions and limits) are transparent and evidenced-based.</p> <p>Meaningful retentions consistent with balance sheet capacity and risk appetite.</p>
<p>Testing Assumptions</p> <p>Assumptions that underpin decisions are regularly reviewed and tested to ensure they remain valid and fit for purpose.</p> <p>For example, valuation assumptions and methodologies.</p>
<p>Data Integrity</p> <p>Decisions are made on the basis of good data with Council having confidence in the information it holds (e.g., Property Information / Valuations) to eliminate risk of under or over insurance, including standardisation of information / approach.</p>
<p>Claims, Trends and Settlements</p> <p>Claims are proactively managed (including of the Reserve Fund), and trends are investigated, from below and above excess claims and settlements, to understand and improve overall risk management.</p>

Table 3:

Strategic Purchasing
<p>Moving to a Strategic Purchaser of Insurance</p> <p>Council considers moving away from being a transactional to a strategic insurance purchaser including considering alternative ways to transfer risks, for example managed funds, self-insurance, parametric solutions, and captives.</p>
<p>Leveraging on size and scale</p> <p>Council and CCOs take advantage of their size and scale to procure appropriate insurance.</p>
<p>Building long-term relationships</p> <p>Council continues to build strong relationships with its broker and insurers, focusing on long-term partnerships.</p>
<p>Insurer selection and Competitive tension</p> <p>Broker's insurer selection methodology considers financial strength, diversification, and levels of market competition.</p>
<p>Risk management maturity</p> <p>Council and broker continue to raise risk management maturity to respond to future potential for limited insurance availability in some markets or for certain exposures, including leveraging full value and benefit.</p>
<p>Marketing and Communication</p> <p>Council and broker engage in proactive marketing and risk communication to differentiate its risk profile to insurers.</p>
<p>Internal Communication, Collaboration and Implementation</p> <p>Ongoing communication and collaboration within the Council (internal departments, CCOs and elected members) is required to enable the successful implementation of the Insurance Roadmap.</p>

Drivers

Overview

This section outlines in further detail some of the key drivers highlighted in table 1 impacting on the Council's insurance programme:

Local Government Responsibilities

Local Government Agencies in New Zealand have an extensive range of legal and regulatory obligations and responsibilities, including:

- Promoting prudent, effective and efficient management of insurance expenditure (Section 122B, Local Government Act 2002).
- Managing and protecting revenues, expenses, assets, liabilities, investments, and financial dealings generally, in accordance with the principles that are detailed in the Act (S122C, Local Government Act 2002).
- Ensuring the cost-effectiveness of current insurance arrangements for meeting the ongoing needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions (Section 17A, Local Government Act 2002).
- Disclosing risk management arrangements, such as insurance, for physical assets (2014 Amendment to the Local Government Act 2002)
- Complying with Audit New Zealand best practice guidance and international risk management standards (i.e., AS/NZS ISO31000 Risk Management Principles and Guidelines, SAA/SNZ HB 141:2011 Risk Financing Guidelines).

The expectation is that the Council's insurance programme is placed having regard to these statutory requirements and principles of good governance including transparency and accountability.

Three-waters Reform

The government has proposed the creation of four new, publicly owned water service delivery entities. These entities will be responsible for the management of New Zealand's three water services: drinking water, wastewater, and stormwater. The reform would result in the transfer of ownership of three-waters assets from local government to the new entities.

At time of writing, there remains uncertainty around the three-waters reform and we note that the Council is closely monitoring the status of the proposal. The Council has indicated that the development of the insurance roadmap is on the basis that the infrastructure components will no longer form part of the assets of the Council consistent with the current three-waters reformation.

Fit for purpose Council Insurance Programme

Council operations include activities that carry many risks and potential financial liabilities. While insurance is often seen as financial cover for damage to physical assets, it is also available to cover potential financial losses from adverse events or actions affecting Council's operations.

Largely, the placement of insurance covers have been historical and transactional. Council's activities, asset portfolio and asset prioritisation change from time to time, with the needs of the communities and the changing council strategy and long-term-plan. This roadmap takes into consideration where

the Council is in terms of a risk and insurance maturity spectrum and identifies opportunities for improvement to deliver on its Long-term Plan, the priorities of which are summarised below.

Long-term Plan

The priority objectives for the Council for the next three years are summarised in the Long-term Plan as:

1 A functioning, resilient and reliable three waters infrastructure - with improving harbour and waterway quality and, reducing water usage and waste.

2 Wellington has affordable, resilient and safe housing - within an inclusive, accessible, connected, and compact city.

3 The city's core transport infrastructure is a safe, resilient, reliable network - that supports active and public transport choices, and an efficient, productive and an environmentally sustainable economy.

4 The city has resilient and fit-for-purpose community, creative and cultural spaces - including libraries, marae, museums and community halls, where people connect, develop and express their arts, culture and heritage.

5 An accelerating zero-carbon and waste-free transition - with communities and the city economy adapting to climate change, development of low carbon infrastructure and buildings, and increased waste minimisation.

6 Strong partnerships with mana whenua - upholding Te Tiriti o Waitangi, weaving Te Reo Māori and Te Ao Māori into the social, environmental and economic development of our city and, restore the city's connection with Papatūānuku (nature).

Internal Strategies and Policies

The Council's insurance roadmap is developed taking into consideration internal strategies, policies, and plans such as those mentioned below in table 4.

Table 4:

<ul style="list-style-type: none"> ▪ Vision ▪ Community Outcomes ▪ Long-term Plan ▪ Risk Strategy ▪ Risk Policy ▪ Risk Management Framework 	<ul style="list-style-type: none"> ▪ Activity / Asset Management Plans ▪ Business Plans ▪ Treasury Policy ▪ Procurement Policy ▪ Infrastructure Strategy ▪ Finance Strategy
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External Insurance Market Dynamics

Insurance works on the premise that premium paid by the many is sufficient to pay for the losses of the few, as well as providing a return on the insurer's capital investment. When large catastrophic or cumulative losses destroy insurer profitability, capital moves away from insurance markets causing a shortage in capacity, and rates are then increased to recoup past losses.

We are currently facing a challenging insurance market, characterised by constrained capacity, increasing rates, prudent insurer attitudes and overall challenging conditions from a purchasing perspective.

Key observations of current insurance markets include:

- **Cyber risk** – the Cyber landscape has remained volatile and Cyber risk, especially ransomware, is growing in complexity and volatility and, as insurer appetite adjusts, coverage options and pricing models continue to evolve.
- **Conflict in Eastern Europe** – direct and indirect impacts relating to the unfolding geopolitical events in Eastern Europe have been profound. These are expected to continue as rising commodity prices fuel inflationary pressures, decreased demand dampens global trading, and global supply chains suffer further disruptions. Insurers, looking to manage volatility, have already begun modifying coverage terms and conditions - including those related to cyber, terrorism, sanctions, and war, as well as coverage territories.
- **Underwriting rigor continues** – balancing the focus on reducing volatility against competitive pricing - for example challenges from exponential increase in asset values and increase in frequency of secondary natural catastrophes (e.g., floods) events.
- **ESG** - insurers are becoming increasingly focused on Environmental, Social and Governance (ESG), looking carefully at their own, their clients' and their business partners environmental, social, and ethical risks that can arise from a myriad of complex, interconnected factors related to the evolution of business practices and operations.
- **Climate change means more claims from more frequent storms, floods, droughts, and fires** - climate risks will progressively be priced into insurance for properties exposed to changes such as sea level rise. Organisations could potentially face removal of capacity for some sites or enforced sub-limits or higher deductibles.

Recent years have been significantly challenging globally due to natural disasters, pandemics, and cyber-attacks. Table 5 shows the current status of key insurance market factors.



Table 5 - Summary of Insurance Market Dynamics³

Factor	Description	Status
Overall Conditions	Synthesis of all factors below.	Stabilising
Rates	Unit of cost that is multiplied by an exposure base to determine the insurance premium.	+ 1-10%
Capacity	The largest amount of insurance or reinsurance available from a company or the market in general.	Stable
Insurer Attitudes	Insurers' chosen approach to underwriting in the face of uncertainty.	Prudent
Limits	The maximum amount payable by the insurer under a section or sections of each insurance policy.	Flat
Deductibles	The first amount of any loss which is payable by the insured.	Flat
Coverages	The scope of insurance provided by insurers for a specific risk.	Stable

The business climate has never been more complex and connected. Business models are being reshaped, while organisations across the globe are responding to and, at the same time, recovering from the once-in-a-lifetime set of challenges posed by the Covid-19 pandemic. Financial losses from large scale natural disasters and man-made events continue to loom and adversely impact lives and businesses.

Insurance market conditions are still challenging for transitional exposures, with limited appetite for emerging exposures, and negotiations with insurers are increasingly complex. There is continued evolution of underwriting practices in the industry as a growing number of insurers transition to centralised underwriting for many risks. There is also the issue for both insureds and insurers that for some risks we are moving away from 'sudden and unforeseen' to 'known and anticipated'. From a material damage perspective, unexpected events may include floods, earthquakes, a car accident, a house fire, or theft. Insurance only covers things that happen suddenly, not gradually. In particular, the impact of climate change will potentially see a reduction of cover for such events since the impacts are gradual.

The same principles apply to liability cover. Legal liability is the state of being legally responsible for a loss. In insurance, this usually means the responsibility to another person for negligence resulting in financial loss. Councils will be aware of exclusions on certain liability policies for example weathertightness claims against the Council acting in its regulatory capacity. Whilst this was a risk that was transferable to insurance many years ago, the nature and frequency of losses have moved from unforeseen and as a result councils including Wellington City Council are requiring to deploy other means of risk management to manage those risks to protect its financial position.

Challenges such as increasing pricing, cover reductions, risk exclusions, lowering limits, and changes to terms and conditions can substantially impact insurance policies. Conversely, the insurance market is cyclical and there is expectation that some lines of insurance will become more affordable and available. Therefore, the insurance roadmap needs to be able to respond to both negative and positive market trends to optimise the costs and benefits of the insurance programme.

³ Summary of general insurance market dynamics based on available information at the time of writing.

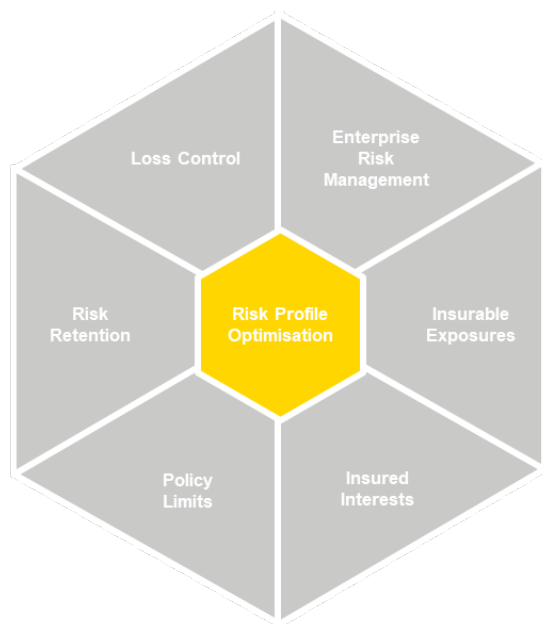
Risk Profile Optimisation

Overview

This section outlines some of the key components of Risk Profile Optimisation outlined in table 2 above.

Key elements of an optimised programme include:

- **Enterprise Risk Management** - the overarching driver of an organisation’s approach to insurance and risk management.
- **Insurable Exposures** – types of assets or activities that create the potential for a financial loss which Council may elect to transfer to insurers.
- **Insured Interests** - specific assets or activities that an insurance policy actually covers, and that can be claimed against following a loss.
- **Policy Limits** - the maximum amount payable by the insurer under a section or sections of each insurance policy.
- **Risk Retention** - represents the proportion of a risk not transferred to insurers, which is payable by the insured in the event of a loss.
- **Loss Control** - risk management activities that seek to reduce the likelihood that loss or damage will occur and reduce the severity of any that does occur.



These components come together to create what would be an optimised risk and insurance programme – one that is formed through decision-making based on reliable and up to date information held by the Council.

