



## KOMITI ITI AHUMONI I TŪRARU AUDIT AND RISK SUBCOMMITTEE

20 August 2024

Order Paper for the meeting to be held via Zoom.  
Please contact [democraticservicesteam@huttcity.govt.nz](mailto:democraticservicesteam@huttcity.govt.nz) for the zoom link

**Tuesday 27 August 2024 commencing at 2:00 pm**

The meeting will be livestreamed on Council's You Tube page.

### Membership

|              |                                    |
|--------------|------------------------------------|
|              | Suzanne Tindal (Independent Chair) |
|              | Mayor C Barry (Deputy Chair)       |
| Cr S Edwards | Cr J Briggs                        |
| Cr K Morgan  | Cr T Stallinger                    |

For the dates and times of Council Meetings please visit [www.huttcity.govt.nz](http://www.huttcity.govt.nz)

### **Have your say**

You can speak under public comment to items on the agenda to the Mayor and Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this by emailing [DemocraticServicesTeam@huttcity.govt.nz](mailto:DemocraticServicesTeam@huttcity.govt.nz) or calling the Democratic Services Team on 04 570 6666 | 0800 HUTT CITY



## KOMITI ITI AHUMONI I TŪRARU AUDIT AND RISK SUBCOMMITTEE

|   |  |
|---|--|
| <b>Chair:</b>   | Independent Chair Sue Tindal   |
| <b>Deputy Chair:</b>  | Mayor Campbell Barry   |
| <b>Membership:</b><br><br>Komiti Iti Ahumoni i Tūraru   Audit and Risk Subcommittee members should be appointed so that the subcommittee has a diversity of governance skills, experiences and personal qualities. Between them, the members should bring a mix of the following attributes: <ol style="list-style-type: none"> <li>1. Broad governance experience;</li> <li>2. Familiarity with risk management disciplines;</li> <li>3. Understanding of internal control and assurance frameworks;</li> <li>4. An understanding of financial and non-financial performance reporting;</li> <li>5. A good understanding of the roles of internal and external audit; and</li> <li>6. A sound understanding of the local government sector.</li> </ol> Use of the matrix below has assisted other councils to consider the best fit for membership of an Komiti Iti Ahumoni i Tūraru Audit and Risk Committee. | Cr Glenda Barratt<br>Cr Josh Briggs<br>Cr Karen Morgan<br>Cr Tony Stallinger |
| <b>Quorum:</b>  | Half of the membership   |
| <b>Meeting Cycle:</b>   | Meets on an eight-weekly basis or as required                                |
| <b>Reports to:</b>  | Council  |

### AREAS OF FOCUS:

The subcommittee's areas of focus are:

- Oversight of risk management and assurance across the Council Group with respect to risk that is significant
- Internal and external audit and assurance
- Health, safety and wellbeing
- Business continuity and resilience
- Integrity and investigations
- Monitoring of compliance with laws and regulations
- Significant projects, programmes of work and procurement, focussing on the appropriate management of risk
- The Long Term Plan, Annual Report and other external financial reports required by statute.



## **DELEGATIONS FOR THE SUBCOMMITTEE'S AREAS OF FOCUS:**

- The subcommittee has no decision-making powers other than those in these Terms of Reference.
- The subcommittee may request expert advice through the Chief Executive where necessary.
- The subcommittee may make recommendations to Council and/or Chief Executive.

### **Risk Management:**

- Review, approve and monitor the implementation of the risk management framework and strategy, including significant risks to the Council Group.
- Review the effectiveness of risk management and internal control systems including all material financial, operational, compliance and other material controls. This includes legislative compliance (including health and safety), significant projects and programmes of work, and significant procurement.
- Review risk management reports identifying new and/or emerging risks.

### **Assurance:**

- Review and approve, and monitor the implementation of, the assurance strategy and detailed internal audit coverage and annual work plans.
- Review the coordination between the risk and assurance functions, including the integration of the Council's risk profile with the internal audit programme. This includes assurance over all material financial, operational, compliance and other material controls. This includes legislative compliance (including health and safety), significant projects and programmes of work, and significant procurement.
- Review the reports of the assurance functions dealing with findings, conclusions and recommendations (including assurance over risks pertaining to Council Controlled Organisations and Council Controlled Trading Organisations that are significant to the Council Group).
- Review and monitor management's responsiveness to the findings and recommendations, inquiring into the reasons that any recommendation is not acted upon.

### **Fraud and Integrity:**

- Review, approve and monitor the implementation of the assurance strategy, including the fraud and integrity aspects.
- Review the arrangements in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters, and ensure that there is a proportionate and independent investigation of such matters and appropriate follow-up action.
- Review the procedures in relation to the prevention, detection, reporting and investigation of bribery and fraud.
- Review and monitor policy and process to manage conflicts of interest amongst elected and appointed members, management, staff, consultants and contractors.
- Review internal and external reports related to possible improprieties, ethics, bribery and fraud-related incidents.

### **Statutory Reporting:**

- Review and monitor the integrity of the Long Term Plan and Annual Report including statutory financial statements and any other formal announcements relating to the Council's financial performance, focussing particularly on the areas listed below.
- Compliance with, and the appropriate application of, relevant accounting policies, practises and accounting standards.



- Compliance with applicable legal requirements relevant to statutory reporting.
- The consistency of application of accounting policies, across reporting periods, and the Council Group.
- Changes to accounting policies and practices that may affect the way that accounts are presented.
- Any decisions involving significant judgement, estimation, or uncertainty.
- The extent to which financial statements are affected by any unusual transactions and the way they are disclosed.
- The disclosures of contingent liabilities and contingent assets.
- The clarity of disclosures generally.
- The basis for the adoption of the going concern assumption.
- Significant adjustments resulting from the audit.

#### **External Audit:**

- Discuss with the external auditor, before the audit commences, the nature, scope and fees of the external audit, areas of audit focus, and error and materiality levels.
- Review, with the external auditors, representations required by elected members and senior management, including representations as to the fraud and integrity control environment.
- Review the external auditor's management letter and management responses and inquire into reasons for any recommendations not acted upon.
- Where required, the Chair may ask a senior representative of the Office of the Auditor General to attend meetings of the subcommittee to discuss the office's plans, findings and other matters of mutual interest.

#### **Interaction with Council Controlled Organisations (CCO) and Council Controlled Trading Organisations (CCTO):**

- Other committees dealing with CCO and CCTO matters may refer matters to the Komiti Iti Ahumoni i Tūraru | Audit and Risk Subcommittee for review and advice.
- This subcommittee will inquire to ensure adequate processes at a governance level exist to identify and manage risks within a CCO. Where an identified risk may impact on Council or the Council Group, the subcommittee will also ensure that all affected entities are aware of and are appropriately managing the risk.



## Matrix of Experience, Skills and Personal Qualities

| Experience, Skills and Personal Qualities   | Member A | Member B | Member C | Member D | Independent Chairperson |
|---|----------|----------|----------|----------|-------------------------|
| <i>The recommended combination of experience is:</i>  |          |          |          |          |                         |
| • financial reporting   |          |          |          |          |                         |
| • broad governance experience   |          |          |          |          |                         |
| • familiarity with risk management disciplines  |          |          |          |          |                         |
| • understanding of internal control and assurance frameworks  |          |          |          |          |                         |
| • good understanding of the roles of internal and external audit  |          |          |          |          |                         |
| • local government expertise  |          |          |          |          |                         |
| <i>For an “advisory-oriented” audit committee, particular emphasis should be placed on:</i>   |          |          |          |          |                         |
| • Strategy  |          |          |          |          |                         |
| • Performance management  |          |          |          |          |                         |
| • Risk management disciplines   |          |          |          |          |                         |
| <i>In determining the composition of the audit committee, the combined experience, skills, and personal qualities of audit committee members is critical. Members should bring:</i> |          |          |          |          |                         |
| • the ability to act independently and objectively  |          |          |          |          |                         |
| • the ability to ask relevant and pertinent questions, and evaluate the answers   |          |          |          |          |                         |
| • the ability to work constructively with management to achieve improvements  |          |          |          |          |                         |
| • an appreciation of the public entity’s culture and values, and a determination to uphold these  |          |          |          |          |                         |
| • a proactive approach to advising the governing body and chief executive on matters that require further attention   |          |          |          |          |                         |
| • business acumen   |          |          |          |          |                         |
| • appropriate diligence, time, effort, and commitment   |          |          |          |          |                         |
| • the ability to explain technical matters in their field to other members of the audit committee   |          |          |          |          |                         |



## HUTT CITY COUNCIL

### KOMITI ITI AHUMONI I TŪRARU | AUDIT AND RISK SUBCOMMITTEE

Meeting to be held via Zoom on  
Tuesday 27 August 2024 commencing at 2:00 pm.

#### ORDER PAPER

#### 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 sharpened air. |
| He tio, he huka, he hau hū   | A touch of frost, a promise of a glorious day.     |
| Tihei mauri ora              |  |

##### **2. APOLOGIES**

No apologies have been received.

##### **3. PUBLIC COMMENT**

Generally up to 30 minutes is set aside for public comment (three minutes per speaker on items appearing on the agenda). Speakers may be asked questions on the matters they raise.

##### **4. 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

##### **5. HUTT CITY COUNCIL GROUP ANNUAL REPORT 2023/24 AND UPDATE ON EXTERNAL AUDIT PROCESSES**

Report No. ARSC2024/4/208 by the Manager Financial Strategy and Planning

10

#### CHAIRS RECOMMENDATION:

“That the recommendations contained in the report be endorsed.”



**6. THREE WATERS MATTERS**

Report No. ARSC2024/4/209 by the Strategic Advisor 29

**CHAIRS RECOMMENDATION:**

“That the recommendations contained in the report be endorsed.”

**7. TUPUA HORO NUKU UPDATE**

Report No. ARSC2024/4/210 by the Project Delivery Manager 94

**CHAIRS RECOMMENDATION:**

“That the recommendation contained in the report be endorsed.”

**8. INSURANCE RENEWAL UPDATE**

Report No. ARSC2024/4/211 by the Treasury Officer 97

**CHAIRS RECOMMENDATION:**

“That the recommendations contained in the report be endorsed.”

**9. RISK MANAGEMENT AND ASSURANCE UPDATE**

Report No. ARSC2024/4/212 by the Risk and Assurance Manager - Finance 102

**CHAIRS RECOMMENDATION:**

“That the recommendations contained in the report be endorsed.”

**10. THREE-YEAR INTERNAL AUDIT PLAN 2025-2027**

Report No. ARSC2024/4/213 by the Risk and Assurance Manager - Finance 116

**CHAIRS RECOMMENDATION:**

“That the recommendations contained in the report be endorsed.”

**11. HRIS/PAYROLL PROJECT UPDATE**

Report No. ARSC2024/4/215 by the Programme Manager 126

**CHAIRS RECOMMENDATION:**

“That the recommendations contained in the report be endorsed.”



## 12. SENSITIVE EXPENDITURE DISCLOSURES

Report No. ARSC2024/4/87 by the Financial Accounting Manager 129

### CHAIRS RECOMMENDATION:

“That the recommendations contained in the report be endorsed.”

## 13. INFORMATION ITEMS

### a) Whakatupu Ngaengae

Memorandum dated 11 August 2024 by the Project Manager (Naenae) 136

### CHAIRS RECOMMENDATION:

“That the recommendations contained in the memorandum be endorsed.”

### b) Audit and Risk Subcommittee Forward Programme 2024

Memorandum dated 6 August 2024 by the Democracy Advisor 151

### CHAIRS RECOMMENDATION:

“That the recommendation contained in the memorandum be endorsed.”

## 14. QUESTIONS

With reference to section 32 of Standing Orders, before putting a question a member shall endeavour to obtain the information. Questions shall be concise and in writing and handed to the Chair prior to the commencement of the meeting.

