

HUTT CITY COUNCILKOMITI ITI AHUMONI I TŪRARU  
AUDIT AND RISK SUBCOMMITTEE

Minutes of a meeting held in the Council Chambers, 2nd Floor, 30 Laings Road,  
Lower Hutt on

**Tuesday 25 June 2024 commencing at 2:00 pm**

**PRESENT:** S Tindal (Independent Chair) Cr T Stallinger  
Cr S Edwards Cr J Briggs  
Cr K Morgan Deputy Mayor T Lewis

**APOLOGIES:** Mayor C Barry (Deputy Chair)

**IN ATTENDANCE:** J Miller, Chief Executive  
A Geddes, Director Environment and Sustainability  
J Kingsbury, Director Economy and Development  
J Livschitz, Group Chief Financial Officer  
B Hodgins, Strategic Advisor  
J Kilty, Democracy Advisor

PUBLIC BUSINESS**1. OPENING FORMALITIES - KARAKIA TIMATANGA**

Whakataka te hau ki te uru	Cease the winds from the west
Whakataka te hau ki te tonga	Cease the winds from the south
Kia mākinakina ki uta	Let the breeze blow over the land
Kia mātaratara ki tai	Let the breeze blow over the ocean
E hī ake ana te atakura	Let the red-tipped dawn come with a
He tio, he huka, he hau hū	sharpened air.
Tihei mauri ora	A touch of frost, a promise of a
	glorious day.

**2. APOLOGIES**

**RESOLVED:** (S Tindal/Cr Briggs) **Minute No. ARSC 24301**

*"That the apologies received from Mayor Barry be accepted and a leave of absence be granted."*

**3. PUBLIC COMMENT**

There was no public comment.

#### 4. CONFLICT OF INTEREST DECLARATIONS

There was no conflict of interest declarations.

#### 5. THREE WATERS MATTERS

Report No. ARSC2024/3/145 by the Strategic Advisor

The Strategic Advisor elaborated on the report and provided an update on the State Highway 2 main wastewater pipe. He advised that the physical work required would take some time and would not be ready in the calendar year. He said the work might require overseas advice, expertise, and materials in order to be finished. He noted that water leak reporting would now be done fortnightly. He added that the number of active leaks had reduced to below 400.

The Chief Executive advised that she had appeared in front of the Finance and Expenditure Select Committee hearing submissions on the Local Government (Water Services Preliminary Arrangements) on behalf of Taituarā. She noted that the time scale in which a water plan should be submitted under the legislative timeframe was a challenge. She said that the 12 month timeframe would be difficult for the creation of a Council Controlled Organisation. She stated that the proposed lifetime of a water service plan of 10 years would be too short as some risks and issues would not occur within that timeframe. She added that the issues and risks would impact financial sustainability and, therefore, the water service plan as a whole, even while falling outside of the scope of the plan.

The Chief Executive further advised that she would be supporting Dame Kerry Prendergast on behalf of the delegation in submitting a collective council submission to the Select Committee later in the week. She noted that the lack of legislative clarity remained a challenge.

The Chair noted that she was the Deputy Chair of the Infrastructure Commission, which had been providing advice and input on Three Waters to the relevant Select Committees, Department of Internal Affairs, and others. She noted that all advice was publicly available information.

Cr Stallinger thanked the staff at Wellington Water Limited for their work on mitigating water leaks.

RESOLVED: (S Tindal/Cr Edwards)

**Minute No. ARSC 24302**

*“That the Subcommittee:*

- (1) notes the Active Risk Register for three waters, attached as Appendix 1, which was considered by Council in its Long Term Plan deliberations;*
- (2) notes the report and findings of the Wellington Water Limited (WWL) independent review of its systems and processes, following the omission of corporate overheads in its advice on the Draft Long Term Plan capital works programme, will be reported to the next meeting of this subcommittee for consideration;*
- (3) notes that work on the high-level conceptual design for a preferred future regional water delivery model is progressing at pace and that there is likely to be a budget shortfall to progress this work over the coming financial year;*
- (4) notes that work is progressing on the scope and constraints of the urgent project to upgrade a section of the main wastewater pipe under and adjacent to State Highway 2 (SH2) and that the funding for this work will need to be further considered by Council once costs are known; and*
- (5) notes that progress on eliminating the backlog of leaks is on track with the plan WWL has put in place.”*

**6. INFORMATION ITEMS**

a) **Whakatupu Ngaengae**

Memorandum dated 10 June 2024 by the Project Manager (Naenae)

The Chief Executive elaborated on the report.