Another way of considering the diagram above is determining the Total Cost of Insurable Risk (TCOIR) and the ways that this can be managed and reduced. TCOIR is a quantifiable, controllable number that can be identified, and is the total cost of your insurance premiums, retained losses (above limit / deductibles / uninsured losses) and internal / external risk control costs. TCOIR can fluctuate because of losses and market fluctuations, however, once a TCOIR benchmark is determined, long tail risk treatment approaches, such as a managed fund (or captive), that can increase retentions (and reduce premiums) can be analysed to show the long-term benefits and ideally reduction in the overall TCOIR.

Data Driven Decision-Making

To support better decision-making, Council should hold reliable and up-to date information. The next step is to convert data to usable information for example through analytics and trends and then using loss modelling or loss scenarios to form the basis of decision-making.⁴



What data are we talking about?

- Asset data, valuations, claims data, loss trends
- Digital twins (of buildings and people), real time sensors
- More hazard information, more science and engineering analysis



Turning data into information

- Are we capturing assumptions, are we testing these?
- Loss modelling
- Trends analysis
- Actuarial analysis and engineering assessment combined



Evolution of solution development

- Risk understanding, risk quantification, informing decision making
- Multi-discipline approach is essential
- Public – private collaboration

⁴ Consistent with the Office of the Auditor General recommendations October 2021 on using sophisticated techniques for identifying and managing risks e.g., use of quantitative risk assessments. [Our observations on local government risk management practices – Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#)

Strategic Purchasing

Overview

This section outlines some of the components of Strategic Purchasing outlined above in table 3.

Moving to a Strategic Purchaser of Insurance

Taking into consideration the drivers identified above, including changes to market dynamics and challenges from a natural hazard perspective and increasing climate impacts, the Council's historical approaches to insurance procurement are no longer sustainable for the future. The Council should consider a range of other options include alternative risk financing, increasing levels of retentions while improving on other risk management approaches outside of risk transfer.

The strategic purchasing principles is illustrated below, showing the total costs of risk and how it is reflected in Council's purchasing.

Figure 1 shows a typical frequency-loss curve for an insurable risk. The cost of capital (or insurance rate) correlates closely to frequency; when the likelihood of loss is high, the insurance cost is also high. There are four zones of the curve to consider, the area where risk must be retained, this is usually the 'deductible' (amount deducted before a loss is paid by an insurer) of the insurance arrangement. The 'can' and 'should' transfer are the areas where risk transfer can be optimised. The limit of the insurance (known as the Loss Limit) is the maximum amount payable in the event of a loss. Above this limit, the probability of loss may be deemed to be so infrequent that risk retention becomes an appropriate option. What 'can', and what 'should' be transferred should be continuously reviewed, based on the organisation's risk appetite and tolerance, plus the understanding of the market dynamics. Alternative options within this range also include captives, managed funds, and other risk financing mechanisms.

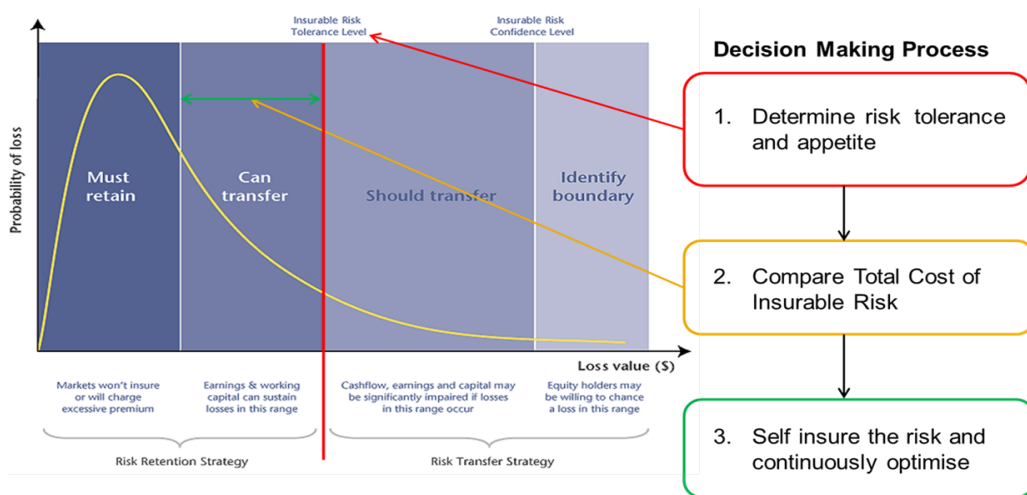


Figure 1: How to define the risk transfer and risk retention strategy

Leveraging Size and Scale

Additionally, group or shared procurement for Council and CCOs provides the benefits of economies of scale (set out below) and should be considered as appropriate depending on the cost and benefits to the parties which should be analysed independently:

- Ability to maximise premium savings in soft markets and minimise premium increases in challenging markets.
- Access to offshore markets that would not otherwise be available to individual Council groups and CCOs.
- Greater ability to negotiate specialist covers / policy enhancements.
- Mitigation of claims impacts, due to larger premium pool being established that is less affected by claims performance, which therefore reduces overall loss ratio.
- Creation of exclusive Council schemes, for example staff health and benefits.

Building long term relationships

It is important that Council continues to build a strong relationship with its broker and insurers focusing on long-standing relationships with every approved insurer, both locally and overseas. The strength of the relationship can be leveraged to the benefit of Council in terms of:

- Achieving the broadest cover available.
- Reducing total cost of risk (premiums + administration costs + fees + retained claims costs).
- Favourable claims results.

This expertise and market leverage will continue to be used to the benefit of Council, in terms of pricing, coverage and access to markets in New Zealand and overseas.

Insurer Selection and Competitive Tension

Financial Strength

The usefulness of insurance is dependent on the insurer's ability and willingness to pay at the time of a loss. An Insurance Roadmap needs to consider the financial strength and resilience of insurers as well as the aggregate dependency on any one insurer. In accordance with the Insurance (Prudential Supervision) Act 2010, insurers selection should meet minimum required financial strength ratings (for example as indicated by Standard & Poor's). Only engaging insurers with sound financial ratings results in best claims paying ability.

Diversification of Insurer

A blend of local and overseas markets works for clients with significant natural hazard exposure. This strategy has become more important in the current challenging market and has worked well for other Councils in recent years. The use of overseas markets is vital in achieving best cover, price, and ability to withstand market shifts.

Competitive Tension

The blended placement (local and international) allows a wider range of insurers to participate on Council's programme. This means more available capacity and the generation of competitive tensions, which alleviates the pressure to increase premium.

Risk Management Maturity

Insurers, looking to deploy their capital at an affordable price, seek detailed information to optimise the amount of cover they will provide and the premium they require to deploy it. An evolving understanding of risk is vital for Council. An Insurance Roadmap needs to involve increasing the understanding of risk and risk management practices, improve risk maturity and ensuring that the insurance programmes in place are fit-for-purpose, within the respective Council risk profiles, by tailoring policies accordingly.

Developing risk management maturity across Council leads to more efficient and cost-effective solutions in the future. Benefits include:

- Access to market-leading commercial terms and conditions particularly in challenging markets.
- Access to market-leading risk management approaches and technologies.
- Better risk governance, monitoring and reporting and accountability to communities, stakeholders, partners, and ratepayers.
- Alignment with government's broader risk financing strategies.

The Council's risk management maturity plays a key role not only as an insurance lever but importantly holistically to protect value for the Council.

Marketing and Communication

In a challenging marketplace, it is vital to differentiate Council's insurance programmes when marketing to insurers. The Council renewal strategy has a strong focus on Council involvement in the process of proactive marketing to insurers. This is critical to achieving the best results and differentiates Council from other insurance buyers seeking the same capacity.

Benefits of this approach include:

- Allowing underwriters to see locations first-hand on an annual or biennial basis (when global travel restrictions permit).
- Building long term relationships with insurance markets. The results can often be preferential pricing and cover over several years.
- A differentiator of Council's risk to overseas underwriters, who see hundreds of submissions each year.
- Allowing direct questions, answers and negotiation across the table. Premium and coverage advantages far outweigh the cost outlay of this approach.
- Enhanced claims outcomes as underwriters become invested in Council's risk when they meet staff in person.

Summary of Findings and Recommendations

Through a series of discovery workshops undertaken with key staff, key findings relating to the Council's current status, actions and initiatives in response to the drivers are summarised below.

1. Risk Management

The internal Risk team is responsible for leading risk management activities and supports Council staff. There is a risk framework, and risk reporting and activities are underway to improve on risk reporting to the Audit and Risk subcommittee. There is limited risk reporting up to full Council from the subcommittee. Council has not formally adopted a risk appetite, with staff expressing a view that the Council's appetite tends to be low. Risks are primarily discussed at management level and then at Audit and Risk meetings. Risks could be usefully discussed with elected members as part of regular workshops to help inform and support elected members, particularly focusing on strategic risks.

Recommendation:

Management works with the Audit and Risk subcommittee to develop risk appetites for key risk areas for the Council, for approval by full Council. For example, these can include Financial, Legal and Regulatory, Service Delivery and Reputation.

The risk appetites to be communicated to staff with the intention that decisions are made in alignment with Council's risk appetite and on the understanding of its financial risk tolerance.

Run workshops with elected members on a regular basis, and work with the Council's Governance team as part of an Elected Member Onboarding programme with a new council coming in October 2022.

2. Relationship between Insurance, Risk, Legal and Procurement

Insurance and risk advice are usually provided by the respective teams currently reporting to different General Managers. There are informal processes to guide staff in seeking advice on risk, insurance and related legal issues. While this has worked in the past, there is a potential for inconsistency in approach and a lack of monitoring in applying insurable and risk issues across the business. Steps are underway to improve processes for communication between the teams in terms of risk and insurance to better support risk and insurance management and related legal impacts within the Council.

Recommendation:

Council teams continue to create an internal channel to enable staff to seek relevant support on key risk and insurance issues by referencing to the subject matter expert teams within Council.

There is an opportunity to enhance internal collaboration, by setting up regular forums as a platform for discussing key risk and insurance issues including any learnings that could be usefully shared more widely across the Council. If risk appetite and tolerance were defined (as per recommendation 1) then it would be much easier for staff to align to this and then to report by exception if there were issues outside of the agreed levels.

3. Third party contractual risk/insurance management

At present the management of risk and insurance within contracts tends to be inconsistent with many examples of decisions made on a case-by-case basis. There is presently a lack of clarity on the delegated approval to approve contractual terms outside of legal, insurance or risk advice. The Procurement team is presently undertaking a project to create standardised tools and a database to enable better co-ordination and management of contracts within Council. These include, for example, procurement plans, and registers of Vendors and Contractors. The risk-based approach will help support staff and enable the monitoring of insurance compliance by contractors, by for example through the repository in TechOne (due to be upgraded). We understand that this is expected to be completed within six to 12 months of the date of this report.

Recommendation:

Council may consider developing a decision-tree for risk and insurance within the Procurement tools being developed. A process / flow chart or guidelines will support those working on projects (including pre-RFP / RFT stage) on insurance and risk issues and enable early advice to be received.

Council could consider developing and implementing training and awareness programme workshops across Council departments to inform relevant staff on contractual risks and the role of insurance.

4. Three-waters Reform and other policy changes

Council is considering the potential impact of the 3 Waters reform on its financial balance sheet. This includes provision for incoming financial payouts from the government as well as reduction of asset/revenue on the Council balance sheet. The Council is working with other government sectors to better understand implications of changes, for example 60:40 rules on its infrastructure not covered by three-waters reformation.

Recommendation:

Council staff continues to monitor changes to the legislation and policies and incorporate these changes into future renewals, for example developing scenarios for an insurance programme with / without the underground Three Waters infrastructure included. The three-waters reform programme may also provide an opportunity to consider long term forms of risk financing. The option of either a captive or protected cell could be a positive outcome from the reform and enable the creation of a long-term risk transfer/financing arrangement that could reduce Council's exposure to premium volatility and reduce the Total Cost of Insurable Risk.

5. CCOs and Other Council affiliated parties

The Council team (Treasury) supports in principle, a group purchasing approach with CCOs particularly smaller CCOs, where it is cost efficient to do so. It was acknowledged that there are still potentially challenges issues given the way the CCO portfolios are managed including asset ownership. Examples are Sky Stadium, Wellington Cable Car and Zealandia. Each of these have particular features which will need to be taken into consideration if / when moving them into the group procurement. Conversations with selected CCOs are continuing through the development of options with the Stadium and proposed similar exercise for the Cable Car.