## 15. EXCLUSION OF THE PUBLIC

### CHAIR'S RECOMMENDATION:

“That the public be excluded from the following parts of the proceedings of this meeting, namely:

## 16. TE WAI TAKAMORI O TE AWA KAIRANGI (RIVERLINK) UPDATE

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:



| (A)   | (B)  | (C)   |
|---|--|---|
| General subject of the matter to be considered.       | Reason for passing this resolution in relation to each matter.   | Ground under section 48(1) for the passing of this resolution.  |
| Te Wai Takamori o Te Awa Kairangi (RiverLink) Update. | <p>The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities (s7(2)(h)).</p> <p>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) (s7(2)(i)).</p> | <p>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exist.</p> |

This resolution is made in reliance on section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or 7 of that Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as specified in Column (B) above.”

Jack Kilty  
DEMOCRACY ADVISOR



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**Report no: ARSC2024/4/208**

## **Hutt City Council Group Annual Report 2023/24 and update on external audit processes**

### **Purpose of Report**

1. The purpose of this report is to:

- a) Provide an update to the Audit and Risk Subcommittee (ARSC) on the Group Annual Report 2023/24 and the associated external audit process.
- b) Provide the final Long Term Plan 2024-2034 management report from Audit New Zealand.

### **Recommendations**

That the Subcommittee:

- (1) receives and notes the update on the preparation of the Group Annual Report 2023/24;
- (2) notes that the interim audit was completed successfully and that interim management report issued by Audit NZ is included in the report as Appendix 1;
- (3) notes that the final audited Group Annual Report 2023/24 is expected to be available for Council adoption on 29 October 2024;
- (4) notes that the statutory deadline for the adoption of the Group Annual Report 2023/24 is 31 October 2024;
- (5) notes that officers plan to present the draft unaudited Group Annual Report 2023/24 to the Audit and Risk Subcommittee on 24 September 2024;
- (6) notes the risks highlighted in relation to the asset revaluation for the three water assets, refer to paragraph 19 in the report; and
- (7) receives and notes the Audit New Zealand final management report on the Long Term Plan 2024-2034, refer to Section F of the report and Appendix 2 attached to the report.



## Section A - Background and Legislative framework

2. The Local Government Act 2002 requires local authorities to prepare, complete and adopt (by resolution) an Annual Report within four months after the end of the financial year to which it relates. The Annual Report, and a summary of the information it contains, must be made publicly available within one month after its adoption. The statutory deadline for adoption of the Hutt City Council Group Annual Report 2023/24 is 31 October 2024.
3. There is a requirement to prepare both a Full Annual Report (FAR) and a Summary Annual Report (SAR). Both these documents are required to be audited, although not the full reports but rather parts of each of the FAR and SAR. The auditor's opinion will state exactly which pages of the FAR and SAR have been audited. The SAR includes the front section of FAR, which includes the summary sections of non-financial and financial performance results.
4. The final FAR must contain the Auditor-General's (audit) report and the SAR must contain the Auditor-General's report on whether the summary represents, fairly and consistently, the information regarding the major matters dealt with in the Annual Report.
5. Information to be included in the Annual Report includes:  
  
Groups of activities; Capital expenditure for groups of activities; Statement of service provision; Funding impact statement for groups of activities; Council-controlled organisations; Internal borrowings; Financial Statements; Funding impact statement; Rating base information; Reserve funds; Key person remuneration (includes elected members); Employee staffing levels and remuneration; Severance payments; Statement of compliance; Activities undertaken to establish and maintain processes to provide opportunities for Māori to contribute to the decision-making processes of the local authority.  
  
(Note that some of these aspects may not be relevant and therefore will not be reported on).
6. The ARSC's role, from the terms of reference of the Subcommittee, is to review and monitor the integrity of the Annual Report including statutory financial statements and any other formal announcements relating to the Council's financial performance, focussing particularly on: compliance with accounting and legal requirements; consistency of application of accounting policies and changes to these, disclosures, and significant adjustments resulting from the audit.
7. Policy, Finance and Strategy Committee's (PFS) role is to monitor the integrity of reported performance information at the completion of Council's Annual Report process, together with reviewing and recommending to Council the adoption of the Annual Report. Council's role is the adoption of the final Annual Report.



## **Section B - High-level process for the Group Annual Report 2023/24 and external audit**

8. The preparation of the Group Annual Report 2023/24 is progressing well. The detailed external audit plan was presented to ARSC on 30 April 2024 (refer ARSC2024/2/87). This outlined the approach to be taken by Audit New Zealand and the timelines. Likewise, the audit plans for Seaview Marina Limited and the Urban Plus Limited Group were presented to ARSC on 30 April 2024 (refer ARSC2024/2/85 and ARSC 2024/2/86).
9. The interim external audit took place in June and July 2023 and the final audit for the FAR and SAR will start on 25 September 2023. The interim audit progressed well. Audit NZ has produced an interim management report which is attached as Appendix 1. The report shows that based on the audit work completed for the interim audit, that *“the preliminary conclusion is that the overall control environment remains effective”*.
10. The report identifies one recommended enhancement of internal controls as follows:

### *Lack of periodic review of IT user access rights*

*Currently, there are only ad-hoc reviews of user access rights at the application level. Although a full clean-up of all users and their access was completed earlier in the year, there is no process in place to continue reviewing user access on an ongoing basis.*

*We recommend that the City Council agree on and implement a process for annual review of user access rights at the application level.*

Officer response: the Chief Digital Officer advises that an annual review process will be implemented.

11. Further detail reporting on the findings of the external audit process will be reported to ARSC when the final audit is completed.



12. Table 1 provides a summary of the planned steps for the Group Annual Report in relation to Council governance engagement.

Table 1 - High level plan for adoption of the Group Annual Report

| Date 2023    | Activity  |
|--------------|---|
| June-July    | Interim audit by Audit NZ   |
| July-August  | Preparation of content of Annual Report by officers   |
| 9 September  | ARSC workshop re. unaudited FAR. Note that this is the Group Annual Report, and as such will include Seaview Marina Ltd and Urban Plus Limited in the consolidated group results. |
| 16 September | Final Audit New Zealand audit commences.  |
| 24 September | Draft unaudited FAR presented to ARSC.  |
| 14 October   | Draft unaudited FAR presented to PFS. The audited Annual Reports for Seaview Marina Ltd and the Urban Plus Ltd Group will be presented.   |
| 29 October   | Audited FAR and SAR presented to PFS, followed by Council decision meeting to adopt FAR and SAR.  |

13. Officers plan to present the unaudited draft FAR to the ARSC on 24 September 2024. The intent will be to seek the endorsement of this content subject to the completion of any audit adjustments and receipt of final audit clearance from Audit NZ. To support this process, a workshop of the ARSC is planned for 9 September 2024. This will be an opportunity to review the unaudited draft FAR content and provide feedback to officers.
14. The final audit will start on 25 September 2024 and the audited FAR and SAR are expected to be available for Council adoption on 29 October 2024. The statutory deadline is 31 October 2024.
15. The Council's CCO audits are underway, and the audited Annual Reports are expected to be signed out by 30 September 2024. These will be considered by the Policy, Finance and Strategy Committee on 14 October 2024.

### **Section C - Progress on the preparation of the Group Annual Report 2023/24 content**

16. The preparation of the year end performance results is progressing on track with interim unaudited results being presented to the Corporate Leadership Team for review and feedback. This is part of the broader quality assurance review process to ensure that risks of accuracy, completeness and reasonableness are mitigated.



17. An asset revaluation process was completed as part of the Annual Report 2021/22 process. This was supported by specialist valuation providers Aon New Zealand Ltd. For 2022/23 a fair value assessment was completed which indicated a revaluation of assets was not warranted for the year.
18. For 2023/24 a full asset revaluation is being progressed. We have engaged a new valuer, WSP, to complete the asset revaluation for three waters. This decision was made in conjunction with Wellington City Council, Upper Hutt City Council and Wellington Water Ltd. The aim of this shared approach is to improve the efficiency and effectiveness of the asset revaluation processes across the councils particularly in the context of the potential changes from the central government Local Water Done Well programme.
19. An initial three waters asset revaluation report received from WSP in June 2024 identified significant increases in unit rates, together with asset data gaps in key areas. Further work has been completed by Wellington Water to close the asset data gaps and the revaluation process for these assets has recently kicked off. Further assurance work is being progressed to gain further clarity on the unit rates. This extra work has created risks with the timing of the final external audit processes and the delivery of the Annual Report. Officers are working closely with WSP, Wellington Water and Audit NZ to manage the risks closely. A verbal update on this will be provided to the Committee at the meeting.
20. All other asset revaluations for non-three water asset classes have been completed by Aon New Zealand Ltd. The external audit process for these is yet to be undertaken.
21. To meet accounting standards, there is an actuarial assessment underway for the provision for landfill aftercare. This is being undertaken by Eriksens Global.

#### **Section D - Risk of error, omission and non-compliance in preparation**

22. There is a risk that errors or non-compliance with legislation and accounting standards could occur in the preparation of the Annual Report. To mitigate this risk, quality assurance reviews are planned to be performed on the results and commentary. The reviews will focus on accuracy, completeness and reasonableness of disclosures and legislative compliance.
23. Officers will report to the ARSC in September 2024 on the reviews undertaken by officers to ensure the accuracy, completeness and fairness of the results reported.



## Section E – Group Annual Report Audit opinion

### 24. Group Annual Report 2022/23

Whilst an unmodified audit opinion was issued by Audit NZ on the financial statements for the Group Annual Report 2022/23, there was a qualified opinion issued on performance measures relating to Council's water activities. This relates specifically to the recording of customer complaints and was an audit issue raised in the previous management report. The other shareholding councils of Wellington Water Ltd that were impacted by this issue also received similar modified audit opinions.

The audit opinion also included 'emphasis on matter' paragraphs in relation to the Government's Three Waters Reform programme and the inherent uncertainties in the measurement of greenhouse gas emissions. These were consistent with other impacted organisations across New Zealand.

The Audit NZ management report for the audit of the 2022/23 Annual Report was presented to the ARSC on 16 November 2024 (refer ARSC 2023/5/378). This includes further details about the audit findings and recommendations.

### 25. Group Annual Report 2023/24

Ahead of the final audit being completed, it is uncertain what the audit opinion will include. It is likely that the aspects covered in the 2022/23 audit opinion will be repeated as these continue to be relevant.

## Section F – Audit of Long Term Plan 2024-2034

26. The audit of the Long Term Plan 2024-2034 (LTP) was successfully completed in June 2024.
27. A qualified audit report was issued by Audit NZ. There were two emphasis of matter paragraphs in the audit report drawing attention to the disclosure in the Long Term Plan on the following:
  - a. Uncertainty over the delivery of the capital programme
  - b. Uncertainty over the three waters renewals forecasts.
28. These emphasis of matter paragraphs are in line with those included in the management report for the draft LTP Consultation Document, issued on 17 April 2024.
29. Following the audit of the LTP, Audit New Zealand issued a management report on 31 July 2024. The final LTP reportin is available in appendix 1.



30. The recommendation raised through the consultation document audit remains. This recommendation highlighted that Wellington Water (WWL) asset management information should be presented as one consolidated asset management plan with incorporation of asset condition assessments into assets management planning. The report also makes note of the \$20M error identified by WWL and communicated to Councils. Council will work with WWL on making improvements in this area.
31. The report also highlights an uncorrected misstatement related to Waka Kotahi funding. This was unable to be incorporated into the LTP due to the late release of this funding information from Waka Kotahi when Council deliberations on the final LTP had already taken place. This misstatement is not considered to be material for audit purposes but will be addressed through the Annual Plan 2025-26 process.

### **Climate Change Impact and Considerations**

32. There are no specific climate change matters to consider in relation to this report.

### **Consultation**

33. There are no consultation requirements to consider.

### **Legal Considerations**

34. The legislative framework is detailed in Section A of the report.

### **Financial Considerations**

35. There are no further financial considerations apart from those detailed in the report.

### **Appendices**

| <b>No.</b>        | <b>Title</b>  | <b>Page</b> |
|-------------------|---|-------------|
| <a href="#">1</a> | Audit New Zealand Interim Management report Annual Report 2023-24 | 17          |

**Author:** Deepu Nunnian  
Manager Financial Strategy and Planning

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**Reviewed By:** Jenny Livschitz  
Group Chief Financial Officer

**Reviewed By:** Jarred Griffiths  
Director Strategy and Engagement

**Approved By:** Jo Miller  
Chief Executive



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# Report to the Council on the interim audit of

Hutt City Council

For the year ended 30 June 2024



## Contents

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## Key messages

We have completed our interim audit of Hutt City Council (the City Council) for the year ended 30 June 2024. This report sets out our findings from the interim audit and the progress of the audit to date.