In response to a question from a member regarding the quantitative risk assessment table, the Group Chief Financial Officer explained that the deduction from the amounts spent on the project, under 'OPEX (Operational Expenditure) budget transfer' referred to costs that could not be capitalised at the beginning of the project. She added that the costs had to be transferred to OPEX.

**RESOLVED:** (S Tindal/Cr Morgan)

**Minute No. ARSC 24303**

*"That the Subcommittee:*

- (1) receives and notes the information; and*
- (2) notes the following progress that has been made on the Whakatupu Ngaengae project:*
  - (a) work on the new Naenae Pool and Fitness Centre is progressing to plan and confidence remains high that the project can be completed within budget;*
  - (b) the conversion of the old Naenae Post Office to a community centre is complete save for a few finishing items that will be completed before handover to operator Team Naenae Trust. The centre will open to the public on 29 June 2024;*
  - (c) concept design of the Walter Mildenhall Park is currently being finalised following feedback from the community. A preliminary version will be presented to the Naenae Community Advisory Group on 12 June 2024."*

b) **Verbal Update on the Long Term Plan by the Group Chief Financial Officer**

John Whittal, Audit Director from Audit NZ was in attendance for the item.

The Group Chief Financial Officer advised that the Audit NZ audit opinion was completed and attached as pages 7-10 to the minutes. She noted the thoroughness of the audit process throughout the draft Long Term Plan (LTP) and the consultation document. She thanked John Whittal and his team for their outstanding work. Speaking to Audit NZ's audit opinion, she highlighted two areas of emphasis: capital deliverability and the three waters forecast information. She said these matter areas had carried forward from the draft LTP audit opinion.

The Group's Chief Financial Officer further advised that there was new information about the qualified opinion and the three waters asset valuation process. She stated that from an accounting standards perspective it was important that councils assets reflected fair value. She said there had been an asset re-evaluation every two years, with the previous re-evaluation taking place in 2021-22. She added that following the last asset re-evaluation process there were some improvements needed in the calculation of comparative unit rates across the region. She stated that Council needed to clarify the differences between Council's unit rates, and those of Upper Hutt City Council (UHCC) and Wellington City Council (WCC). She added that this time, Hutt City Council, UHCC and WCC had worked together with the same valuers and worked alongside Wellington Water Limited during the asset re-evaluation process for three waters. She said a draft report from the new valuers had been completed, revealing an increase in the value of Council's three water assets compared to the estimates in the LTP. She noted that the report could not be included in this year's LTP as it would not be finalised before the completion of the LTP process.

John Whittal noted that, since the draft report was not finalised, there was still uncertainty about the reported increase in asset value.

In response to questions from members, the Group Chief Financial Officer explained that Council's unit rates were lower than other councils in the Wellington region in the 2021-22 asset valuation as different valuers were used. She said that UHCC and WCC had not received their three waters asset review draft reports yet. She noted that the asset evaluation could be substantially higher than a 5-10% increase on the LTP estimates based on the findings of the draft report. She added that there were a number of factors at play, such as the unit rate increasing and better information about asset data.

The Chief Executive advised that it was necessary to discuss the asset re-evaluation for the 2025/26 Annual Plan.. She acknowledged the spirit in which people had worked together to put forward an LTP in a challenging situation for local government. She thanked the Chair and noted how Council's good governance had shone through during the LTP process. She acknowledged the pragmatism of elected members in their decision making.

c) **Audit and Risk Subcommittee Forward Programme 2024**

Memorandum dated 30 May 2024 by the Democracy Advisor

**RESOLVED:** (S Tindal/Cr Morgan)

**Minute No. ARSC 24304**

*"That the Subcommittee receives and notes the Forward Programme for 2024 attached as Appendix 1 to the memorandum."*

7. **QUESTIONS**

There were no questions.

8. **CLOSING FORMALITIES - KARAKIA WHAKAMUTUNGA**

Unuhia!	Release us from the supreme
Unuhia!	sacredness of our tasks
Unuhia i te uru-tapu-nui	To be clear and free
Kia wātea, kia māmā	in heart, body and soul in our
Te ngākau, te tinana,	continuing journey
te wairua i te ara takatū	Oh Rongo, raise these words up high
Koia rā e Rongo	so that we be cleansed and be free,
whakairihia ake ki runga	Yes indeed, we are free!
Kia wātea, kia wātea!	Good and peaceful
Ae rā, kua wātea!	
Hau, pai mārire.	