Recommendation:

Council and CCO staff continue to develop options for the inclusion of selected CCO assets within the Council insurance programme with advice from the Insurance broker on its feasibility and potential cost efficiency.

6. Data Integrity

All asset classes are managed differently and are stored in different asset management systems e.g., Building and Open spaces in OneCouncil, Wellington Water in InfoNet, Transport data in RAMM. Condition assessment of assets is held in SPM and spatial data in GIS, roading condition assessments are undertaken by contractors (Fulton Hogan and Downers). As built data is also held separately between houses and commercial property. A project is underway by the Data team to consolidate the data held to meet the next LTP in July 2024, with a draft (including a programme of work) anticipated for July 2023. It is expected the data will provide information on criticality and vulnerability of assets including key aspects such as building conditions and NBS rating, presence of asbestos and valuations. The existence of a consistent and cohesive data asset system will enable future planning e.g., which assets to sell, retain or re-develop.

Recommendation:

We note that the project is underway for data consolidation. We recommend that the project be completed as soon as possible. If an update on progress can be provided to the insurers, at the next renewal, this will increase the level of confidence of the underwriters in what they are underwriting.

Any data consolidation process should include Information on the following:

- a. Accurate property schedule, new assets should be clearly identified
- b. Current condition assessment
- c. Location, ideally in GIS
- d. Valuations, including insurance reinstatement valuations
- e. Hazard/Exposure information.

7. Loss Modelling and analytics

Wellington's geography and built environment raise unique seismic challenges, however there are also other natural hazard exposures that the city faces, such as flooding, landslip and even tsunamis. As outlined in Figure 1, it is important that council understands both frequency and severity of risks in order to determine the best risk management pathway, or pathways, to be used to manage the risk. Severity events define programme limits or sub-limits, and frequency events define deductible levels. Understanding loss estimates from loss modelling, when combined with Council's tolerance of risk, can help to inform and optimise the insurance programme structure. It is also important that loss modelling is updated on a regular basis since both the asset data (i.e., new and disposed assets), asset values and scientific understanding of risk continually evolves.

There has been limited loss modelling undertaken to understand the potential financial impacts (including business interruptions) from a major event. This modelling was also undertaken a number of years ago and with the rate of inflation, the loss estimates are not based on current values.

If the loss modelling is sufficiently detailed, it is also possible to define the potential impacts of climate change. Organisations are now using climate scenarios to better understand the impacts by applying certain climate stressors for example, sea level rise, increase in severity

of storms, flooding inundation and increased high winds to better understand the long-term impacts on their asset portfolios.

So, in addition to informing suitable risk transfer arrangements, and helping Council determine worse-case scenarios for disaster funding and disaster response, the information from the analysis can be used to assist with decision making particularly on planning, for example re-location of certain critical assets that may be affected by climate change in the future.

Information from the exercise will enable the Council to consider alternative ways of funding losses that might not have been transferred by way of insurance.

Staff is aware of the need to undertake modelling and data analysis to inform limits and retention levels, for example, including information on potential aggregated loss, hazard and vulnerability risk assessments.

Recommendation:

In order to better inform decision-making, we would recommend that Council considers undertaking loss modelling, for example:

- a. Detailed Earthquake loss modelling. This will help define the maximum credible event that could impact Council
- b. A cumulative loss modelling exercise to understand the financial impact of a broad range of natural hazard events and return intervals on all assets owned by Council (and CCOs). This will help define deductible levels and likely losses for Council in the near future
- c. Scenario modelling to understand the potential impacts of climate related risks to the Council portfolio. This will help inform council around potential issues and inform future planning / strategy decisions.

8. Cyber and Crime / Fraud risks

The Council does not presently hold a cyber security insurance cover. The market for cyber cover is challenging and capacity is restricted. We note that the Council has engaged an external party Grant Thornton to conduct a review of the Cyber Framework. The Council presently has cover for Crime/Fraud risks. The Council's internal audit team (as part of Risk and Assurance) reviews the effectiveness of the protection and disclosure of fraud through the Council's audit programme.

Recommendation:

The Risk and Insurance team undertake deep dives into the Cyber and Fraud risks to understand the causes, impacts and treatments of those risks including evaluating the effectiveness of the treatments, applying scenarios to test the potential losses to determine if a transfer of risk to insurance is appropriate in the circumstances. In some cases, it may be appropriate to apply funds (what would have been premiums for insurance cover) to an effective training programme instead which may prove to be a more effective preventative measure.

9. Review of non-Council arranged insurance programmes

Certain assets, for example Clyde Quay Wharf and TSB Arena, are insured by third parties. There is presently an agreement with the Body Corporate of the apartments on the wharf covering insurance obligations, as Council owns the wharf itself with some critical

infrastructure sitting underneath it. A similar arrangement applies to the TSB Arena, whereby the building, which is owned by Council is insured within the Queens Wharf Holdings insurance policy.

The insurance arrangements for Clyde Quay Wharf are presently outside of Council's insurance programme and the Council team is keen to have Council make proactive decisions regarding insurance of these assets rather relying on a third party.

Recommendation:

The Council reviews the terms of the agreement with the Body Corporate and Queens Wharf Holdings in relation to insurance and engages both internally and externally on the risks and develops a strategy for these assets.

10. Insurance Programme – limits, retentions and covers

The Council's retention levels have not been changed since 2008. Decisions have been made historically on levels of limits and deductibles and these are raising concerns amongst staff within the Finance team.

Recommendation:

The Council uses valuations, modelling and data analysis information to review the limits and retentions on the various material damage policies it holds to determine if:

- a. They are still appropriate, noting this may be driven by insurers looking for an upwards adjustment in deductibles in line with the significant increases in values
- b. They should still be held or retained by the Council (self-insurance below and above retention level)
- c. if there is sufficient premium reduction to justify increases in risk retention.

Additionally, for non-asset based covers (e.g., Professional Indemnity, General liability), we recommend the Council and the insurance broker jointly undertake an insurance risk profiling exercise by way of a workshop to understand risks and appropriateness of retention levels.

11. Critical assets

Different groups (for example Rooding and Transport; Parks, Sports and Recreation, Resilience, Facilities etc.) have identified their respective list of critical assets. There is a lack of an agreed prioritised critical asset list. Agreement on the criticality of assets will guide decisions on procurement of insurance to ensure these can be restored as soon as possible when an event occurs. The development of the asset list will relate to the Council's view of its strategic assets and its role in the Lifelines.

Recommendation:

The Council develops a Critical asset selection criterion working with relevant stakeholders. The Council may apply the risk transfer/retention principles to determine the best way to optimise its risk transfer whether through insurance or not.

12. Regulatory and Legal Liability

The regulatory area is observing the same trends as some of the larger councils – a reduction in Weathertightness claims although increasingly novel claims made on the basis of joint and several liability. The regulatory teams (building and resource consent) seek advice and undertake workshops including lessons learnt from a claim or settlement.

Some judicial reviews from RMA decisions are observed although these are not insurable. There is a process in place (including delegations for ex-gratia settlements) from complaints involving the team leaders and escalations to lawyers as required.

Recommendation:

The regulatory and legal teams in conjunction with the Insurance Broker to continue to monitor for any trends for claims which may indicate a systemic issue (for example fire/structural inspection failure, or failure to correctly interpret planning rules) which may impact on the Professional Indemnity cover.

13. Financial Risk tolerance

As part of the development of risk appetites, Council develops an understanding of its financial risk tolerance to enable it to understand what level of financial headroom is (or isn't) available as this will allow the Council to increase its risk appetite if required. This includes understanding the aggregation of retentions and impact of recoveries. As an insured, the Council needs to be comfortable taking the level of risks it decides and doing this in a structured approach rather than in an ad-hoc manner.

Recommendation:

We recommend that Council undertakes a financial risk tolerance exercise so that it may better understand the limits and retentions that it can safely tolerate when purchasing insurance. It is also useful to guide decision making on alternative risk transfer options for example the use of reserve funds, captives or parametrics in the future.

14. Reserve Fund

Council presently uses a Reserve Fund managed by its Broker to make payment on claims (from within Council and third parties). The Reserve Fund is based on criteria agreed with Council. Claims that meet the criteria and are considered a valid insurance claim are settled by the Broker on Council's behalf. Council makes payment to the Broker for the claims paid monthly, and there is no current limit on the Reserve Fund. Any claim under the agreed threshold is paid by the respective business unit. The current threshold is \$1,000 for claims via Ventia and \$250 for all other claims. The claims and management of the Fund has been taking place without issues.

To date there has been limited analysis undertaken on the types and causes of claims, as well as the department or business unit making claims.

Recommendation:

That Council and Broker undertakes an analysis of claims for trends and, depending on the outcomes of the analysis, take further action to address the particular risks to Council. This could include, for example, instigating training and awareness workshops with staff if several of the claims stems from poor driver behaviours that result in vehicle damage.

In other instances, this may require input from the internal legal team to assist with legal support, for example on regulatory mistakes or payments and fines for breaches of statutory provisions, including breaches of Privacy, etc.

Additionally, it is useful to consider if this fund may also be expanded to allow for higher retentions.

15. Insurance – governance and decision-making

Decisions on insurance strategy and procurement presently sit with management. The responsibility largely lies with the Treasury function where the Insurance team sits. Annually at renewals, management approaches the Audit and Risk subcommittee to update the Committee on the insurance programme including the procurement of covers.

The procurement of insurance as a key risk transfer including any alternative risk transfer decisions may be regarded as strategic decisions. As such, the Council may wish to consider if its Committees or Subcommittees (such as the Audit and Risk subcommittee and/or Finance and Performance Committee) may have a role in approving the insurance procurement for the Council.

Recommendation:

At an appropriate opportunity, review and refine the Terms of Reference for the Council Sub Committee and Committee with the view to incorporating a decision-making role on insurance procurement for the Council.

16. Insurer selection and competitive tension

The Council utilises capacity from existing and new insurers in New Zealand, London, Asia, and Bermuda, which creates competitive tension and best placement outcome. While Council would have liked to have more local participation across its property programme, it recognises there is constrained capacity in New Zealand.

Through Council's broker, the insurer selection methodology considers financial strength, diversification and levels of market competition.

Recommendation:

Ahead of renewals Council and Broker continue to review the placement strategy to ensure the approach and ongoing strategy allows for:

- a. Appropriate diversification of portfolio across local and international insurers
- b. Enabling ongoing competitive placement of insurance in the market
- c. Leveraging existing relationships with insurers
- d. Engaging insurers with no less than an A- S&P rating (or equivalent).

17. Long term relationship and proactive marketing of Council

Council continues to build a strong relationship with its broker and insurers focusing on long-term partnerships. Pre-Covid, Council visited London annually for face-to-face presentations with the insurers. These presentations provide Council an opportunity to underscore its risk management principles and commitment to de-risking its portfolio and allows Council to build long term relationships with the markets, resulting in preferential pricing and cover over a number of years.

From time-to-time insurers attend Council sites to visit key assets to understand the risks better.

Recommendation:

Council, Broker and insurers engage regularly throughout the year and a plan is developed to establish and maintain a good working relationship.

Council and Broker continue to engage in proactive marketing and communication to differentiate Council's risk profile to insurers.

Conclusion

Council is on an insurance maturity journey. It recognises that shifting its maturity takes time. The starting point is the development of a roadmap and a plan which will help focus the Council by prioritising actions in a logical sequence.

Some of the actions are already underway whilst others have been considered but not formally planned or actioned.

The process that has been undertaken in the development of this insurance roadmap has been beneficial, not just in terms of enabling the development of the strategy, but also allowing internal connections to be made between Council functions, for example the understanding of the role of risk in the Council and the experts managing the insurance.

Through a roadmap that takes into account internal and external drivers such as council's legal and regulatory obligations, external insurance market dynamics, and commercial considerations, the Council will optimise its risk profile, move away from transactional and historical procurement, and reduce its Total Cost of Insurable Risk, and better data will help validate assumptions and enable better decisions.