The purpose of our interim visit was to:

- update our understanding and assessment of the City Council's control environment and internal controls;
- review the key financial systems that support the annual financial statements; and
- commence audit work associated with the business issues and areas of audit focus identified in our Audit Plan.

We have updated our understanding and assessment of your control environment and internal controls based on the evidence available at the time of completing our audit. There are certain aspects of our review that will be completed in our final visit.

### Assessment of the control environment

Based on audit work completed to date, our preliminary conclusion is that the overall control environment remains effective for the purposes of our audit.

### Matters identified during the audit

We have raised one new recommendation which is summarised in section 1.1 of this report.

### Areas of focus for 2024

In our Audit Plan we identified areas that we consider to be a significant audit risk or specific areas of audit focus for the 2022/24 audit. While we have commenced our audit work on these matters and held discussions with the responsible managers, we will comment in full on these matters in our final report to you.

### Thank you

We would like to thank the Council, management and staff for their help and support during the interim audit.



John Whittal  
Appointed Auditor  
8 August 2024



# 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 recommendations.

| Priority   | Explanation  |
|------------|--|
| Urgent     | <b>Needs to be addressed <i>urgently</i></b><br>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.   |
| Necessary  | <b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b><br>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. |
| Beneficial | <b>Address, <i>generally within six to 12 months</i></b><br>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.                                      |

## 1.1 New recommendation

The following table summarises our recommendation and priority.

| Recommendation   | Reference | Priority  |
|--|-----------|-----------|
| <b>Lack of periodic review of user access rights</b><br>City Council to agree on and implement a process for annual review of user access rights at the application level. | 2.4       | Necessary |

## 1.2 Status of previous recommendations

The Council continues to make progress towards addressing our recommendations from the prior year. Based on the audit work completed to date, we have updated the issues included in Appendix 1. We will conclude on the status of all previously reported recommendations as part of our final audit.



## 2 Assessment of internal control



The Council, 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.

### 2.1 Control environment

Based on our audit work completed to date, our preliminary conclusion is that the overall control environment is effective for the purposes of our audit.

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 those charged with governance, need to establish and maintain a culture of honesty and ethical behaviour 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.

### 2.2 Internal controls

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

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial information systems.

We have considered the systems and controls for the material performance measures that will be included in the annual report, except for the water services performance reporting measures total number of complaints received – Water supply, Wastewater, and Stormwater, which is still in progress. No other issues were noted from the work we completed so far.

We have identified one recommendation for the enhancement of internal controls which is included below.



We will complete further audit testing and assessment of the control environment during our final audit visit, including following up our previous recommendations and provide our conclusion in our final report to the Council at the completion of the 2023/24 audit.

### **2.3 Lack of periodic review of user access rights**

Currently, there are only ad-hoc reviews of user access rights at the application level. Although a full clean-up of all users and their access was completed earlier in the year, there is no process in place to continue reviewing user access on an ongoing basis.

We recommend that the City Council agree on and implement a process for annual review of user access rights at the application level.

#### **Management comment**

*City Council to agree on and implement a process for annual review of user access rights at the appropriate level.*



### 3 Useful publications



Based on our knowledge of the City Council, we have included some publications that the Council and management may find useful.

| Description   | Where to find it  |
|---|---|
| <b>Performance reporting</b>  |   |
| Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation's aspirations and achievements. The Auditor-General published a discussion paper that explores five areas for improvement in performance reporting.  | On the Office of the Auditor-General's website under publications.<br><br>Link: <a href="#">The problems, progress, and potential of performance reporting</a>                                |
| The Office of the Auditor-General, the Treasury and Audit New Zealand have jointly prepared good practice guidance on reporting about performance. The guidance provides good practice examples from public organisations in central government. Those working in other sectors may also find this useful.  | On Audit New Zealand's website under good practice.<br><br>Link: <a href="#">Good practice in reporting about performance — Office of the Auditor-General New Zealand (oag.parliament.nz)</a> |
| <b>Local government risk management practices</b>   |   |
| The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management. | On the Office of the Auditor-General's website under publications.<br><br>Link: <a href="#">Observations on local government risk management practices</a>                                    |
| <b>Public accountability</b>  |   |
| Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources. This discussion paper explores how well New Zealand's public accountability system is working in practice.   | On the Office of the Auditor-General's website under publications.<br><br>Link: <a href="#">Building a stronger public accountability system for New Zealanders</a>                           |



| Description   | Where to find it   |
|---|--|
| <b>Managing conflicts of interest involving council employees</b>   |  |
| This article discusses findings across four councils on how conflicts of interest of council employees, including the chief executive and staff, are managed.   | On the Office of the Auditor-General's website under publications.<br>Link: <a href="#">Getting it right: Managing conflicts of interest involving council employees</a>   |
| <b>Tax matters</b>  |  |
| As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.  | On our website under good practice.<br>Link: <a href="#">Tax Matters</a>   |
| <b>Procurement</b>  |  |
| <p>The OAG are continuing their multi-year work programme on procurement.</p> <p>They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.</p> <p>Whilst this is focused on local government, many of the questions are relevant to all types of public sector entities.</p> | <p>On the OAG's website under publications.</p> <p>Links: <a href="#">Strategic suppliers: Understanding and managing the risks of service disruption</a></p> <p><a href="#">Getting the best from panels of suppliers</a></p> <p><a href="#">Local government procurement</a></p> |



## Appendix 1: Status of previous recommendations

### Open recommendations

| Recommendation  | First raised | Status  |
|---|--------------|---|
| <b>Urgent</b>   |              |   |
| <p><b>Non-compliance with mandatory performance measure guidance – recording the number of complaints</b></p> <p>In addition to the issues noted with the Wellington Water systems, we identified that the City Council's recording of complaints was not in accordance with the DIA guidance. This states that "Where there is more than one complaint per event, each complaint is counted separately, not each event or occurrence." The City Council's processes did not meet this guidance requirement as not all complaints are recorded separately. It is therefore a risk that complaints recorded are understated.</p> <p>The City Council should review their procedures and ensure compliance with the DIA guidance when measuring the number of complaints.</p> <p><b>Update 2023</b></p> <p>We recommend that the City Council should implement a reconciliation process with Wellington Water on at least a quarterly basis to ensure that the number of parent and child requests for service is agreed.</p> | 2019/20      | <p><b>Issue progressing.</b></p> <p>We will follow up on this matter during the final audit for the 2023/24 period.</p> |
| <b>Necessary</b>  |              |   |
| <p><b>Water service provider</b></p> <p>The City Council should implement a reconciliation process with Wellington Water on at least a quarterly basis to ensure that the amount owing or prepaid is agreed.</p>  | 2022/23      | <p><b>Issue progressing.</b></p> <p>We will follow up on this matter during the final audit for the 2023/24 period.</p> |
| <p><b>Valuation of Property, Plant and Equipment</b></p> <p>For future asset valuations, the City Council should require the valuer to provide clear documentation to support that the unit rates adopted are reflective of recent replacement costs.</p>   | 2021/22      | <p><b>Issue progressing.</b></p> <p>We will follow up on this matter during the final audit for the 2023/24 period.</p> |



| Recommendation   | First raised | Status  |
|--|--------------|---|
| <p><b>Resource consent processing days</b></p> <p>The City Council identify, after its recalculation, all consents which are now processed after the statutory limit of 20 days and ensure compliance with the requirements of the discount on administrative charges.</p> | 2021/22      | <p><b>Issue progressing.</b></p> <p>We continue to identify input errors during our testing, supporting documentation for date hold could not be provided in two instances.</p> <p><b>Management comment</b></p> <p><i>The results of the audit show a significant improvement in relation to the number and nature of errors found, particularly when compared to the initial audits of the 2021-2022 period.</i></p> <p><i>We will be actioning all noted input errors with respect to the discount on administrative charges, and we have put in place actions to address the small number of additional errors there were identified.</i></p> |
| <p><b>IT Disaster Recovery Plans (DRP) require testing</b></p> <p>The City Council should perform IT DRP testing, ideally in a suitable environment to reproduce authentic conditions in so far as this is feasible.</p>   | 2016/17      | <p><b>Issue progressing.</b></p> <p>Our information system auditor will follow up with the City Council during the final audit visit.</p>   |

### Implemented or closed recommendations

| Recommendation   | First raised | Status   |
|--|--------------|--|
| <p><b>Building consent user data input errors</b></p> <p>The City Council should ensure that data input into the system is consistent with the supporting documentation.</p> | 2021/22      | <p><b>Issue closed.</b></p> <p>We are satisfied that adequate improvements have been made.</p> |



## Appendix 2: Disclosures

| Area   | Key messages   |
|--|--|
| Our responsibilities in conducting the audit | <p>We carry out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statement and performance information. 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 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 carry out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining 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>To date, other than the audit, we have completed the audits of the City Council's long-term plan and Debenture Trust Deed. These engagements are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the City Council or its subsidiaries.</p> |
| Fees   | <p>The audit fee for the year is \$274,536, as detailed in our Audit Proposal Letter.</p> <p>Other fees proposed in the period will be in relation to the long-term plan and Debenture Trust Deed engagements.</p>   |
| Other relationships                          | <p>To date, 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> <p>We are not aware of any situations to date where a staff member of Audit New Zealand has accepted a position of employment with the City Council or its subsidiaries during or since the end of the financial year.</p>   |





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**Report no: ARSC2024/4/209**

## **Three Waters Matters**

### **Purpose of Report**

1. This report highlights issues and risks relating to the three waters activity including an update on three waters reform.

### **Recommendations**

That the subcommittee:

- (1) notes the report and recommendations of the Wellington Water Limited (WWL) Board's 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;
- (2) notes that the WWL Board is developing an implementation plan to put into effect the recommendations of the report, which will be reported to the Water Committee at its meeting on 27 September 2024;
- (3) notes that this matter has been added to Council's issues register with the intention to monitor actions arising from the report's recommendations;
- (4) notes progress on the new regional model for delivering three waters and the risks associated with this process;
- (5) notes that investigations into the upgrade/renewal of the main Hutt Valley Wastewater pipe under SH2 are progressing with two options short-listed for further development and consideration;
- (6) notes that an abatement notice has been issued by Greater Wellington Regional Council, requiring odour treatment upgrade work to be completed by 1 November 2024 along with accompanying reports on the work and its effectiveness;
- (7) notes that progress on eliminating the backlog of leaks remains on track and that officers are working with WWL to understand resourcing requirements over the critical summer period to achieve and maintain leaks at the target level and that this information will be reported back to the next meeting of the subcommittee; and
- (8) notes the financial modelling prepared to provide an early indicative outlook on the impact of the new regional water entity being established, refer to Appendix 3 of the report.



## Background

### Independent Review of WWL Overheads Omission for Capital programme

2. As reported to this subcommittee at its previous meeting, the WWL Board presented the Review to the Water Committee at its meeting of 24 July 2024. A copy is attached to this report as Appendix 1.
3. The Water Committee, representing all shareholder Councils and Mana Whenua partners, provided the Board with some direction on its expectations in implementing the Review's recommendations.
4. The WWL Board is currently developing an implementation plan to put into effect the review recommendations and will be reporting that back to the Water Committee at its next meeting.
5. The matter has been included on the Council's Issues Register on the basis that it indicates there are risks around the broader financial controls at WWL which will need to be addressed through the implementation plan. Officers will monitor this issue and WWL's actions to address the issue while it remains on the register.