There being no further business, the Chair declared the meeting closed at 2:24 pm.

S Tindal

**CHAIR**

**CONFIRMED as a true and correct record**  
**Dated this 25<sup>th</sup> day of July 2024**

**To the readers:**

## **Independent Auditor's report on Hutt City Council's 2024-34 Long-term Plan**

I am the Auditor-General's appointed auditor for Hutt City Council (the Council). The Local Government Act 2002 (the Act) requires the Council's Long-term plan (plan) to include the information in Part 1 of Schedule 10 of the Act. Section 94 of the Act requires an audit report on the Council's plan. Section 259C of the Act requires a report on disclosures made under certain regulations. I have carried out this work using the staff and resources of Audit New Zealand. We completed our report on **27 June 2024**.

### **Qualified opinion**

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report:

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

This opinion on the plan also does not provide assurance that the forecasts in the plan will be achieved, because events do not always occur as expected and variations may be material. Nor does it guarantee the accuracy of the information in the plan.

### **Basis for qualified opinion**

#### **Our work on the value of three waters assets was limited**

As outlined on page **[...]**, the Council is in the process of obtaining an independent valuation of its three waters assets in preparation for its 2024 financial statements. There are indications that the increase in the value of these assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuer's work is not finalised.

Because the revaluation will only be completed after the date of the audit report, our work on the value of these assets was limited. There were no satisfactory audit procedures that we could adopt to determine the reasonableness of the value of these assets. We were therefore unable to determine whether the value required any adjustments and what flow on effects this could have on future depreciation costs and rates.

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information* that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

Our procedures included assessing whether:

- the Council's financial strategy, and the associated financial policies, support prudent financial management by the Council;
- the Council's infrastructure strategy identifies the significant infrastructure issues that the Council is likely to face during the next 30 years;
- the Council's forecasts to replace existing assets are consistent with its approach to replace its assets, and reasonably take into account the Council's knowledge of the assets' condition and performance;
- the information in the plan is based on materially complete and reliable information;
- the Council's key plans and policies are reflected consistently and appropriately in the development of the forecast information;
- the assumptions set out in the plan are based on the best information currently available to the Council and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast financial information has been properly prepared on the basis of the underlying information and the assumptions adopted, and complies with generally accepted accounting practice in New Zealand;
- the rationale for the Council's activities is clearly presented and agreed levels of service are reflected throughout the plan;
- the levels of service and performance measures are reasonable estimates and reflect the main aspects of the Council's intended service delivery and performance; and



- the relationship between the levels of service, performance measures, and forecast financial information has been adequately explained in the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

## **Emphasis of Matters**

Without further modifying our opinion, we draw attention to the following matters:

### *Uncertainty over the delivery of the capital programme*

Page [...] outlines that the Council is proposing a significant increase in its capital programme. While the Council has put in place a number of initiatives, there is an inherent level of uncertainty and risk that the Council may not be able to deliver on the programme, especially when it has increased substantially. The Council notes the potential impacts of not achieving the capital programme, such as not meeting planned levels of service, or greater costs in the long term.

### *Uncertainty and risks over planned renewals of three waters assets*

Page [...] outlines that the Council cannot fund all the investment required in three waters assets over the next 30 years. The Council's proposed level of funding for renewals over the 10 years of the plan has therefore been capped by what it considers to be affordable.

Page [...] outline that the Council's forecasting for its three waters assets is primarily based on the age of existing assets. Using mostly age-based information creates uncertainty over which assets to prioritise for renewal, the timing thereof, and the forecast amounts required, resulting in a risk of asset failure and reduced levels of service.

To reduce the risk, the Council has committed funding to repair the backlog of leaky pipes and to continue to collect better information about its underground assets.

## **Responsibilities of the Council and auditor**

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures, and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

We are responsible for expressing an independent opinion on the plan and the disclosures required by the Regulations, as required by sections 94 and 259C of the Act. We do not express an opinion on the merits of the plan's policy content.

## **Independence and quality management**

We have complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour; and
- quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) issued by the New Zealand Auditing and Assurance Standards Board. PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than our work in carrying out all legally required external audits, we have carried out engagements in the areas of a limited assurance engagement related to the Council's debenture trust deed, which is compatible with those independence requirements. Other than these engagements, we have no relationship with, or interests in, the Council or its subsidiaries and controlled entities. we have no relationship with or interests in the Council or any of its subsidiaries.

John Whittal, Audit New Zealand

On behalf of the Auditor-General, Wellington, New Zealand