About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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Appendix A: Plan and Actions and suggested prioritisation

Workstream	Year 0 activities – FY 22	Year 1 activities – FY 23	Year 2 activities – FY 24
Governance	Develop and plan for Elected member workshops on risk and insurance	Undertake financial risk tolerance exercise	Monitor and revisit financial risk tolerance and risk appetite within Council and with elected members
	Review council's limits of retentions and covers	Develop risk appetite for key risk areas with elected members	
	Monitor changes to legislation and policy	Elected member workshops and risk and insurance roadmap roll out	
Internal Partnership	Enhancing relationships between legal, risk and insurance	Creation of standardised tools and guidance material to support insurance management for council	Review of BCP and alignment to critical functions and asset selection criteria
	Increased communication between all functions and departments across Council		Develop critical asset selection criteria and consolidation
	Engagement with Regulatory and Legal to ensure there are no emerging risks impacting on insurability		
Risk Modelling		Completion of project for consolidation of data	Undertake cumulative loss modelling
		Update Asset valuations	Undertake deep dive on cyber risk
		Update Asset condition assessments	Climate change modelling
		Complete earthquake risk modelling	Undertake deep dive on fraud risk
		Update Insurance property schedule	
Purchasing Decisions	Review decision-making for procurement of insurance	Develop options for inclusion of selected CCOs, and other entities, within insurance programme	Review of non-Council arranged insurance cover
	Continue to review placement strategy	Review council's limits of retentions and covers	Review and as appropriate implement Risk Financing Model structure
	Analysis of reserve fund to identify adverse trends and recurring themes	Consideration of alternative risk financing models	
	Continue to develop long term relationship with the Broker and Insurers		

HEALTH AND SAFETY PERFORMANCE REPORT

Kōrero taunaki | Summary of considerations

Purpose

1. This report to Unaunahi Māhirahira | Audit and Risk Committee is to review the Council's health and safety performance for the period 1 July 2023 to 30 September 2023.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
 - People friendly, compact, safe and accessible capital city
 - Innovative, inclusive and creative city
 - Dynamic and sustainable economy
- Strategic alignment with priority objective areas from Long-term Plan 2021–2031**
- Functioning, resilient and reliable three waters infrastructure
 - Affordable, resilient and safe place to live
 - Safe, resilient and reliable core transport infrastructure network
 - Fit-for-purpose community, creative and cultural spaces
 - Accelerating zero-carbon and waste-free transition
 - Strong partnerships with mana whenua

Relevant Previous decisions

Financial considerations

- Nil Budgetary provision in Annual Plan / Long-term Plan Unbudgeted \$X

2. Please summarise the funding or revenue implications and what the source of the funding is. Further detail can be outlined in the subsequent section "Financial Implications".

Risk

- Low Medium High Extreme
3. Outline the overall level of risk, summarising the risk section from later in the paper.

Authors	Thomas Fowler, Principal Advisor Health & Safety Services Wendi Henderson, Health, Safety & Security Manager
Authoriser	Meredith Blackler, Chief People and Culture Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.

Whakarāpopoto | Executive Summary

4. The Report provides information that aligns with the Officer due diligence responsibilities under the Health and Safety at Work Act 2015 (HSWA), specifically having:
 - Knowledge of work health and safety matters
 - An understanding of the nature of operations and the hazards and associated risks
 - Appropriate resources and processes to eliminate or minimise risk
 - Appropriate resources to receive and consider information
 - Verification of the provision and use of resources and processes
 - Processes for compliance with duties or obligations under the HSWA.
5. This report comprises qualitative commentary on activities that have occurred in the last three months, and are presented in four categories:
 - Risks
 - Relationships
 - Resources
 - Performance dashboards
6. This style of reporting is based on the Business Leader's Health and Safety Forum: 'Monitoring what matters in Health and Safety' – a guide for CEOs. The Council is a member of the Business Leader's Forum.

Takenga mai | Background

7. Not applicable.

Kōrerorero | Discussion

Risks

Critical Risk Workshops

8. In June, we began a series of workshops across the organisation analysing the critical risks present in different groups and teams. This analysis involves workshoping the risk and associated controls with representatives from each group. Through the workshops, the number of present controls are validated while also discussing opportunities for additional or adjusted controls. This produces a series of actions that, once completed, will ensure there are additional mitigations in place for the management of the risk.
9. For these workshops, groups are either full business groups or business units depending on size and complexity.

10. The initial analysis of all business groups has identified 167 risks across the organisation. This represents the number of times a critical risk appears across the Council. The critical risks identified for the Council are:
 - Health and impairment: present in 21 groups
 - Personal confrontation: present in 20 groups
 - Vehicles on/off road including bicycles: present in 19 groups
 - Extreme natural events: present in 15 groups
 - Asset failure: present in 13 groups
 - Traffic and pedestrian movement during work activities: present in 13 groups
 - Dust, asbestos and silica: present in 12 groups
 - Hazardous substances: present in 12 groups
 - Ignition sources: present in 12 groups
 - Work with or in the vicinity of services: present in 11 groups
 - Mobile equipment: present in 10 groups
 - Work at height: present in 9 groups
11. So far there have been 48 workshops completed of the planned 167 (29%), involving 274 workers amounting to 260 total people hours. The completed workshops have identified 552 total controls, with 152 actions generated already to address gaps in risk management or potential improvements.
12. There is a large proportion of controls identified through this process which are shared across each group on the same risk. When the initial workshops have concluded, an updated enterprise register of controls will be generated and included in the processes of our safety management system to ensure controls are tested regularly.

Relationships

Internal relationships

13. The Health and Safety Business Unit continues to collaborate with the PSA on initiatives and improvements to our safety management system. We meet with the union formally each month, but between these meetings we have continued to work closely on improvement initiatives currently underway.
14. Additionally, the regular forums with Health and Safety Representatives (HSRs) have continued to improve through the 2023 calendar year. We have received consistent positive feedback from HSRs about the quality of content, and the accessibility of the forum itself. More work will be done in the 2024 calendar year to further enhance the profile and capability of our HSR group.

External relationships

15. This quarter, we have continued to build relationships with organisations across the country. There is a lot of interest now on reporting tools, which has allowed the Council to connect and discuss with other companies and agencies the success we have had with the implementation of MySafety.
16. We are in early discussions with our reporting tool provider to establish a Local Government working group to regularly discuss, learn and share best practice health and safety reporting. This will help Wellington City Council continue to improve its reporting approach, as well as share with others the improvements we have already made.

Resources

Safety Management System Review

17. The Health and Safety Business Unit is currently part-way through a project to review and update the Council's Safety Management System (SMS) – the collection of policy, process, procedures and guidance that make up how health and safety is managed at the Council.
18. This review will ensure the Council's SMS is updated to align with the ISO45001 and 45003 standards for occupational health and safety management (physical and psychosocial).
19. An analysis of the ISO standards identified a future SMS framework that spans at least 90 documents across 13 sections. The total number of documents may grow or shrink depending on the needs of the organisation.
20. So far 25 of the 92 documents in the SMS have been reviewed, updated and approved for distribution. Putting the total project at 27% complete.
21. Before the end of 2023 it is expected an additional 30% will be completed – of which 15% has already been reviewed and is awaiting approval by the health and safety management team.
22. By updating the full SMS and aligning it with international standards, we will equip teams within the Council with a current single source of truth for how they can best manage the health and safety elements of their work. It also provides the health and safety management team a clear framework for continuous improvement and regular verification/audits.
23. This activity is a critical step in strengthening our health and safety management foundation, as outlined in the recently launched Workplace Health and Safety Strategy – A Safer Tomorrow.

Employee Assistance Programme

24. Both usage of EAP and new referrals made have continued to follow expected patterns and are not largely up or down when compared to previous quarters.
25. There is increasing interest and uptake of Roronga Māori traditional healing as an EAP alternative, prompting our provider to onboard Manawa Ora to provide this kind of service. We had previously engaged Manawa Ora independently, but this has now been folded into our existing EAP arrangement making it easier for our staff to access the service.
26. Most EAP users continue to access the service for the prime reason of support for personal issues. Prime reasons categorised as 'work-related' have dropped by 50% in the last six months.

Performance dashboards

27. The quarterly performance monitoring dashboards for Health and Safety have been redesigned in response to both the launch of MySafety and the launch of the long-term workplace safety strategy – A Safer Tomorrow.

28. The dashboards now better align to strategic goals, as well as incorporating new targets agreed through the strategy. This updated approach to reporting has been made possible by the investment and launch of MySafety, allowing for easier data capture, management, and analysis.

Lead indicators

Targets

29. For Q1 FY23/24, all targets have been either met or exceeded – except for our overall induction completion which is slightly below the target of 90%. This is however a significant improvement on six months ago where our completion was below 70%. Our business partner team are working closely with their portfolios to reiterate the importance of inductions happening promptly, and this has seen overall time to complete induction reduce significantly.

Preventable events

30. Since we began tracking preventable events on 20 March 2023, they have reduced significantly from above 20 to just below 10 (an over 50% drop). This is despite overall volume of reporting increasing.

Health and Safety Representatives

31. There was a significant uptake in Health and Safety Representative training this last quarter, largely driven by high engagement between the Business Partner team and their respective portfolios – working to address any representation gaps in our target of 1 representative to every 19 workers. Across the enterprise we are above that ratio target by 49 representatives – driven by a larger representation ratio within the PSR business unit.

Training

32. Overall, training numbers are slightly up previous quarters (and financial years). In 2022, the Health and Safety Services team adjusted its approach to scheduling training for the 2023 calendar year – ensuring a consistent spread across the year. This has resulted in less cancellations and attendance issues, however there are still some pockets where we are struggling to find numbers. More analysis and adjustments will happen for the 2024 calendar year to ensure best training programme outcomes.
33. The spike in training for October 2022 is related to a floor warden training campaign run at the time (making up over 50% of the safety training for that month).

Lag indicators

Incidents

34. Total number of recorded incidents is up this quarter compared to last. This increase in volume was expected with the introduction of MySafety, which allows for easier reporting of health and safety events. As demonstrated in the lead indicators, the number of preventable incidents is down – making the increase in volume not an area of particular concern.

Staff injuries

35. The trend of decreased staff injuries continues this quarter, with total injury numbers down on last quarter as well as number of accepted ACC claims.
36. General pain and discomfort continues to be the most common reported injury type this quarter. It's then not surprising that we are seeing more requests for workstation assessments and early intervention physiotherapy. There have been no issues or concerns of note accessing these services.

Delay trends

37. Prior to the launch of MySafety in March 2023, there were significant delays in both reporting and assessment of health and safety events. You will see in the graph that almost immediately after introducing a new system both delay averages decreased.
38. Reporting delay immediately dropped below target (2 days) following the launch of MySafety, whereas manager assessment trailed by three months – eventually reaching target (and then below target) by June 2023. These delays should continue to be monitored to address any potential regress in reporting and assessment behaviour.

Critical risks

Overall volume

39. Seven of the nine Council critical risks saw less (or the same) numbers reported this quarter than last, except for Personal Confrontation and Extreme Natural Events.

Personal Confrontation

40. As anticipated, the upward trend of Personal Confrontation continued into this quarter. We know that major political events (elections), high-profile Council decisions and projects, as well as economic pressures have significant impacts on community behaviour. Unfortunately, this then translates to increased agitation and aggression toward public-facing staff.
41. We continue to work closely with units where Personal Confrontation exists on the ways the organisation can best support staff to manage these situations. The enterprise critical risk reviews may produce new controls that can be applied across multiple teams to further mitigate this risk.

Extreme Natural Events

42. It was surprising to see 15 reports of extreme natural events this quarter, as there haven't been any natural events recently that would typically produce events that meet this risk. On further analysis, all 15 of the reports have been misclassified – with a large proportion of the event reports relating instead to asset failure (streetlamps). These event reports will be reclassified, and appropriate numbers reflected in subsequent reports.

Asset Failure

43. It's a positive sign to see a balanced proportion of near miss vs. incident reports related specifically to asset failure. As well as an increase in volume of reporting. However, this

increase doesn't signal more asset failure, rather better reporting behaviour. It has also meant greater visibility of action taken against reports made. Streetlamps continue to make up most of the asset failure reports made.

Risk classification

44. While access to and increased use of reporting tools looks good, it's clear there is still a level of misunderstanding within the organisation when it comes to risk classification (as reflected in the previous example). This misunderstanding will be addressed through the enterprise critical risk review currently underway, however as an immediate mitigation for inaccurate data – the responsibility for risk classification has been shifted from management to the Business Partner team. The Business Partner team will also be checking the risk rating selections made by managers to ensure they are accurate.