### Water reform - *Local Water Done Well*

6. The report back to Parliament on the Local Government (Water Services Preliminary Arrangements) Bill, which establishes preliminary arrangements for future local government water services delivery, confirms the requirement for Councils to prepare and submit a Water Service Delivery Plan (WSDP) within 12 months of the legislation being enacted. The Bill is expected to pass into law by the end of August 2024.
7. The Bill also requires that the WSDP include an implementation plan to which Councils must give effect.
8. The draft report being prepared for Councils to consider a regional water delivery model will be available in September with officers looking to take the matter to the Council meeting on 29 October 2024. It is likely that an in-principle decision to continue to develop a joint WSDP with other Councils would be recommended at that time.
9. Other options including the status quo (WWL) would also be reported on, in order to fulfil the requirements of the Local Government Act 2002 (LGA) to identify and consider all other reasonably practicable options (s77).
10. Hutt City Council's share of costs associated with preparing a joint WSDP are forecast to be in the order of \$500,000, but this will depend on the number of Councils that decide to continue with the regional model.



11. There are many risks and challenges that arise with implementing the proposed regional model. These include:
- Mandate and support
    - political support,
    - lack of alignment on decision-making by councils
    - lack of support or loss of confidence in the process by councils
    - lack of support from Government, including required legislative changes or financial support
    - lack of buy-in or understanding from community
    - lack of support or loss of confidence in the process by Iwi / Māori partners
  - Decision making – process and requirements for council decision-making is unclear or not understood resulting in rework and / or challenges to decision-making (such as judicial review).
  - Model – future models are not financially viable.
  - Resourcing – lack of effective resourcing for the process by councils, including capacity of senior staff, or funding for future phases.
  - Scope – balancing expectations of detail vs progress.
  - Quality – analysis and outputs do not support effective decision-making.
  - Timing
    - ability to be agile and respond to changing needs
    - ability of councils to make decisions on a timely basis
    - alignment of process and consultation to LTP amendment process
    - ability of councils to make decisions ahead of local government elections in 2025.
  - Legislation – misalignment with legislation or legislation does not enable the preferred model.
  - Engagement – lack of clarity on engagement and consultation requirements of new legislation or these are unworkable.
  - Impacts on existing delivery models and productivity due to uncertainty of the potential change process.



12. Having a well-resourced team managing the process along with timely professional advice and input (legal, financial, economic) goes some way to mitigating many of these risks.

### **Main Hutt Valley Wastewater Pipe SH2**

13. There is little to report on this matter for this meeting other than to advise that work has progressed to the point that two options have been short-listed for further development and consideration, noting that the risk of imminent failure is low.
14. It is expected that a preliminary estimate of costs will be known by the time of the next meeting.

### **Seaview Wastewater Treatment Plant Abatement Notice**

15. Greater Wellington Regional Council (GW) has jointly issued WWL and the Hutt and Upper Hutt City Councils with an abatement notice in respect of the work to upgrade the biofilter plenum.
16. The notice establishes a staged timeline by which the works are to be completed and then to provide a report demonstrating the effectiveness of the works. The notice is attached as Appendix 4.
17. Failure to comply with the notice is an offence under the RMA.
18. There is some risk here in that half of the replacement isolation valves are still to arrive in the country (expected by boat at the end of August) and the timeframes for the project are quite tight. The works are due to commence in the week beginning 19 August 2024.
19. GW has indicated that should a delay to the project be caused by a matter beyond WWL's control (eg boat held up), then it will be open to discuss next steps.

### **Water Shortage**

20. Wellington Water is working on behalf of the Councils in the Wellington region to collectively minimise the risk of water shortages next summer. The two main actions WWL is undertaking on behalf of this Council are leak reduction and installation of pressure reduction valves in the network.
21. For leak reduction the target is to eliminate, by the end of 2024, the backlog so that at any one time the number of open leaks is within the 20-day KPI response time, set for lower-level leaks. This number is around 110 leaks. WWL is reporting fortnightly on progress in achieving the target.
22. Attached at Appendix 2 is the latest weekly report from WWL that shows the backlog to be 296 as at 29 July 2024. This number is trending according to plan.



23. Officers have asked WWL to provide more details of its plan to resource leak repairs over the December to March period when historically there has been a surge in the number of leaks detected and reported. The original plan has funding held back for this critical period when pressure on reducing water consumption is at its peak. The plan to manage leaks over summer will be reported to the next meeting of this subcommittee.

### **Climate Change Impact and Considerations**

24. With a changing climate Council's three water infrastructure will come under more pressure, whether that be less overall rainfall during the summer months or greater incidences of higher rainfall events, resulting in flooding with both stormwater and wastewater networks overloaded. Investment in network improvements and operational responses, such as managing water leaks, has been prioritised to address some of these issues.

### **Consultation**

25. Investment in three waters infrastructure has been the subject of consultation through the draft Long Term Plan (LTP).

### **Legal Considerations**

26. There are no legal considerations to report.

### **Financial Considerations**

27. The share of costs for the next phase of water reform for this Council up until 30 June 2025 has been evaluated. A sum of \$500k is being sought from within a projected range of \$375k - \$625k for this work. Where possible this will be offset within the overall water budget by savings.
28. The funding of urgent renewal works for the main wastewater pipe under and adjacent to SH2 will need Council consideration later this year once the likely costs of the works are known. This will require the bringing forward of budget provision from wastewater budgets in the out years of the LTP. Budget decisions and options to address the funding impacts will be presented to the Long Term Plan / Annual Plan Subcommittee.
29. Off the back of the Long Term Plan 2024-2034 being completed, officers have completed financial modelling to understand the impacts of the proposed three waters reform programme. Appendix 3 provides the details related to this as well as the key assumptions. In short, this shows that the Council is in a much more favourable financial position once the three water aspects are stripped out.



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| 2 <a href="#">↓</a> | Hutt City Councils Investment Fortnightly 29-07-2024   | 77   |
| 3 <a href="#">↓</a> | Regional water services update and financial implications  | 78   |
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**Approved By:** Jo Miller  
Chief Executive



# External Review

## Wellington Water Limited: capital programme estimating and budget systems

Final Report by Roy Baker and

Kevin Jenkins

22 July 2024



This Review has not been independently verified or audited. We have made reasonable efforts to ensure the information contained in this report reflects the range of views expressed by the people we spoke with. The Reviewers do not accept any liability if this report is used for some other purpose for which it was not intended, nor any liability to any third party in respect of this report, nor any liability arising from or otherwise in connection with this report (or any omissions from it), whether in contract, tort (including for negligence, breach of statutory duty, or otherwise), or any other form of legal liability (except for any liability that by law may not be excluded). This note supplements the Terms of Reference for our engagement.

### Acknowledgment

Most of the interviews undertaken by the Reviewers were with employees of Wellington Water Limited. We would like to acknowledge and thank each of them for the quality of discussion, and for their generosity in openly sharing their experiences and views to help us identify lessons.

We also spoke to representatives of the shareholding councils and extend our sincere thanks for their participation and feedback to help ensure such a situation does not arise again.

The Reviewers were assisted by Suzanne Carter.

Administrational support was provided by Garry Butler and Sheree Matheson of Wellington Water. Thank you.



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## Key findings

The reviewers were asked to investigate an error that Wellington Water Limited (Wellington Water) had made in the information it gave to its shareholder councils on or around 1 May 2024 for their longterm planning, which incorrectly excluded Wellington Water's corporate cost.

### **The error and how Wellington Water responded to it**

We established a timeline of what happened, and we drew on several frameworks to put what happened in context. This shed light on the causes of the error and the changes that Wellington Water needs to make to prevent similar problems in the future.

We found that the error had multiple inter-related causes. The error arose because of deficiencies in structures, systems, and processes, including a lack of strategic leadership at the highest levels of the organisation, and in wider problems of organisational culture. The problems went wider, and higher, in the organisation than any single function.

Importantly, the consequences of the error, including for the trust and confidence of the shareholder councils, were magnified by how Wellington Water responded to it. When they became aware of the error, the organisation did not react quickly enough or take it seriously enough and downplayed the problem in their communications with councils. Had the information given to councils been corrected when Wellington Water first became aware of the error, the impact for the councils could have been minimised. Wellington Water had numerous opportunities over the next three to four months to address the problem but did not take them.

### **An organisation that has not kept pace with increased demand**

In our review we discovered an organisation that was not as mature as we would expect it should be. Wellington Water is now 10 years old, but it has not evolved in step with the evolution of its functions and as an organisation has not kept pace with increased demand.

We found unclear structures and accountabilities, with like functions not being grouped with like; a control environment that is loose and not fit for purpose; inadequate systems and processes; some missing competencies (including strategic leadership); under-resourcing in the Finance and the Risk functions; and a mismatch between Wellington Water's values and, as described to us, its culture. Our recommendations address those issues.

We also found a culture of not wanting to hear or present bad news. There is a tendency to want to manage bad news before informing stakeholders, and to try to shape their perceptions and reaction to the problem in order to minimise it. Although staff and middle management had formed good relationships with the shareholders, we were told that Wellington Water comes across as defensive to shareholders.

### **Our recommendations for how Wellington Water can prevent further errors and recover lost trust and confidence**

We were struck by how much our recommendations align with those of the 2022 Inquiry into the Cessation of Water Fluoridation by Wellington Water. We observe that some problems identified in that Inquiry have not yet been fixed. Our review found a tendency to see problems with the organisation's structure, systems, and processes as issues to be put off and addressed by the new entity to which Wellington Water will transition.

However, the problems this review has identified need to be addressed urgently, otherwise errors of the type investigated by the 2022 Inquiry and this review will happen again. The work to be done includes, critically, recovering the lost trust and confidence of Wellington Water's shareholder councils. For the senior leadership, it also includes recovering some lost trust and confidence among their own people.



## Introduction

1. On 24 May 2024, Wellington Water apologised to shareholding councils for an error made in their advice to council shareholders for capital programme water assets. They explained the exclusion of a 6% corporate cost for major projects in the first three-year delivery of a 10-year plan, accumulated to a shortfall of \$51 million. Wellington Water proposed to mitigate the impact of the deficit by re-programming activities to reduce the impact on Council's and rate payers. [Wellington Water apologises for error in budget advice](#)
2. At the same time, the Board of Wellington Water announced an independent review to understand the circumstances and cause of the error, and to provide recommendations for improvement.
3. On 13 June 2024, we – Roy Baker and Kevin Jenkins – were appointed as Reviewers. We were asked to present our findings to the Wellington Water Committee on 26 July 2024.
4. The purpose of the review is to inquire into and report on how the estimation error occurred and identify lessons appropriate for an entity with a limited life to learn from, to minimise future occurrences.
5. To reach their findings we undertook a process of inquiry and discovery, interviewing 42 people involved in Wellington Water, including Board Members, leaders, managers, team member employees, contractors, and representatives of the six shareholding Councils.
6. We also reviewed approximately 450 documents including Board, management, corporate and operational papers, internal and external emails and attachments, and public documents relevant to Wellington Water to write our Report.
7. Once we had documented our findings, we returned to the documents and compared our findings with those already on the public record.
8. While in draft, our Report was shared with those Wellington Water employees who had met with us and discussed their views so they could offer any corrections or comment on other material matters. We have incorporated some of that feedback into this Final Report. Some feedback we received was in our view either outside of the Terms of Reference or expanded on points in detail that are already made this Report, this feedback has not been included.
9. Given the tight timeframe for preparing this report, we have not been able to address comprehensively every matter that was raised in this review. The review did not involve a forensic assessment of finance functions, and it has not sought to prove or disprove numbers. People capability has not been factored into observations. We have focussed on what we believe to be the critical factors given the purpose of the review as stated in the Terms of Reference (see Appendix 1).



## Recommendations

Our recommended actions are intended to help Wellington Water learn from these events and improve its response to any future occurrences. Given Wellington Water's impending transition into a new entity, we understand the remaining short-term life of the organisation in its current form and the need for pragmatism. However, we believe that if there is not investment in the areas covered in our recommendations, there is a high risk that further problems, similar to the estimation error or the cessation of fluoridation, could occur.