Risk ratings

45. As we have seen in previous quarters, most events reported sit as low risk. A lot of these events are reports of the public rather than workplace health and safety reports e.g., faecal in pool facilities. The Health and Safety business unit is investigating how, and if it's appropriate, to reclassify or segment these reports if they meet a certain zero-risk criteria (events outside of the control or mitigation of the Council, with little to no risk of harm or damage).
46. Because of the frequency of Personal Confrontation, these events typically return a higher risk rating (sitting in the medium and high).
47. As an average, our overall risk rating has fluctuated between 6 and 7, on a scale of 25.

Ngā mahinga e whai ake nei | Next actions

48. None.

Attachments

Attachment 1. Health and Safety Quarter 1 FY23/24 Performance Dashboards [↓](#) 

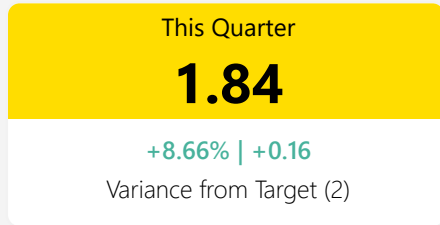
Page 143

Wellington City Council | Lead Indicators

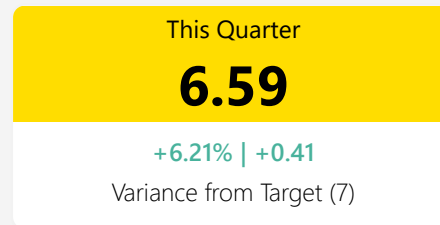
Quarter 1

FY23/24

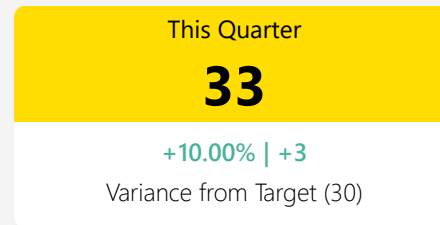
Avg Reporting Delay



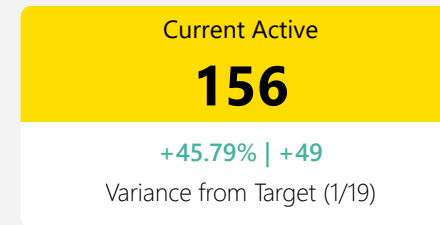
Avg Assessment Delay



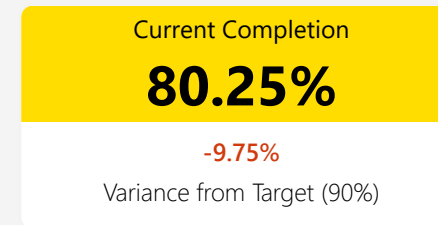
Good Sorts Nominated



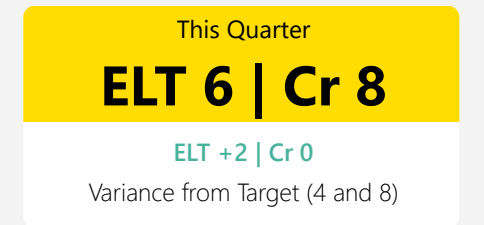
Health and Safety Reps



Induction Completion

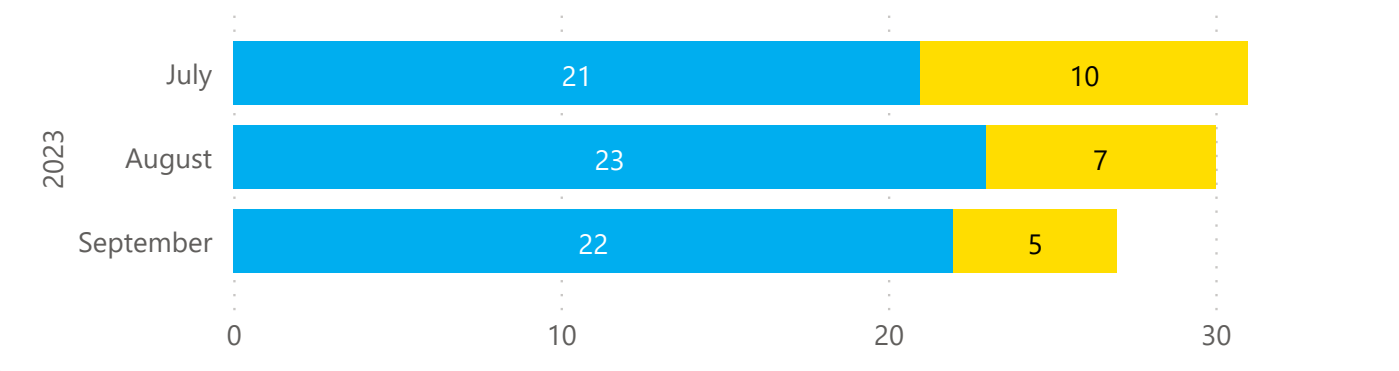


Critical Risk Observations

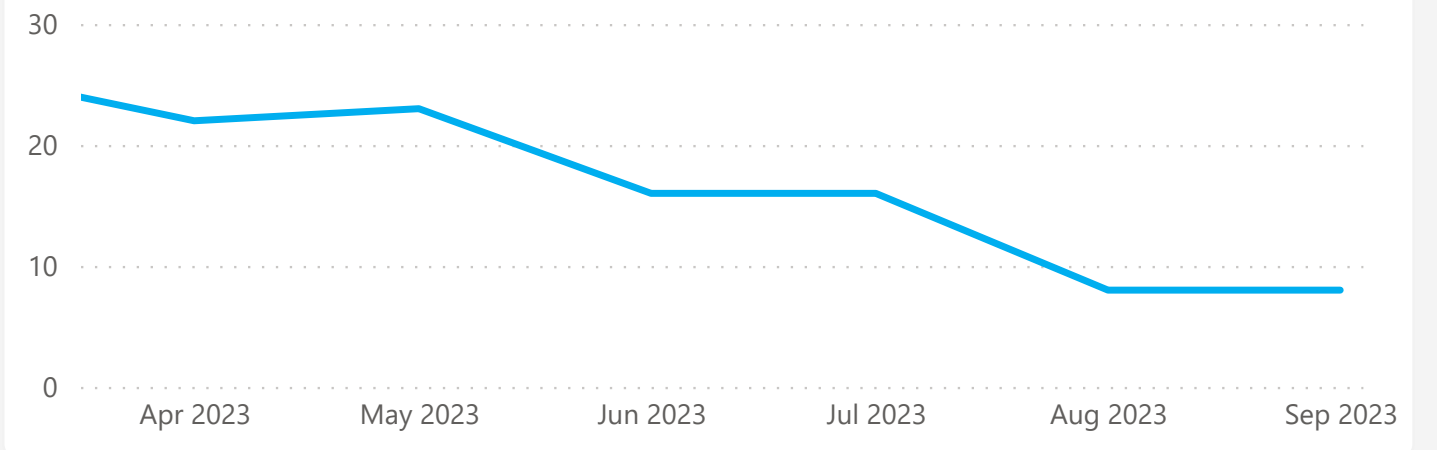


Action Type by Month (this quarter)

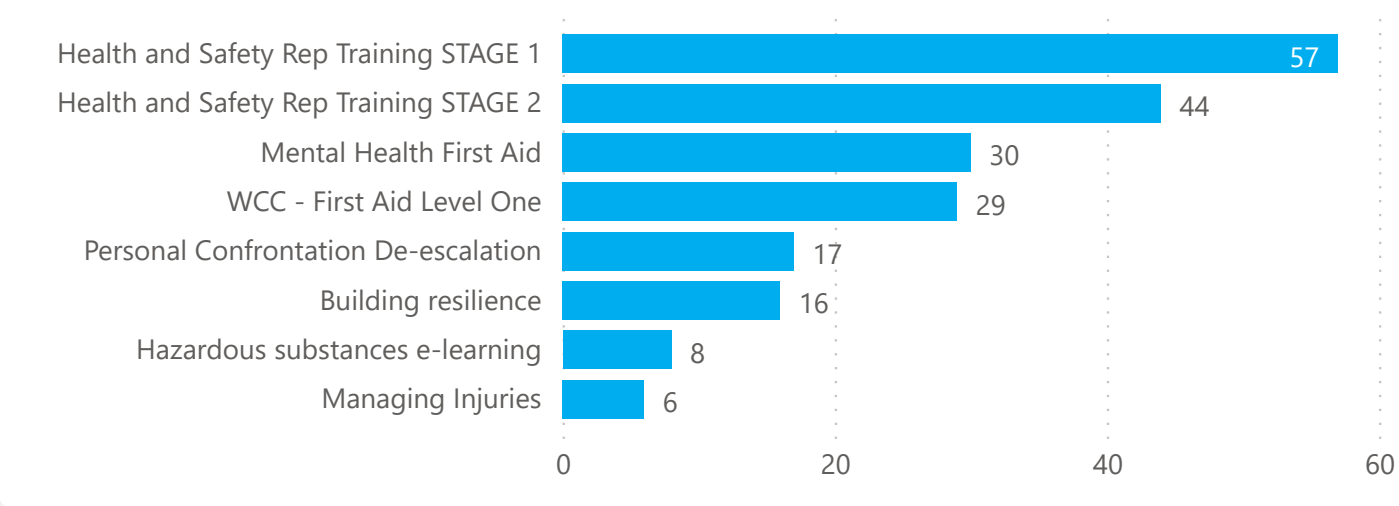
Improvement Action Corrective Action



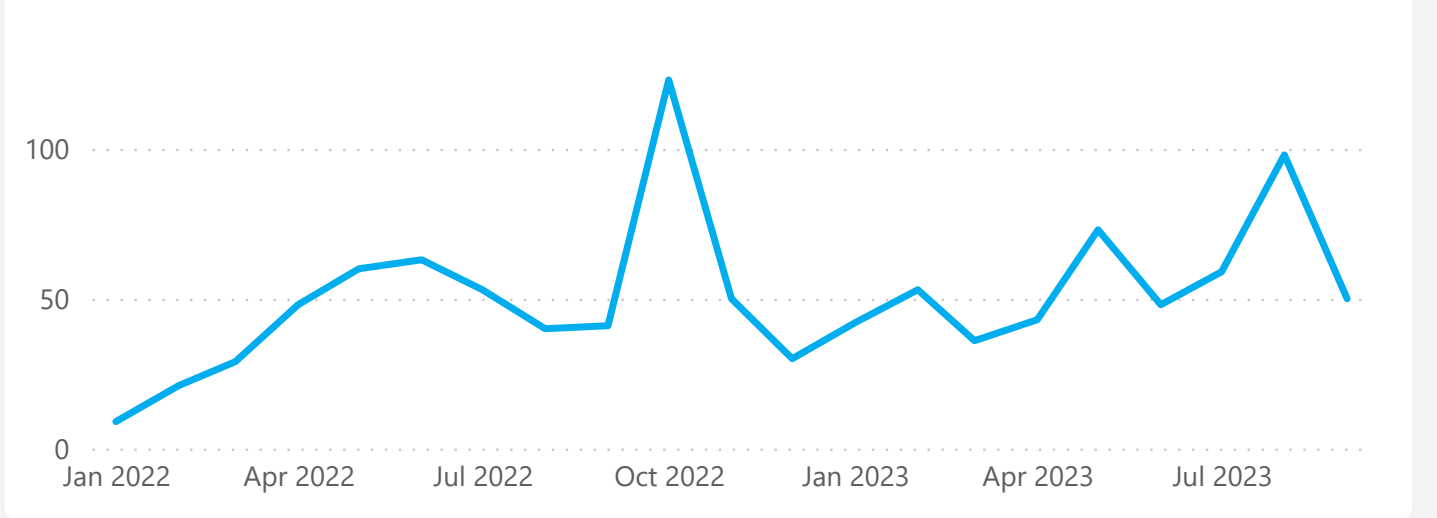
Preventable Events



Courses Completed This Quarter (excl induction and MySafety)



Course Completion Over Time (excl induction and MySafety)