### Rebuild the trust and confidence of shareholding councils in Wellington Water

- Review the capital projects across the tri-ennium to ensure that the appropriate corporate cost is accurately recorded, enabling fact-based discussions to occur with councils as their capex programmes are actioned.
- Establish controls to ensure accuracy and transparency of the allocation of corporate costs in a timely manner.
- Wellington Water needs to be front and centre in the budgeting process, overseeing all the financial processes (including capital/investments) for Wellington Water and ensuring strategic focus, providing high-quality advice, and appropriate controls.
- Wellington Water needs to work with Council CFOs to:
  - Improve the quality, reliability, and timeliness of monthly reporting data to Councils, especially forecast capex and opex spend.
  - Ensure that Councils are aware of the cost estimates levels that are applied to projects and programmes and how they are determined, thereby improving the accuracy and confidence in the projected forecast investments.
  - Create comprehensive and streamlined annual planning processes.
  - Determine a more transparent process for how the corporate cost for the capital programme is managed, including showing the corporate cost as a separate line item for councils and eliminating the need for each individual capital project to estimate and account for those costs.
  - Review the 2022 Service Level Agreement with Councils – section 11 of the three-Year Plan – to ensure that it is still current, especially the delivery date for the three-Year plan to councils.
- The Board of Wellington Water works with the shareholders to determine if one standard set of monthly financial reports for all councils (both opex and capex) could be agreed, in order to minimise complexity within Wellington Water reporting.
- Strengthen the sign-off process and include common checklists for projects across Wellington Water, to ensure the corporate cost element is correctly included.

### Rebuild the trust and confidence of middle management and staff in Wellington Water's senior management

- Ensure Wellington Water's budget planning cycle to start at the same time as, or before, any Annual Plan/LTP planning for Councils.
- Ensure that the Senior Leadership Team and Tier 3 managers have a better understanding of the process and the importance of all aspects of planning.
- Inculcate the values of the organisation into all work areas and behaviours and acknowledge employees' values-based actions.



- Return to a “no blame” culture by changing behaviour to better align with Wellington Water’s values.
- Consider working with staff (beginning with senior leadership) to fully define expectations around individual behaviours and actions that support Wellington Water’s values and include the outcome of this work in the Code of Conduct.
- Reverse the tendency in the business to manage first rather than share first (with external stakeholders) – that is, make the default to signal issues early.
- Build a mutually supportive culture based on listening and responding.
- Increase the organisation’s focus on outcomes.

### Restructure the organisation so that accountabilities are clear, and capabilities can be substantially enhanced in the lead-up to the new entity

- Introduce an orthodox structure that has clear role accountabilities and responsibilities for role holders – for example, group like functions with like.
- Strengthen the strategic finance function.
- Introduce more finance/business partner capacity to help run the whole business.
- Consider establishing a Chief Operating Officer-type role dedicated to achieving rapid business as usual (BAU) business and process improvements both for short-term quality control and in readiness for the transition to a new water entity.
- Consider where IT and HR functions are best located given the organisation’s size.

### Treat Wellington Water’s readiness for reform as separate from the BAU work programme

- Consider establishing a separate team that focusses solely on the move to a new entity to keep BAU separate, and to ensure focus remains on delivery with no slippage in delivering the opex and capex programmes for councils.

### Review Wellington Water Annual Plan processes to deliver capital programmes for councils

- Streamline and clarify integrated planning and finance processes and ensure they are universally understood across the business; prioritise key risk areas and use best-practice guidance to create clear standards, ensuring guidance or policies around their use are in place.
- Map key processes immediately, particularly around the use of spreadsheets and data transfer.
- Create and update standard procedures for quality control, including Wellington Water-wide templates, checklists, gateways, audit requirements, authorisation, and communication.
- Ensure that ownership and accountability of key processes are understood and reflected in position descriptions.
- Reduce reliance on financial and other stand-alone spreadsheets and explore new cost-effective collaboration and productivity tools (this need not wait for the new entity and the new processes and systems it may adopt).
- Require transparency in external and internal reporting as a default, unless there is a good reason not to.
- Consider how to further optimise the relationship with Watercare and its new model, for future synergy.



- Once the review of major projects confirms corporate cost is accurately recorded, ensure that collectively the overall Wellington Water corporate cost will be recovered (see above).

#### Strengthen governance oversight

- Increase the focus on oversight of any recommendations implemented from this Report, using an internal audit function to report to the Board on progress and issues.
- Ensure that shareholding councils have high-quality information and that there is improvement in the relationship between each council and Wellington Water.
- Ensure that internal governance groups (more aptly described as “management committees”) are established to oversee the Long Term Plan (LTP) and that annual planning continues to be accountable until the project has been completed and formally signed off.
- Review the risk management system so that it is:
  - Fit for purpose (best practice is unlikely to be achievable in the period leading to the establishment of the new entity but, in order for this function to have any impact, it needs to be refocused on key risks).
  - Integrated into strategic and operational management.
  - Accorded the mana necessary for it to identify and call out risks as they emerge.
- Ensure that the capacity of the assurance functions is the right size for the risk profile of the organisation.
- Review the quality and content of information provided to the Risk and Audit function and determine if there are any gaps to be addressed.



## Wellington Water's operating context

Wellington Water Limited was established in 2014 following the merger of Capacity Infrastructure Services and Greater Wellington Regional Councils water supply group. Six councils own and fund Wellington Water: Greater Wellington Regional Council (GWRC), Hutt City Council (HCC), Porirua City Council (PCC), South Wairarapa District Council (SWDC), Wellington City Council (WCC) and Upper Hutt City Council (UHCC).

Wellington Water sets out its role on its website: "We give our councils advice on their assets, and they make decisions on what to fund through their Long-Term Planning (LTP) process. Councils also set the levels of water services and set policy. We work to the budgets they set and prioritise our work to make the best use of the funding and resources provided to us".

Wellington Water has been waiting on planned water reforms for several years. The Three Waters reform, evolving into Local Water Done Well, has delayed investment in assets and infrastructure and, as it continues to await decisions about its future, Wellington Water is operating continuously in a "change is coming" context.

The Government is progressively rolling out its Local Water Done Well policy. The Local Government (Water Services Preliminary Arrangements) Bill, which is expected to be enacted in August, will require councils to prepare Water Services Delivery Plans setting out how they plan to deliver water services on a financially sustainable basis. It is anticipated that many councils in the region will opt to submit a Joint Plan and continue work to establish a new regional Council-controlled organisation (CCO). Future legislation that will provide for new forms of council owned water services organisations is expected to be introduced in late 2024 and enacted in mid-2025. This is the earliest a new form of regional CCO would be able to be established.

Under Local Water Done Well, councils will be responsible for deciding whether and when to establish a new regional CCO. The ten councils comprising the Wellington region and Horowhenua District signed a Memorandum of Understanding on 10 May 2024 to work together on a joint water services delivery plan and to develop a joint delivery model that can address the challenging long-term funding and delivery requirements for water in the region. We understand this process is subject to several "off ramps" for individual councils to decide whether to commit to the joint delivery model, and no decisions have been taken around the timing for establishment of a regional water services organisation.

Planning to prepare for the transition of Wellington Water into a new entity has slowed significantly with the need for councils to drive reform locally rather than relying on central government resourcing. Planning and preparing budget information relating to investments required for the 2024-2027 investment cycle and for the 2024-2034 planning period has been undertaken. However, major investment in new systems has been deferred until transition has occurred; improvements to asset information and management, processes and systems need to be oriented to the short term, in readiness for a transition.

Wellington Water has also been under the public spotlight. It has had to deal with a confidence issue around the non-fluoridation of drinking water at Te Mārua and Gear Island water treatment plants, repair several thousand leaks due to aging water infrastructure, and manage a potentially significant water shortage through the recent summer. It has also had to manage ongoing non-compliance and poor performance at wastewater treatment plants across the region for many years. Issues such as these intensify scrutiny and corrode reputational capital. Failing infrastructure is regarded poorly by the public and Wellington Water are viewed as responsible for failing to respond, as well as their shareholders.

Since 2021, Wellington Water has grown from an organisation of 265 to 395 people to meet demands arising because of these issues, the increased size of its capital programme, and its core role; operating and maintaining existing infrastructure, renewing it when necessary, delivering projects of significant investment and providing recommendations and budget advice about future capital projects for each Council's LTP.



## Answers to Questions - from the Review's Terms of Reference

### Section a. How the estimation error occurred

What is the process Wellington Water follow in compiling the capital programme estimates for the LTPs and is it fit for purpose, including comparisons, benchmarks and assurance steps?

The process that Wellington Water followed in developing the LTP is set out in Appendix 3.

Factors that made the development of 2024/25 LTP particularly complex

The LTP is a complex process, a number of factors made the development of the 2024/25 LTP unique:

- The regulatory environment became more complicated as the 2023 year progressed due to changing government directions.
- By September 2023, it was clear not only that councils would need to prepare the capital programmes for the first two years of the LTP, but that if there was a change of government, they would need to prepare a detailed 10-year plan. (If Councils needed to move from preparing a twoyear plan to prepare a 10-year plan, then Wellington Water also needed to prepare advice and information to inform these plans for each of the Councils).
- In mid-2023, to ensure they could meet councils' deadlines if a 10-year plan was required, Wellington Water decided to build opex and capex programmes for the full 10 years of the 2024/25 LTP period.
- Wellington Water used information compiled for the now disbanded National Transition Unit, to provide a fiscally unconstrained view of a budget, as the starting point of the capital programme. Wellington Water assumed the numbers prepared included the corporate costs.
- The fiscally unconstrained view was not sustainable for councils because they could not undertake Wellington Water programmes within their financially prudent regimes.
- 10-year planning was more complex than a normal annual plan, and so there was significant twoway communication between Wellington Water and each council to agree on the projects that could be delivered by the contracting market, to deliver the capital programme.
- Within Wellington Water there was also complexity. Similar communication happened between departments to determine what projects and programmes could be delivered and at what price.
- In late 2023, councils asked Wellington Water to review and reduce their opex costs.
- Wellington Water responded by reducing opex costs by 5%. This was communicated internally at the same time that Finance was looking to increase the capex charge between 6% and 10%. This caused confusion in areas outside Finance and contributed to general confusion about the allocation of costs.
- The Network Strategy and Planning Group brought together programmes from Network Development and Delivery, Customer Operations Group and the Network Management Group. Network Strategy and Planning's focus was on presenting Wellington Water's entire programme of work and its costs to councils.
- The Project/Programme costs were the responsibility of the budget holders submitting their work to Network Strategy and Planning, and different approaches were taken. The Business unit budget accuracy was not checked.



- A key focus in the capex development process was to provide councils with an agreed minimal viable product in order to meet each council auditor's assurance requirements. This work was peer reviewed by an independent supplier for additional assurance.

### Analysis of the process

The process was mostly good. It could be improved to align timeframes better with councils' timeframes. It is worth noting that the current Service Level Agreement with Council (dated April 2022) required Wellington Water to deliver draft 3-year plans by 1 September (section 11.1). This date seems unrealistic, and we do not believe it has previously been met.

A governance structure was established for assurance and was in place to oversee the LTP process. There was regular reporting to SLT and the Board.

Wellington Water provided programmes and appropriate risk statements to the councils given they faced fiscal challenges, which included pressure on debt ceilings and rate affordability.

In providing the programmes, particularly projects beyond the first year of the LTP it was unclear to us how well the Councils understood the basis of the estimates and at what level of price risk etc the estimates were based upon. Without a good understanding of this process Councils are likely to have difficulty managing any subsequent cost uplifts or overruns.

At a strategic level the process met its milestones and delivered outputs to councils for their LTP. Feedback from Councils about the process up until May was generally complimentary.

The flaws were the unsystematic allocation of corporate costs, the lack of financial oversight at a macro level, the poor communication around the corporate cost percentage to be allocated, and the lack of response on several occasions when clarification was sought.

Indications that an increase from 6% to 10% may occur for the 24/25 year (Year 1 of the LTP) was informally notified by Finance in late October/November. While the Service Planning team were aware of the change, and of the risk to the LTP programme, the issue did not gain real momentum until 25 February 2024.

From late November, internally there was confusion across Wellington Water about whether or not there was an increase from 6% to 10% corporate cost charge. Questions were asked about the level of the charge and were not answered. A number of people we spoke to told us that the 10% corporate cost was included in project budgets; others said it wasn't included and that it would be added on later, they couldn't tell us by whom.

In February it was known that the corporate cost charge of 10% had not been fully applied. Despite the issue being raised again, the issue was not addressed. From our interviews with various Wellington Water staff, we have concluded that many of those involved did not appreciate the significance of the impact of the change and how to address it given that the councils were already working to finalise their draft consultation documents. Some leaders also did not understand the repercussions.

The ambiguity and delay meant some data that was exchanged or used at different stages of the process included the corporate costs and other data used excluded the costs.

### What is the process for establishing and apportioning the corporate cost for estimating purposes for the LTP, and is it appropriate for the Wellington Water model?

Wellington Water has three basic funding mechanisms for the total cost of running the organisation, all three of which are controlled by Finance:

- **Management & Advisory Services:** the sum of money invoiced to councils that fund Wellington Water, in predetermined proportions, solely related to running the organisation
- **Corporate costs charged to the council operational expenditure (opex) programmes:** the portion of the organisation's costs that relate to supporting the delivery of the opex programme



- **Corporate costs charged to the council's capital expenditure (capex) programmes:** the portion of the organisation's costs that relate to the planning and delivery of the capital programme.

There is little understanding outside of the Finance function of how any of these mechanisms operate, and in fact different managers and staff told us quite different versions.

This question focuses on the *corporate costs allocated to the capital expenditure (capex) programme*.

### Overview of the three-stage process to allocate corporate costs

The starting point for the development of the corporate cost charge process is the development of the Wellington Water corporate budget as a whole.

#### Stage 1

The first part of the process is to determine the amount of the corporate costs to be charged to capex projects:

To do this Finance:

- Annually seeks inputs from business units (that develop capital projects – from initial concept through to delivery of the project) to determine the estimated percentage of each staff member's time that they spend on specific capital projects. This percentage is then applied against their salary cost to determine the amount that needs to be recovered against the capital projects.
- Totals these costs from the business units that support the capital programme.
- Calculates the amount of corporate overhead – using a detailed spreadsheet.
- Divides the total of 2 and 3 (above) by the total capex programme for the year, to calculate the percentage that each capital project needs to apply to the projects estimated costs. This determines a project cost that includes the corporate cost 'overhead'.

For the first year of the LTP, Finance have estimated the cost to be recovered to be \$30m, and a capital programme (before corporate costs) of \$300m, thereby requiring a corporate cost of 10% to be added to all capex projects.

#### Stage 2

The second part of the process requires the various business units involved in developing budgets for capital projects to add the 10% corporate cost "overhead" component to each capital project. The corporate cost needs to be added last to ensure the percentage is applied to all costs.

#### Stage 3

The final stage of the process sits again with Finance. Monthly, Finance allocates a portion of the annual total budget against projects. Finance manages this at a corporate level including any differences between actual charges and what was budgeted.

- Each month, Finance allocates corporate overhead cost. Monthly financial reports are generated in Excel using data extracted from the Tech1 finance system.
- They then push an extract into a data warehouse which provides a view of total costs including a corporate cost to individual project managers. This view is what is used to report to Councils.

The outcome Finance is trying to achieve is relatively simple, i.e. where costs within business units are incurred that are in direct support of a capital project, then those costs should be capitalised against the built asset. Similarly, a portion of corporate overhead should be included, for example, a portion of a manager's time spent supporting a capital programme or a portion of the IT costs that relate to asset management would be treated the same way.

Capitalising such costs gives a more accurate cost of the built asset. It also reduces the opex costs of Wellington Water, which in turn reduces the opex funding required from councils. This in turn flows into a lower rate requirement for ratepayers.



The system is dependent upon individual projects having the corporate cost percentage applied in all areas of the business where capital projects eventuate.

In previous years the percentage used to allocate corporate costs was 6%. Over the last few years Wellington Water has grown significantly and this growth, driven by higher capital investment from Councils, has meant the percentage needed to increase to cover costs.

#### Key observations about the process to allocate corporate costs

We noted variations in the application of corporate costs:

- Wellington Water has a manual that provides guidance on cost estimation of capital projects. The manual states "The cost estimate needs to include all costs associated with the project, excluding Wellington Water's management fee to the Council. The value of the management fee varies annually and will be added to the cost estimate by Wellington Water" (Page 20).
- There seemed to be inconsistency as to when the percentage was applied in the lifecycle of the development of the budget. Although, by the time a project has reached Level 3 in the estimation phase, the corporate charge is generally incorporated.
- The Delivery Team do not include corporate costs which are added on later.
- Some major projects have a bespoke corporate cost added (neither 6% nor 10%).
- Spreadsheets used by the Network Development and Delivery Group incorporated fields for each of the internal and external views (and the inclusion or exclusion of corporate costs), complicating the view for anyone outside of finance.
- There is "a lack of understanding and ownership" of the application of the corporate cost, an unclear sign-off process relating to the inclusion of corporate costs or not, and the view of many budget holders that there is an element of fait accompli around budget responsibility (including the allocation of corporate costs) that is outside the budget-holders control.
- Wellington Water's budget planning process starts independently of the development of their annual plan process and of the LTP process for Councils. It generally commences later than the other two processes. This creates risk for accurate budget preparation and a disconnection with the business planning which guides Wellington Water's organisational activities for the period
- The LTP looks at future projects so is more complex, and therefore estimates are less certain. The Annual Plan process is simpler; projects are to be delivered in the year; therefore, project costs are locked in and include the corporate cost.
- For programmes of work such as Renewals, budgets tend to be based upon how much Councils are prepared to invest each year. As such they do not generally have specific corporate costs identified. These programmes receive a monthly charge as part of the monthly allocation process and physical works are undertaken up to the balance of the programme.
- It is worth noting that while the corporate budget process is nearing completion it won't be until July that both the council's capital programme and Wellington Water's corporate budget will be locked in, and the true corporate cost percentage known. Any difference will need to be managed by Wellington Water's finance team.

#### Is it appropriate for the Wellington Water model?

The concept of ensuring costs associated with delivering a capital programme is sensible, and at a high level will provide recovery of the costs. The current model lacks transparency, particularly to shareholding councils and is complex to operate. Its application as a whole has challenges for Wellington Water:

- It is not well understood outside of the Finance team (and what understanding there is seems variable). This includes Senior Managers.



- It is not transparent to shareholder councils and needs to be.
- It is not transparent to asset managers within Wellington Water.
- The allocation model requires each project to budget 10% for corporate costs. However, the corporate costs charged monthly against each project are not simply 10% of the monthly project cost. Instead, the costs charged are based upon the monthly costs percentage each unit advised when the budget was developed (reviewed quarterly to allow for changes in the programme), which is a rather complicated bespoke assignment of costs (determined by the detailed information collected as part of the annual inputs process outlined above).
- The Finance function manages the overall allocation at the corporate level against actual costs. This is regardless of whether the capital programme is over or under budget for the year.
- While collectively the corporate costs are recovered, within each project the charge will be either over or under the budgeted 10%. Where the project costs are over 10%, (for example, major projects) this would result in a "price change request" and ultimately discussions with Council regarding increasing the budget.

As discussed throughout this paper, improvements can be made.

**What is the state of Wellington Water's systems and processes that support the LTP process and are they fit for purpose? What are the main factors in terms of preventing or detecting an abnormality in the estimates?**

#### About the Systems

The most up-to-date information systems integration model has been provided to us from Wellington Water<sup>1</sup>.

The main systems used to support an annual plan or LTP process are:

- **Project Server.** A tool used by Network Development and Delivery to record individual capital projects costs (both actual and forecast)
- **Investment Register.** An application recently built and used by Network Strategy and Planning. This register had a number of challenges, including data quality, and it was therefore determined to prepare workings, and present the capital programmes, in spreadsheets.
- **Spreadsheets.** Stand-alone spreadsheets are common in the organisation.

Many people told us the systems were "outdated", "clunky" or "poor". There is a common view that the systems constrain staff from doing their best work and impact their effectiveness.

#### *"We clunk along with spreadsheets"*

When the previous government's water reforms surfaced, investment was logically paused, awaiting transition arrangements. Any significant investment in core systems would best be undertaken by the new entity to ensure they are fit for purpose.

While it has not yet been decided on how a new water entity for the Wellington region would operate, we note that systems are well established and in use in Watercare, Auckland (if not the same systems that would be needed). There would be value in engaging regularly with Watercare, to gain a deeper understanding of their systems and processes, if only to get a head start around proven ways of working with data and reporting solutions that will assist with a transition to a new entity.

<sup>1</sup> [Microsoft PowerPoint - Board Asset Management Plan workshop-Attachment A-Our asset management approach presentation.pptx \(wellingtonwater.co.nz\)](#)



## About the processes

Processes need attention.

Common themes of our conversation were “processes are old and antiquated” and “there are too many processes”.

### *“The processes for Wellington Water are very weak”*

We heard of processes not being written down, cost changes not being documented when they should be, the ongoing need to remake work because a process was not captured, and lack of controls around process and delegations not being followed. We were told there were few examples of standard operating procedures and process change formality when we asked to see these. We note that a Project Change Request (PCR) is used for major projects.

There is a tendency to use emails to communicate changes to a process which would be more appropriately communicated through formal channels.

We were told that email distribution is not effectively engaging those who need to know about process changes. The quantity of emails circulated generally is high. Often emails are addressed and cc-ed to a very broad group which creates an opposite effect to that intended, i.e. diminishing the importance of the information and relying on the group to take responsibility. As one interviewee put it “if everybody knows, nobody knows”. The perceived reliability of email information is dependent on a sender providing explicit information to the right group of people, and being responsive to questions or feedback when clarity is required.

The lack of formality from a responsible owner creates uncertainty and reduces transparency around who has authority to authorize, obfuscating responsibility and accountability when it is most needed. Instilling formal change process requirements will ensure clarity and reliability and improve business performance.

On the Finance side, we note the resource constraints within the Finance team. Notwithstanding, they have worked to continuously improve budgeting, forecasting and reporting. Finance tries to have a standard set of reports for all Councils, however this has proven to be difficult to maintain as Councils have different requirements and seek tailoring of information that adds extra work and complexity.

Investing to improve processes such as creating a standard approach for financial reporting to help ensure accuracy and timeliness for both Wellington Water and the Councils, and undertaking some process mapping, would reduce risks, improve workflows, and provide clear ownership. The most obvious process to start with is the Allocation of Overheads.

## Factors impacting the detection of a reporting abnormality

In our view the critical over-riding factors impacting the detection of a reporting abnormality is the organisation’s loose control environment (see Section c.), the absence of clear and publicised responsibilities (canvassed throughout this Report), and inaction, quite probably due to the organisational climate and a culture that is not aligned with its core values. This does suggest Wellington Water continues to profile symptoms of “learned helplessness” (see Section c.).

## What is the capacity of the staff involved in this process (out of scope of this review is the capability of staff)?

The most significant area where capacity was an issue was in the Finance team. While acknowledging that a future standardisation of processes would achieve efficiencies, until that time there is a clear need to increase the numbers of suitably qualified Finance people that can work across the business and support managers.

While the governance group regularly had resourcing on its agenda, the pinch points associated with an LTP compared to an Annual Plan are more severe, and in our view under-estimated.



The current capacity of the Service Planning team should be enough to manage an annual plan process, however, if there is a need to undertake another LTP process, more capacity needs to be considered.

During the LTP process key staff departed. The loss of experience, and the arrival of employees new to the organisation, put pressure on quality and delivery of the LTP outputs, however this was not seen as a capacity issue at the time. We were told Workstream Leads had little relevant experience in LTP, Local Government, water infrastructure or asset management and being new, had little relevant experience in how to navigate the organisation.

### What are the roles of other parts of Wellington Water such as the Finance team and Internal Audit in providing advice and assurance?