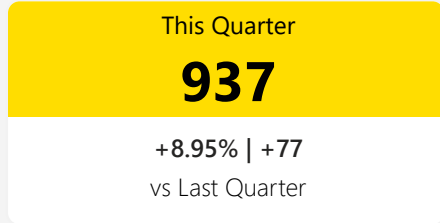


Wellington City Council | Lag Indicators

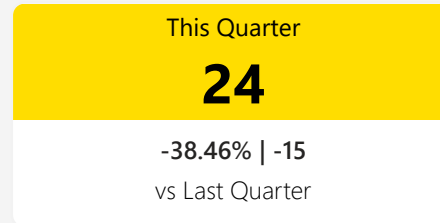
Quarter 1

FY23/24

Total Incidents



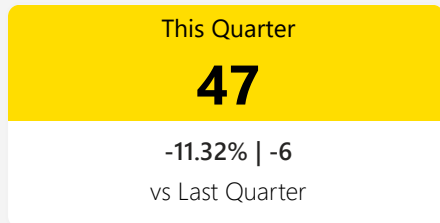
Preventable Incidents



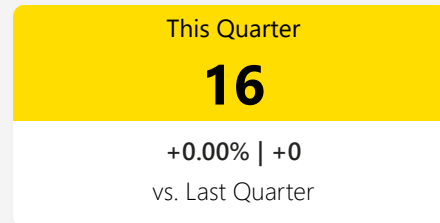
Preventable Staff Injuries



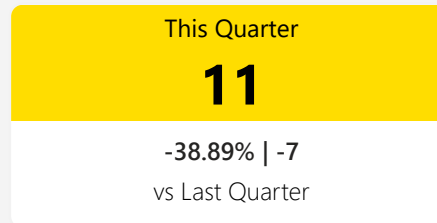
Total Staff Injuries



Non First Aid Staff Injuries*

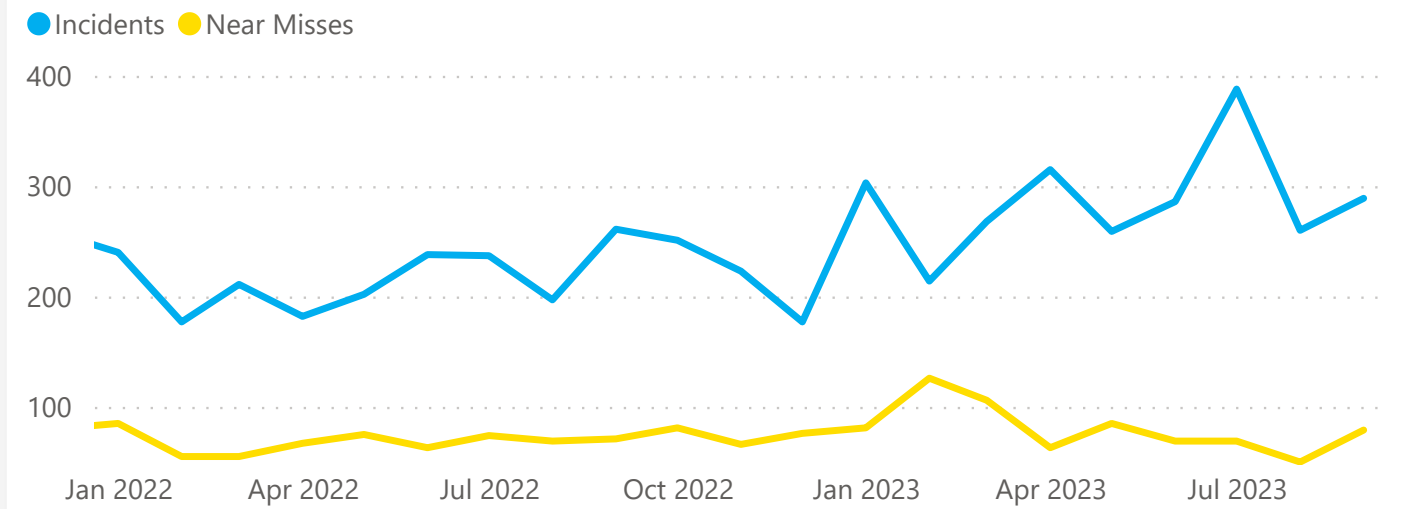


Accepted ACC Claims

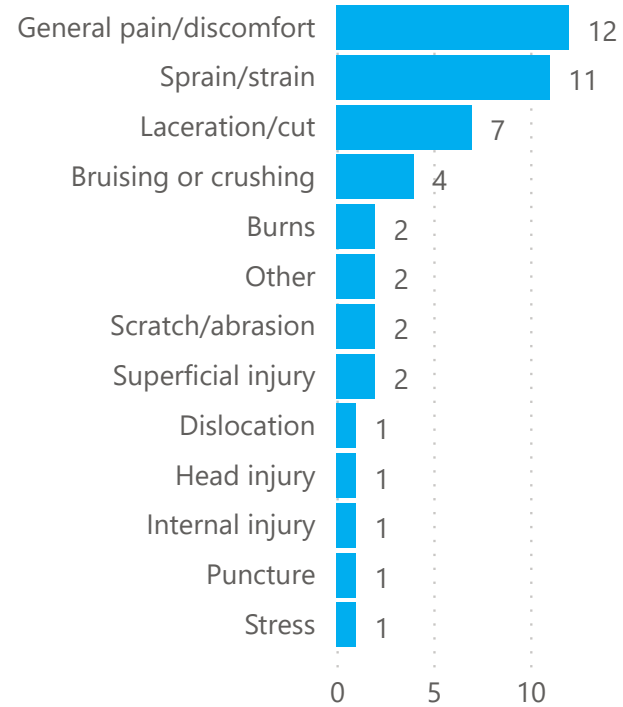


* Non First Aid Staff Injuries are those that required hospital, medical or other specialist treatment.

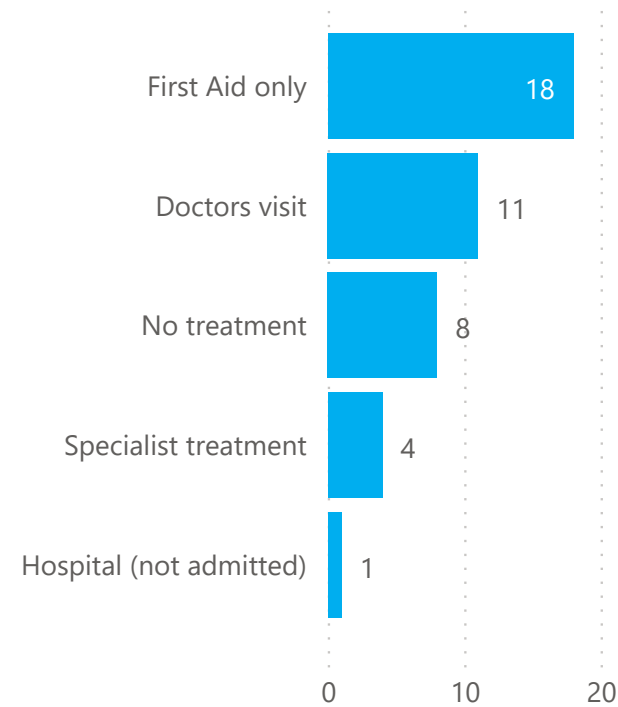
Event Trend



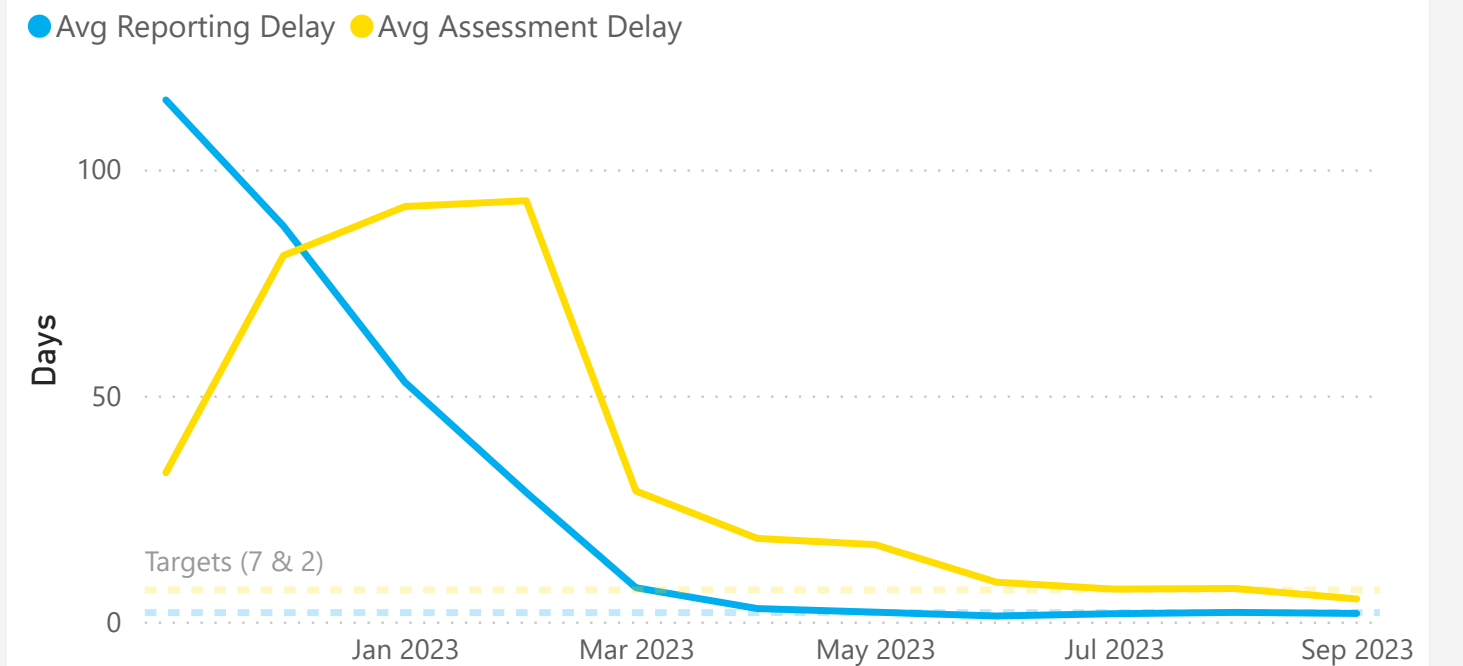
Staff Injury Types (this quarter)



Staff Injury Treatment Types (this quarter)



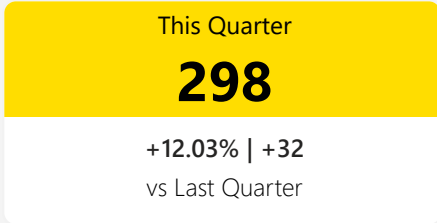
Average Reporting and Assessment Delays



Wellington City Council | Critical Risks

Quarter 1 ▼ FY23/24 ▼

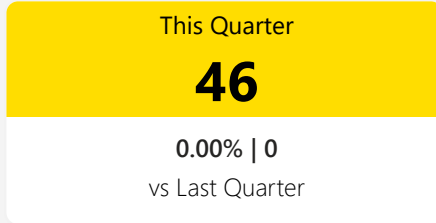
Personal Confrontation



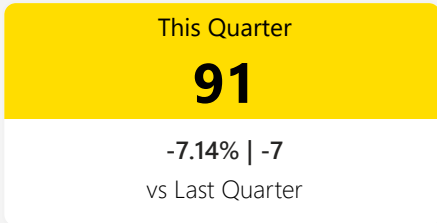
Health and Impairment



Vehicles and Mobile Equip



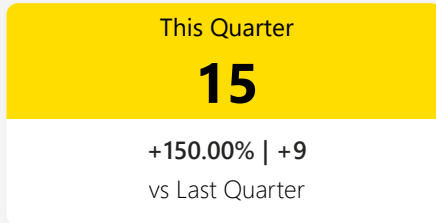
Asset Failure



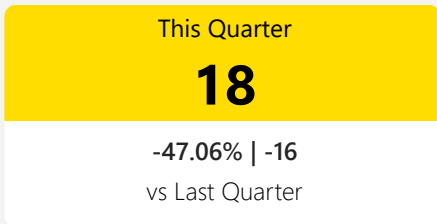
Work at Height



Extreme Natural Events



Work-related Health Hazards



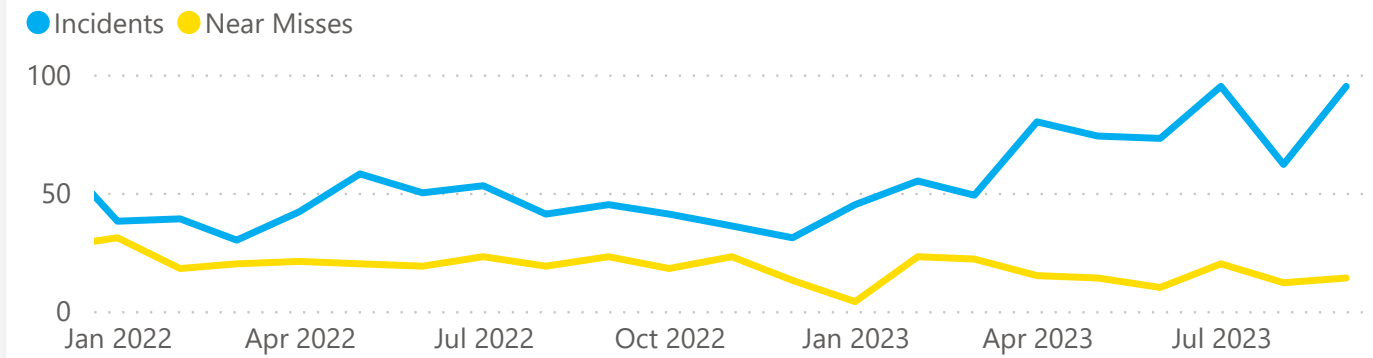
Ignition Sources



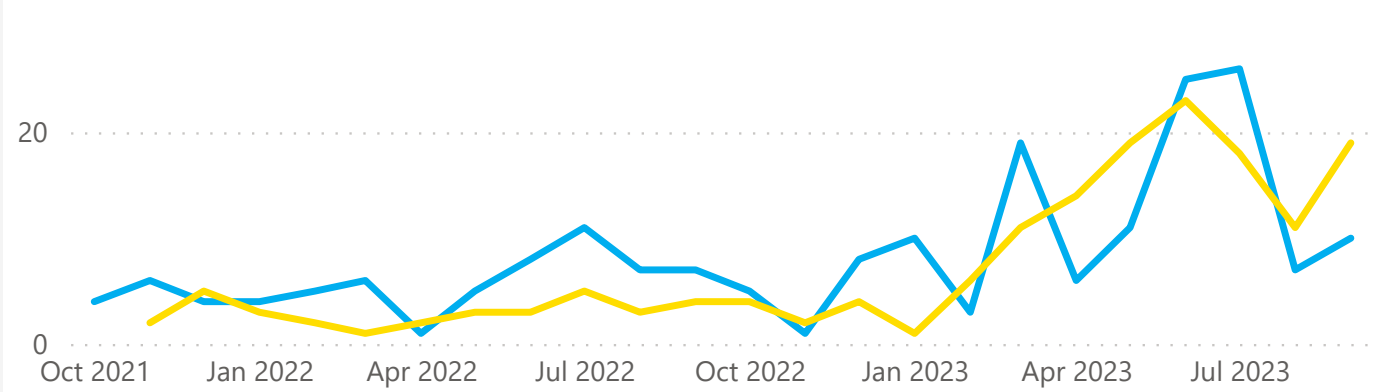
Work w/ or near Services



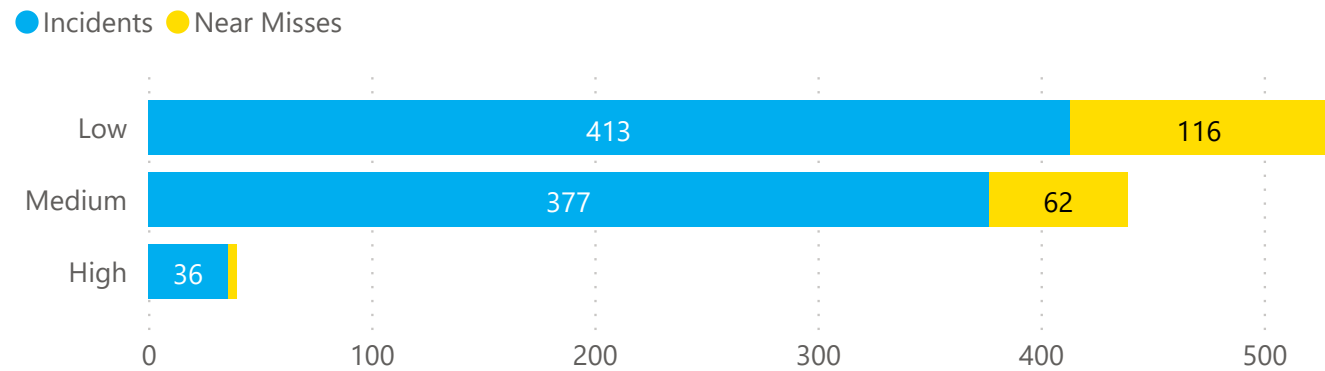
Personal Confrontation Trend



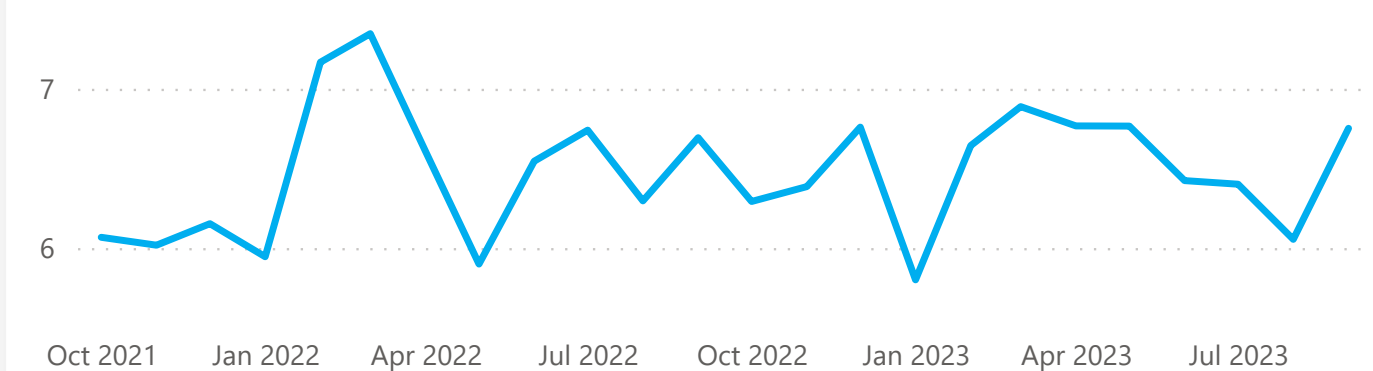
Asset Failure Trend



Risk Rating Breakdown (this quarter)



Average Risk Rating Trend (scale 0 - 25)



ASSURANCE & BUSINESS INTEGRITY UPDATE

Kōrero taunaki | Summary of considerations

Purpose

1. This report provides the Unaunahi Māhirahira | Audit and Risk Committee with:
 - an update on progress against the Assurance & Business Integrity Workplan 2023-24
 - an update on integrity activities including protected disclosures received, and elected member gifts declaration procedures.
2. The information supports the Committee to discharge its responsibility under its Terms of Reference to:
 - have oversight of the internal audit function
 - review and monitor whether management's approach to maintaining an effective internal control framework is sound and effective, including appropriate systems to prevent, detect and effectively investigate fraud.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
- People friendly, compact, safe and accessible capital city
- Innovative, inclusive and creative city
- Dynamic and sustainable economy
- Functioning, resilient and reliable three waters infrastructure
- Affordable, resilient and safe place to live
- Safe, resilient and reliable core transport infrastructure network
- Fit-for-purpose community, creative and cultural spaces
- Accelerating zero-carbon and waste-free transition
- Strong partnerships with mana whenua

Strategic alignment with priority objective areas from Long-term Plan 2021–2031

Relevant Previous decisions

The Committee approved the Assurance and Business Integrity Workplan 2023-24 at its meeting on 10 May 2023.

Significance

The decision is rated low significance in accordance with schedule 1 of the Council's Significance and Engagement Policy.

Financial considerations

- Nil Budgetary provision in Annual Plan / Long-term Plan Unbudgeted \$X

3. There are no new financial implications from this paper.

Risk

- Low Medium High Extreme

4. Risks were identified as part of audit and assurance work and these have been communicated to relevant officers. Risks are managed in line with the Council's Enterprise Risk Management Framework.
5. This paper supports effective governance of assurance activities and provides assurance that risks identified are appropriately addressed. This gives confidence to our stakeholders that the Council is meeting its responsibilities and the public's expectations of accountability.

Author	Jon Daley, TL Assurance and Business Integrity
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

- 1) Receive the update on the Assurance Workplan and about integrity activities
- 2) Agree the changes to the Assurance and Business Integrity Workplan
- 3) Receive the update on Elected Members' Register of Gifts and Hospitality.

Whakarāpopoto | Executive Summary

6. Delivery of the Assurance and Business Integrity Workplan for 2023-24 is on track.
7. Audit work has been completed on Customer Enquiries, Complaints & Escalation. Work is underway on a further three audits.
8. There are three recommended changes to the work programme;
 - Remove the marinas audit. This was proposed to audit a process improvement which has not yet been implemented.
 - Remove the working with developers audit, scope has already been completed through another piece of audit work
 - Remove the completion of the initial controls assessment for Significant Service Contracts audit. The initial field work on this audit found that there was more work to be completed on establishing a framework for assessment before this can be audited.
9. No protected disclosures were received in the period 31 July – 31 October.

Kōrerorero | Discussion

A. Progress on Assurance and Business Integrity Workplan 2023-24

10. The Assurance & Business Integrity Workplan 2022-23 was approved by the Committee in it's meeting on 10 May 2023, and its delivery is on track.
11. The following internal audit report has been issued since our previous report to the Committee:

Customer Enquiries, Complaints and Escalation	<p>The objective of this review was to to assess the effectiveness of processes and controls for ensuring customer complaints are managed in a timely and appropriate manner.</p> <p>The overall audit opinion was 'Improvements required' The controls are not effective in managing key risks. Management has agreed with our three recommendations:</p> <ul style="list-style-type: none"> • Developing an end to end customer complaints process, including escalation • Reporting on volume of Council-wide complaints received and progress • Updating the personal confrontation risk for staff managing customer complaints, including a process for logging H&S incidents on behalf of the public.
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Changes to the Workplan

12. An audit of Marinas was included on the 2022-23 plan and rolled forward to 2023-24. This was to review the implementation of a new licence agreement. This is not yet in place. We propose to review the risk and controls as part of our audit planning for 2024-25 and include within the plan, if required.
13. An audit of Working with developers was included within the 2023-24 Workplan. The areas for review would substantially overlap with previously completed audit work. Recommendations are being cascaded through the property development workstream.
14. The initial controls assessment for Significant Service Contracts identified that there was no framework in place for identification or management of Significant Service Contracts. Once these plans for imbedding a framework are fully implemented substantive audit work would be of greater value. We propose to review progress and consider this within our planning for the 2024-25 Workplan.

Ref	Audit	Status	Comments
2308	Marinas	Closed	Refer to paragraph 13 above.
2400	Internal Controls Assessment for Year Ending 30 June 2023	Closed	
2401	Grants monitoring	Scheduled for Q3	
2402	PSR budgeting and reporting	Scoped	To commence this quarter
2403	Trespass notices	Scoped	To commence this quarter
2404	Resource consenting	In progress	
2405	Working with developers	Closed	Refer to paragraph 14 above
2406	Climate response	Scheduled for Q3	
2407	Encroachments	In progress	
2408	Commercial leases	Scheduled for Q4	
2409	Significant service contracts	Closed	Refer to paragraph 15 above.
2410	Credit control operations	In progress	
2411	Financial delegations	Scheduled for Q4	
2412	Speed Management BCR Review	Closed	

B Protected Disclosures and Investigations

15. Assurance & Business Integrity has responsibility to receive protected disclosures and to have oversight of any investigations under the Protected Disclosures Act 2000. We will bring to the attention of the Committee any allegations of internal fraud or other suspected financial misappropriation, and any protected disclosures or investigations instigated.
16. Since our last report to the Committee there have been no protected disclosures made the Assurance and Business Integrity Team. Reporting of protected disclosures is now available anonymously via either a phone call with an external supplier or online.
17. Work to raise the profile of fraud and corruption risk was completed as part of this year's Fraud Awareness Week. Further integrity work is planned as part of the initiative to raise the Council's control maturity.