While the LTP process is led from the Network Strategy and Planning Group, we would expect the Finance function would be responsible for ensuring integrity of the data inputs and final numbers, especially given the complexity of the LTP process and known system challenges. This was not the case.

- Finance as owner of the opex and capex cost allocations to councils as part of the LTP, were stronger in the opex component (especially as there was a general request from Council's to reduce the opex overhead burden in the forthcoming period), than with the capex, particularly around formal advice and implications of the change in corporate cost percentage from 6 to 10%.
- The CFO was on the LTP Steering Group established to run the process. However, the disbanding of the assurance function well before the end of the process meant risks did not have regular oversight.
- Feedback from staff was that they expected finance to have a more visible role than occurred.

It is clear that at a senior level within Wellington Water there was misunderstanding about the impact the change to the corporate cost percentage had on the programmes already given to Councils.

Typically, assurance functions are well positioned to advise the leadership about the potential or development of significant risks or compliance gaps. The exclusion of the risk and audit functions in large and expensive operational work programmes, in itself increases the organisation's risks.

- Internal Audit was not involved in the LTP process.
- Risk Assurance was involved to a minor extent in Q4 of 2023/24, but too late in the LTP process. Risk work was focussed only on risk dashboards for Councils in support of National Strategy and Planning.

These functions have a key role to play in advising leadership and assuring governance and need to be taken seriously as business partners in an organisation with a high-risk profile.

### What is Wellington Water's approval process, and did it provide the appropriate checks and balances? What process was followed between management to governance to councils?

It is unclear to many of the people we spoke to what approval process should occur. We had a variety of views as to which roles have the authority to approve processes or final documentation.

Other than, the Major Projects Team's PCR process (in which the head of the Network Development and Delivery authorises individual projects), we were not made aware of documented end to end signoff processes, although we note that Senior Leadership Team ratified the draft LTP programme.

Our observations about the process followed between management to governance and Councils are discussed in Section c. of this paper.



## Section b. What happened in response

When did people know in the organisation there was an Estimation Error?

Refer Section a. above.

Why did it take so long to detect the Estimation Error?

We heard many different views about why the error was missed. The most common reason reported to us was that everyone simply assumed someone else was looking after it or it wasn't their area. These themes were common in nearly all of our conversations.

Why was there a delay in understanding the scale of the issue and advising the shareholders?

Although the issue had been raised in late 2023, it wasn't until February 2024 that it received any significant attention. This was probably driven by the fact that the Service Planning team were beginning to focus on the need to advise councils before each council's deliberation on their LTP. This involved scrutiny of the impacts of likely end of year over-and-under-spends, scope changes, and the need for updates since the capex programmes were given to councils in late 2023.

The lack of ownership of the corporate cost allocation approach meant it wasn't widely understood.

Once the quantum of the error became known, the first reaction was to contain the situation. There seems to have been an evolving mantra that the impacts could be managed internally simply by delaying projects and trying to absorb the fiscal impact within budgets.

Rather than immediately bringing the matter to the attention of shareholders so they could consider the impacts on their projects and the budgets they were about to finalise, management instead focussed on quantifying the impact for individual councils, to include in the paper being prepared for councils about the end of financial year changes. This in fact created more confusion and only reinforced the "mistrust of shareholders" (this matter is discussed further in Section c.).

Is there a culture problem in the organisation (e.g. the "learned helplessness" referred to in the MartinJenkins Inquiry into the Cessation of Water Fluoridation by Wellington Water dated 21 June 2022) that sees a reluctance to deliver bad news?

See Section c.

Provide a timeline summarising the actions of Wellington Water from the beginning of the process for developing financial elements for capital projects for the LTPs up until Wellington Water communicating the Estimation Error to all of its shareholding councils, and provide commentary on the quality of those actions

A timeline summarising Wellington Water's LTP Process is attached in Appendix 2.

Why the Estimation Error happened

Our conclusion is that this error occurred due to systemic issues, namely a lack of understanding and ownership of problems when they arose, and poor information flows. It was not a spreadsheet error as reported in the media; information was omitted with widespread consequences, and there were no controls in place to pick this up. We discuss this further in Section c.

## Section c. The contribution of culture to the error

This section addresses the third key issue in the Terms of Reference, "Determine the root cause of why the Estimation Error happened", and responds to the following specific questions:



- How did the following factors contribute to the error – organisational structure, oversight, capacity, culture, systems, processes, and resources?
- What changes to culture, systems and processes are required to ensure there is not a repetition of this incident and generally that Wellington Water is able to produce reliable cost forecasts for inclusion in its shareholder councils' budgets?
- Is there a culture problem in the organisation (e.g. the "learned helplessness" referred to in the MartinJenkins Inquiry into the Cessation of Water Fluoridation by Wellington Water dated 21 June 2022) that sees a reluctance to deliver bad news.

In this section we also comment on the management response, governance response and the shareholder response.

The culture of an organisation is influenced by all aspects of the organisation. The effectiveness of Wellington Water's systems and processes is discussed in Section a. above. However, there are also other ways of looking at this, such as a value for money framework (effectiveness, efficiency, and economy), organisational design, organisational maturity assessment, risk management, and the control environment. Our frame was the Terms of Reference, but we also drew on aspects of those other frameworks.

### Wellington Water's Control Environment

The COSO<sup>2</sup> framework offers a system to establish internal controls into an organisation's business processes. Together, the effectiveness of five controls (environment, risk assessment, control activities, information and communication, and monitoring activities) can provide assurance that an organisation operates ethically, transparently, and to expected industry standards. Internal control is a process that manages risks to acceptable levels and supports good operational decision-making and governance. It is effected by an organisation's Board, management, and employees to provide reasonable assurance that objectives for operations, reporting, and compliance are being achieved. A control environment sets the organisation's standards and the structure on which the internal controls are based.

#### Structure

Wellington Water operates broadly along the same structural lines as it did when it was established in 2014. Although we noted a change to the structure when the Network Management Group and Customer Operations Group functions were separated (when the alliance with Fulton Hogan was established around 2019), the Network Development and Delivery Group reorganised, including in 2021, and the Director of Regulatory Services role was introduced two years ago; overall, the organisational structure has not evolved as the functions and responsibilities have. There are now tensions and impediments in workflow because of the way the organisation is structured. Work goes through many hands across teams and may be duplicated (with or without knowledge of those involved) or is siloed.

*"We are structured to generate confusion about accountabilities and responsibilities"*

One of the strongest themes of the feedback for this review is that the structure is a problem. It obstructs clear oversight of activities, especially in areas where we would expect to see assurance. This is particularly striking in relation to financial assurance. There have also been questions raised about where some functions reside.

*"We have to go to so many people in the business to get just one little piece of the puzzle"*

<sup>2</sup> Committee of Sponsoring Organisations (COSO) was established in 1985 and is an independent private-sector initiative that provides thought leadership into enterprise risk management, internal controls, fraud deterrence and governance. In 1992, COSO published 'Internal Control Integrated Framework'. The Framework was revised in 2013. The Framework is included in Appendix 5



Collaboration is highly rated by most of the people we spoke to. And we often heard that the people “are great” and “willing to help”. However, the effort made to work collaboratively across teams depends on individual effort. Feedback to us was the lower levels of the organisation work well together but “higher up it becomes siloed” and “we are not communicating as well as we should be”. Several people argued that Wellington Water has outgrown its structure and it has been a mistake to leave fixing this problem to the new entity.

The two biggest challenges of the structure are:

- It creates confusion about who is accountable for what which results in:
  - Duplication of effort, with some roles appearing to be doing work that should be done by other roles, and other roles (either because of this or for other reasons) not owning their accountabilities.
  - Others trying to fill the gaps, when accountabilities lay elsewhere, which unintentionally reinforces a “blame culture”, not the culture the organisation aspires to.
  - People working more deeply in the organisation being frustrated and demoralised when issues raised are not heard, acknowledged, or taken seriously.
- It obstructs and slows information flows, which:
  - Impacts timely decision-making (lots of emails to lots of people meaning uncertainty about who makes decisions).
  - Stymies the sharing of well-timed advice, information, and insights. ○ Affects quality processes and controls (as demonstrated by the estimation error).
  - Reduces productivity.

All of which makes it harder for people to do a good job.

We understand the constraints of an organisation preparing for a major transition. However, the current structure frustrates clarity and does not facilitate accountability and empower responsibility. The perceived lack of both accountability and responsibility is a major barrier for the organisation.

### Control standards, systems, and processes

Wellington Water’s Statement of Intent and the Shareholders Letter of Expectations set out performance expectations, and regular reporting is set out clearly.

Rightly, the Board and management exercise different oversight controls. However, Board controls rely on the quality of management information; the Board needs to be comfortable that it is receiving information appropriate to its governance role.

There is evidence that, on the regulatory and compliance front, standard practices are in force and working well. Risk and audit also use common processes and tools.

Delegations are clear in the position descriptions of the Senior Leadership Team. However, we conclude from our analysis that the organisation does not always hold senior managers accountable for their responsibilities.

We did not review HR policies and processes.

Within Wellington Water’s control environment we looked for evidence that business processes use standard practices.

- While the policies we reviewed were adequate, and we found some evidence of standard operating procedures, overall business processes were not to the standard we expected in the documentation that was provided to us. We heard examples of innovation to address gaps, but it would be better to standardise good processes.



- Operationally, some people were clear about the processes they needed to perform, and others were not.
- Improvements to current systems have a short-term focus. Collaboration on documents is difficult, spreadsheets are plentiful, and version control is a constant challenge. For example, the change to the corporate overhead cost from 6% to 10% was not documented. There was also no guidance on how to apply the overhead for those who would need to do this, and no controlled communication.
- Checklists do not appear to be a mechanism used well to help ensure quality control.
- Most people told us that they did not know who was responsible for checking and authorising information to be shared outside of Wellington Water.

*“...we are just doing what we can with what we've got.”*

### Risk Assessment

Wellington Water operates in several contexts (it manages council assets, provides advice to councils, and delivers programmes for councils), and its risk posture is naturally different for each context.

We have reviewed corporate risk papers and find them to be as expected for an organisation managing significant public assets. Risk dashboards, assessments, mitigations, regular auditing, and reporting all exist and are aligned with the organisation's objectives. The Risk and Assurance function is watchful for changes affecting Wellington Water's operating environment.

Operational risks are considered and discussed regularly within business units. The word “risk” is part of the Wellington Water's lexicon, and it was mentioned often in our conversations.

However:

- Roles and responsibilities in relation to risk ownership and management are unclear. In particular, we found that the assignment of operational risk is always at a General Manager level, while the role accountable for all operational risks is recorded as the Director of Regulatory Services.
- Risks are not always owned and managed in the right area of the organisation.
- There is one FTE providing the corporate risk function, and they have no control over the management or monitoring of risk.
- Information about risks is available within the organisation, but risks are not regularly interrogated and actively managed across the organisation. Information is of little value if it is not acted on.
- The impact of reform and constrained resourcing, as identified in audit reports, has been to suppress improvements to make controls and processes more effective.

*“Something like this was always coming.”*

### Control activities

In its paper “Asset Management Approach” (August 2022, see footnote 2) Wellington Water's information system is referred to as “not just one system”, and as “a combination of policies, processes and systems and the people that implement it”.

Procedures put policies into action. We have not reviewed whether procedures have been implemented. We note however there are a range of operational procedures. What is important is that the procedures are fit for purpose, that people in the business know about them, that the procedures are followed, and that the organisation understands how well they are used.

How people engage with control activities also tells us a lot about the organisation.

We have learned through this event that when some people within the organisation have sought to effect some internal controls they have not succeeded. This appears to be for several reasons:

- First, accountabilities and responsibilities are not clear within the organisation.

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- Second, the estimation error wasn't prioritised or given attention when it was raised, stranding those who tried to escalate it.
- Third, when it was taken seriously the error was seen as an issue to manage rather than solve.