C Elected Members' Gift Declarations

18. Elected members are reminded quarterly about their obligation to disclose gifts or hospitality that has been offered to them in their capacity as an elected member, in line with the Elected Member Guidance for Receiving Gifts and Hospitality. Assurance & Business Integrity reviews the register for completeness and consistency with the Council's guidance.
19. The following table shows the quarterly completion rate for elected members gifts and hospitality disclosures:

Period	% Completion rate	Return with no disclosures (Nil return)	Return with disclosures	Pending response
1 April to 30 June 2023	53%	1	7	7
1 July to 30 September 2023	80%	3	9	3

20. Officers will follow up with elected members who have yet to respond and provide an update at the next Committee meeting.

Whai whakaaro ki ngā whakataunga | Considerations for decision-making

Alignment with Council's strategies and policies

21. This report is about the Council's internal control systems that enable the Council to effectively deliver its business objectives.

Engagement and Consultation

22. This paper is low significance as per our Significance and Engagement Policy. This paper is for internal use to support governance of assurance activities and there are no requirements to consult with the public on the matters raised in this paper.

Implications for Māori

23. There are no specific Te Tiriti o Waitangi considerations to note. Our Te Tiriti o Waitangi obligations and our commitment to mana whenua partnerships are considered within each assurance engagements.

Financial implications

24. There are no financial implications arising from this paper.

Legal considerations

25. There are no new legislative implications raised in this paper.

Risks and mitigations

26. Risks were identified as part of audit and assurance work completed and these have been communicated to relevant officers. Risks are managed in line with the Council's Enterprise Risk Management Framework. There are no additional risk implication arising from this paper.
27. The oversight of actions to address assurance recommendations forms part of the Council's risk mitigation to assure that identified risks are appropriately managed. This gives confidence to our stakeholders that the Council is meeting its responsibilities and the public's expectations of accountability.

Disability and accessibility impact

28. The recommendations in this report do not have any impacts on accessibility.

Climate Change impact and considerations

29. There are no climate change implications arising from this paper.

Communications Plan

30. No public communication is required because of this paper.

Health and Safety Impact considered

31. This report does not create or identify any new health and safety considerations

Ngā mahinga e whai ake nei | Next actions

32. Assurance and Business Integrity will operate to the revised workplan.

Attachments

Nil

ACTIONS TRACKING AND FORWARD PROGRAMME

Kōrero taunaki | Summary of considerations

Purpose

1. This report provides an update on past actions agreed by the Unaunahi Māhirahira | Audit and Risk Committee (the Committee), or its equivalent, at its previous meetings (hui).
2. Additionally, this report provides a list of items that are scheduled to be considered at the next two hui of the Committee.

Strategic alignment with community wellbeing outcomes and priority areas

Aligns with the following strategies and priority areas:

- Sustainable, natural eco city
- People friendly, compact, safe and accessible capital city
- Innovative, inclusive and creative city
- Dynamic and sustainable economy
- Functioning, resilient and reliable three waters infrastructure
- Affordable, resilient and safe place to live
- Safe, resilient and reliable core transport infrastructure network
- Fit-for-purpose community, creative and cultural spaces
- Accelerating zero-carbon and waste-free transition
- Strong partnerships with mana whenua

Strategic alignment with priority objective areas from Long-term Plan 2021–2031

Relevant Previous decisions

Not applicable.

Financial considerations

Nil

Budgetary provision in Annual Plan / Long-term Plan

Unbudgeted \$X

Risk

Low

Medium

High

Extreme

Author	Marcella Freeman, Democracy Advisor
Authoriser	Stephen McArthur, Chief Strategy & Governance Officer

Taunakitanga | Officers' Recommendations

Officers recommend the following motion:

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Receive the information.

Whakarāpopoto | Executive Summary

Actions Tracking

3. The Committee passed 8 resolutions on 11 Whiringa ā-nuku October 2023 of these;
 - 7 are complete, and 1 is still in progress.
4. The Committee had 6 in progress actions carried forward from previous action tracking reports:
 - 1 is now complete and 5 are still in progress.

Forward Programme

5. The following items are scheduled to go to the Committee's next hui:

21 Hui-tanguru February 2024:

- Forward Programme and Workplan Update.
- Update on Protected Disclosures and investigations.
- Status of Internal and Third-party Audit Recommendations.
- Audit plan and engagement letter.
- Strategic Risk Management Framework - profile update, update on Fraud Risk
- Insurance Roadmap Update.
- Health and Safety - Performance Report.
- Building Consent Authority Accreditation Assurance.

Public excluded:

- Litigation Matters and Chief Officer Updates.

6. The Proposed Workplan (attachment 2) sets out the areas of interest for the Unaunahi Māhirahira | Audit & Risk Committee for the remainder of this triennium until September 2025. The proposed workplan informs the forward programme.

Takenga mai | Background

Actions Tracking

7. Attachment 1 lists clauses agreed by the Committee that are still in progress or have been completed since actions were last reported on.
8. For public excluded resolutions, individual clauses will not be reported on in a public hui. An overall status for the item will be given and it will remain in progress until all clauses are complete.
9. Actions will be removed from the list once they have been reported as complete.
10. Where applicable, this report contains actions carried over from the equivalent committee(s) of previous trienniums.
11. The purpose of the actions tracking report is to ensure that all resolutions are being actioned over time. It does not take the place of performance monitoring or full updates. The Committee could resolve to receive a full update report on an item, if it wishes.



Forward Programme

12. The forward programme sets out the reports planned for to go to the Committee for consideration in upcoming hui.
13. It is a working document and is subject to change on a regular basis.

Attachments

Attachment 1. [Actions Tracking](#)  

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Attachment 2. [Proposed Work Plan 29 Nov 2023](#)  

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Date	ID	Committee	Title	Clause number	Clause	Status
14/09/2022	1071	Audit and Risk Committee	2.5 Insurance Maturity Roadmap report	3	Agree that Council officers will report back to the committee on a regular basis as a standing item on the Kāwai Māhirahira Audit and Risk Subcommittee on progress against the workplan	In progress
14/09/2022	1072	Audit and Risk Committee	2.5 Insurance Maturity Roadmap report	4	Receive periodic updates against the project plan and risk assessments over the life of the roadmap project.	In progress
28/02/2023	1334	Audit and Risk Committee	2.4 Introduction to the WCC Strategic Risks Framework and Strategic Risk Register	2	Agree to the proposed changes to the Strategic Risk Register. Changes include the merging of some risk profiles and development of new risk profiles to reflect WCC's risk management priorities.	In progress
10/05/2023	1525	Audit and Risk Committee	2.2 Strategic Risks update, Risk Appetite Statements development and approval of the Risk Manager 4		Agree to support future work on expanding the range of Risk Appetite statements at an appropriate time, including after supporting LTP level of service work has been completed (likely Q2 2023-24). No further updates still planned to build off LTP work.	In progress
16/08/2023	2004	Audit and Risk Committee	2.1 Te Aho Marutau Internal Audit Report for the year ended 30 June 2023	2	Receive information about the Council's internal control environment and summary of internal audit work completed for the period 2022-23.	Completed
16/08/2023	2006	Audit and Risk Committee	2.1 Te Aho Marutau Internal Audit Report for the year ended 30 June 2023	4	Request that management reports back to the Committee within 6 months on a internal control systems and process maturity uplift plan.	In progress
11/10/2023	2283	Audit and Risk Committee	2.1 Speed Management Data Breach and Assurance Review of Benefit Cost Ratio Calculation	1	Receive the information	Completed
11/10/2023	2284	Audit and Risk Committee	2.1 Speed Management Data Breach and Assurance Review of Benefit Cost Ratio Calculation	2	Note that the recommendations from both of the reviews will be tracked and reported back to this Committee.	In progress
11/10/2023	2285	Audit and Risk Committee	2.2 LTP 2024 Assumptions	1	Receive the information.	Completed
11/10/2023	2286	Audit and Risk Committee	2.2 LTP 2024 Assumptions	2	Note that the 2024 Long-Term Plan forecasting assumptions will be presented back for adoption alongside the LTP Consultation Document following audit.	Completed
11/10/2023	2287	Audit and Risk Committee	2.3 2024-34 Long-term Plan programme update	1	Receive the information.	Completed
11/10/2023	2288	Audit and Risk Committee	2.4 Status of Internal and Third Party Audit Recommendations	1	Receive the update on management's progress to address recommendations from internal audit and other independent sources of assurance.	Completed
11/10/2023	2289	Audit and Risk Committee	2.5 Actions Tracking	1	Receive the information.	Completed
11/10/2023	2290	Audit and Risk Committee	2.6 Forward Programme and Workplan Update	1	Receive the information.	Completed

Unaunahi Māhirahira | Audit & Risk Committee: Proposed Workplan

	11 Oct 2023	29 Nov 2023	21 Feb 2024	8 May 2024	14 Aug 2024	2 Oct 2024	20 Nov 2024	5 Feb 2025	30 Apr 2025	10 Sep 2025
Committee Governance										
○ Forward programme and workplan update	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
○ ARC self-assessment of performance and effectiveness				◆					◆	
○ Elected member gifts & hospitality and pecuniary interests				◆					◆	
Assurance and Business Integrity (Internal Audit)										
○ Approval of the following year Assurance work plan				◆					◆	
○ Update on current year Assurance work plan		◆		◆			◆		◆	
○ Update on Protected Disclosures and investigations			◆		◆			◆		◆
○ Status of internal and third-party audit recommendations	◆		◆		◆	◆		◆		◆
○ Update on fraud risk			◆							
○ Annual legislative compliance attestation report					◆					
○ Committee briefing with no mgmt present (+ as req'd)				◆					◆	
○ Review Internal Audit Charter					◆					
External Audit and Statutory Reporting										
○ Audit plan and engagement letter			◆					◆		
○ Progress to address matters of emphasis in 21/22 audit opinion										
○ Proforma Annual Report (financial statements & accounting policies)				◆					◆	
○ Draft Annual Report and letters of representation	◆				◆	◆				◆
○ Year-end management letter		◆			◆		◆			◆
○ Committee briefing with no mgmt present (+ as req'd)	◆					◆				
Risk Management										
○ Strategic Risk Management Framework - profile update		◆	◆		◆	◆		◆		◆
○ Annual refresh of strategic risks				◆					◆	
○ Approval of annual Risk work plan				◆					◆	
○ Risk Maturity update			◆					◆		
○ Group Risk Management – Chief Officer updates										
• Chief Executive (as required)	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
• Chief Planning									◆	
• Chief People and Culture										◆
• Chief Customer and Community				◆						

Unaunahi Māhirahira | Audit & Risk Committee: Proposed Workplan

	11 Oct 2023	29 Nov 2023	21 Feb 2024	8 May 2024	14 Aug 2024	2 Oct 2024	20 Nov 2024	5 Feb 2025	30 Apr 2025	10 Sep 2025
<ul style="list-style-type: none"> • Chief Māori • Chief Infrastructure • Chief Financial • Chief Strategy & Governance • Chief Digital 		◆	◆		◆	◆	◆	◆		
Council Controlled Organisations										
○ CCO annual reports on risk impacting Council's group risk		◆			◆		◆			◆
Finance										
○ Insurance roadmap update		◆	◆					◆		
Health and Safety										
○ Performance report		◆	◆	◆	◆		◆	◆	◆	◆
Legal Risk										
○ Litigation matters update (Public excluded)	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Long Term Plan										
○ 2024 LTP Development Programme – project plan	◆									
○ LTP forecasting assumptions	◆									
○ Asset Management Planning – assurance										
○ Audit New Zealand LTP assurance plan	◆	◆								
○ Audit NZ LTP Management letter					◆					
Focus Topics										
○ Building Consent Authority accreditation assurance			◆							

3. Public Excluded

Recommendation

That the Unaunahi Māhirahira | Audit and Risk Committee:

1. Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
3.1 Te Kāinga Update	<p>7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>7(2)(i) The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p>	<p>s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.</p>
3.2 Legal and Risk Updates	<p>7(2)(g) The withholding of the information is necessary to maintain legal professional privilege.</p> <p>7(2)(i) The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p>	<p>s48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.</p>

-
2. Direct officers to consider the release of the public excluded information in 3.1 Te Kāinga Update when commercial negotiations are complete.