Because the organisation mainly works in the long term, and budgets move around, it is relatively easy if controls are not in place to liberate budget assumptions because they are capex. This means delivery timeframes can be extended to defer spending, with little real scrutiny. Although this is relatively common practice for long-term capex projects, it risks creating a culture that does not prioritise financial discipline, and instead encourages loose controls and diminishes individual responsibility.

### Information and communication

In this section we focus on the communication that occurred in relation to the estimation error, as a practical way of setting out our answers to the questions posed by the Board and of gaining insights into communication and engagement practices specifically.

As discussed in Section a., through the period there were many emails, addressed to and copied to many people, asking for or providing information or views about the error and what the next steps should be. The emails we viewed showed general confusion, especially about where responsibility for the problem lay, which there were different views on. People assumed others were responsible or were addressing the issue.

*"I think genuinely everybody in that process thought someone else was dealing with it"*

#### Communication with shareholders

Five out of the six shareholding councils gave similar feedback: that the error in allocating Wellington Water's corporate costs caused additional work at a critical time in the LTP process and put extra pressure on everyone involved. Those councils also said that if they had been informed earlier, they could have minimised the impact on their council's plans.

All councils were consulting or deliberating in May to finalise their budgets in Council.

The approach to communicating the issue to the shareholders was inadequate. The implications of the error for shareholding Councils, and consequently the wider public interest, was not understood at the highest level of the organisation until at least 1 May 2024. The CEO requested a "full plan" before they raised the issue with Councils.

There is an important lesson here. Councils are both shareholders and clients. The shareholders, as owners, needed to be informed as a priority that there was a likely problem. The potential impact on councils was something the councils should have been accorded to manage for themselves, given the stage they were at in the LTP process, and the councils could have managed or worked around the problem if they had been told earlier. Because they did not get early notice of the error, the councils lost the ability to make changes within their three waters budgets or other capex areas.

While no doubt councils would have been exasperated by the error, informing Council CEs, and providing an estimate of the ramifications while Wellington Water found out more, would have enabled Wellington Water to work through the issues collaboratively *with* the councils as it was in the interests for all to do so quickly.

There was still time to prepare and put together more detailed information for councils, including exact calculations and details of Wellington Water's options for alleviating the new cost pressure.

Escalating to shareholders earlier also would have likely sped up resolution of the issue, as it would have been a higher priority by necessity.

*"It is also about trust with our Councillors, they already have an issue with trusting Wellington Water to deliver on time and on budget, we had been working hard to improve that"*



When Wellington Water realised it needed to communicate rapidly, it wasn't ready. It couldn't provide a good level of information to properly inform shareholders or other stakeholders at least temporarily and alleviate the concerns.

When Wellington Water did communicate, instead of providing information in a managed way to its shareholders, the information about the error was released asymmetrically, with one shareholding council receiving the information first, at a planned meeting on 17 May, well ahead of the others. The Officer of that council, recognising the impact on other councils, informed CFO colleagues in the councils that an error had been made. This put the remaining shareholders in a reactive position, knowing about an error but not what it meant for them. All six councils then passed and received information between themselves and sought to obtain more information from Wellington Water. Wellington Water's release of the information in this way breached the shareholders' trust in Wellington Water management from the outset.

On 21 May, Wellington Water's Chief Executive phoned council Chief Executives to tell them there was an issue. An email followed on 22 May formally notifying them. Overall, this email communication created confusion, with one council officer called it "ambiguous". Another said that "it raised the heart levels significantly". Council officers sought clarity. A memo was issued.

The memo mostly related to the standard end-of-year process but noted that of three items to be addressed to close out the LTP planning, one of them was the new matter of unallocated corporate cost overhead. The memo included an estimated cost for each council. The memo suggested that Wellington Water would accommodate the overall costs by delaying the delivery of some programmes. The feedback to us was that this looked more like trying to hide the error than openly addressing it.

*"When we get a memo from Wellington Water our first thought is can somebody check this"*

The full extent of the error became known to everyone at the meeting of the Wellington Water Committee (WWC) on 24 May. A Wellington Water media release included the impacts on each council.

Following the WWC meeting, individual councils had to immediately deal with inquiries from their own ratepayers and media, who wanted to know what the error meant for the council and ratepayers.

However, councils were not provided with the methodology behind the calculations that would have allowed them to check how their portion of the \$51 million gap was calculated.

*"As you can imagine we had media asking us questions. We had councillors asking us questions. We had the CE asking questions."*

This lack of transparency around the calculations has been contentious and frustrating for councils, as it hindered them in presenting the issue clearly and transparently to their communities.

The councils and their communities needed – and still need – to know how the numbers were put together so they can trust they are accurate.

Councils had all received formal communication about the individualised impacts for them by 29 May.

#### *Slow pace of response*

The delay in communicating with the shareholder councils was unfortunate and unnecessary: the error came as a surprise to councils, and should not have. Communication to the councils, as the owners of Wellington Water, needed to be prioritised and progressed with urgency.

In its Media Policy and draft Stakeholder Engagement plan, Wellington Water had committed to being accountable, transparent, and a trusted advisor, promising to inform shareholders and other stakeholders of "relevant or likely" matters of risk as soon as possible. In this case, Wellington Water did not do so.

There was also an opportunity to engage early (after informing the Board chair) with the Coordinating Chief Executive of Council Chief Executives. The Coordinating Chief Executive could have helped coordinate information flows and would probably also have proven a good sounding board at the time.



We conclude that the extent of the estimation error and its impacts was not understood at the highest level of Wellington Water and that there was not sufficient appreciation of the wider interest and the impact of the issue on shareholders. It was treated as inconsequential. Wellington Water's hesitancy to mobilise resources, set up a dedicated team of experts, and communicate transparently and rapidly about the error has probably caused more damage to the trust of shareholders in Wellington Water than the error itself. It's management of this issue has undermined its role as a trusted adviser to shareholder councils, and it will take time to rebuild that trust.

#### Other feedback from shareholders

We received further feedback from councils about information and engagement. One council officer had worked with Wellington Water to address an overspend in the 2023 capex budget round and had been assured that forecasting would improve for the coming year. All councils told us there is still ongoing frustration with:

- The lack of transparency around budgeting and forecasting.
- Accuracy in budgeting and forecasting (they seek better version control and timeliness).
- The time taken to respond to information requests
- The lack of a single financial lead at Wellington Water.

However, it would be remiss not to mention the positive feedback about many of the Wellington Water people that council officers engaged with. There are people they enjoy working with and trust to give good advice.

We heard from council officers that Wellington Water people "are working hard and trying hard", that they are possibly "under-resourced and under supported", and that "some people are really excellent and know their stuff."

*"We are in their corner, we are a shareholder, we want this to work."*

#### Communication with the Board

The Wellington Water Chief Executive, when informed of the estimation error, escalated the issue to the Board Chair on 1 May. The Board Chair followed up with the Chief Executive on 3 May seeking an update and was advised that Wellington Water could potentially manage the situation within current budgets as 6% difference was not hugely significant, and that level of contingency was commonly managed within projects.

Downplaying the error, gave the Chair the impression that there was no urgency and the issue would be visited with the full Board at a scheduled meeting on 9 May.

However, the papers for both the Audit Committee and the Board on 9 May did not raise the issue. Those papers addressed the LTP and budget and conveyed a strong message that they had been well received by the shareholder councils. During the discussion on major projects, the Audit Committee raised questions about the error when considering the Major Projects report. The minutes record management advising "that it will be managed within budgets by adjusting timeframes and estimating corrections outside of LTP decision making. Overall, it totals \$19m however this is being assessed by staff currently".

Treating the error as something to fix as BAU also postponed a more thorough investigation into the issue. It prevented the management of resulting risks that could have occurred prior to the Wellington Water Board meeting on 9 May or the Wellington Water Committee meeting on 23 May.

Papers prepared for the 9 May Board meeting included one on the 2024/25 Corporate Budget, this did not include information about the increase to the capex management fee from 6% to 10% or any risk assessment related to the increase. We note that information had been available, and that a senior leader, by email, had referred to the importance of the issue and asked whether it had been included in the Board paper.



We believe that not raising the matter with the Board at that time was a serious misjudgement by management.

The unfolding of events resulted in the Board being involved in fronting the issue publicly. While Board involvement is not uncommon for a public issue, it may not have been necessary if the Board had had complete and up-to-date information as events developed.

### Monitoring activities

A key role of the Board is to monitor the activities of the organisation to deliver its strategy. The Board needs accurate and timely information so that it can meet its fiduciary responsibilities. The Board therefore needs to ensure that it regularly reviews the quality and appropriateness of the information it receives.

We found a high level of attentiveness to external monitoring regimes.

Risk and Assurance also have regular monitoring processes.

It is expected that deficiencies are communicated to management or the Board as appropriate. The main mechanisms are through audits and incident investigations undertaken and reported by the Risk and Assurance function and supported by the Q Pulse system, or through risks or issues reported through management.

The new "Incidents of Significance" policy establishes a process for directly escalating an issue to the Director of Regulatory Service. This policy was updated after the Inquiry into the Cessation of Fluoridation Report (2022) was released, to strengthen mechanisms to report issues found deficient from that process. It is not clear that this mechanism worked in the case.

Evaluations are important monitoring tools and can strengthen business processes. We did not review internal evaluations. We did review external evaluations from the past three years.

There is no compliance requirement with standard setting bodies, however there are opportunities to use international standards as benchmarks to strengthen the overall effectiveness of prioritised activities. The value of using best practice benchmarking includes independent verification.

### Culture and its influence at Wellington Water

Organisational culture has many dimensions and is a dynamic concept guiding organisational activities both through the visible (artifacts and behaviours) and the undisclosed (assumptions). As one of our interviewees stated it mostly refers to "how we do things are around here".

At the core of culture are an organisation's values.

Wellington Water's values are well understood, and people referred to them often. The three values are *Tangata Tiaki* – together we protect our most precious taonga; *Whānau* – united we support, connect and respect each other; and *Mana* – we recognise, respect, and value the mana of others and seek to build mana-enhancing relationships.

The friendly behaviour, positivity, and collaborative approach of peers was consistently acknowledged to us and appreciated. We heard that there are plenty of opportunities for employees to learn about workmates, acknowledge mahi, and interact socially and stay connected with each other, in person and on social channels. In the internal communications we reviewed there was a strong theme of working well together and celebration.

The 2023/24 annual engagement survey tells us that commitment to the organisation is high. There is also a strong theme of pride. Four out of five people agree that Wellington Water treats them well, with only a slightly smaller proportion agreeing that they enjoy their work.



## Setting the tone

Within the organisation, the Senior Leadership Team set the tone and shape its culture, both for BAU and for managing issues. A number of people we interviewed expressed a lack of trust and confidence in senior management.

The error made was complicated to unpick. Internal skill, time, and resource was needed to understand what happened, determine solutions, and manage the impacts. There was a lack of information sharing among senior leadership, between senior leadership and operations teams, and between corporate functions and operations teams. For example, the General Managers of Network Strategy and Planning and Network Development and Delivery gave contradictory directions to their teams about the treatment of the corporate costs (one to incorporate the costs into the councils' capital programmes, the other requesting differences to be managed through a reconciliation after quarter one). This caused additional confusion and tension amongst staff about the way forward.

Individuals and self-appointed small groups were trying to understand the issues so that they could help, because no leader owned the issue.

None of this went unnoticed by employees in the teams involved.

*“There is a lack of clear ownership and accountability.”*

Along with structure, lack of accountability and lack of direction from senior leaders were the two most common themes of the feedback we received when we asked, “What’s not working?”. We were told these themes had been raised previously and nothing had changed.

The people we spoke with want to know who is accountable. They want to know that their leaders will make decisions even when they are tough decisions. There is a lot of ambiguity in BAU and, in the absence of leadership, people are trying to resolve the ambiguities themselves or are just living with them.

*“Sometimes there is a misunderstanding where we are waiting to get a directive from SLT and they are kind of waiting for you to give them a recommendation. There’s a bit of cat and mouse.”*

There was also a lack of transparency at senior levels about what was happening to respond to the estimation error. There was little communication, including to people who would, according to their role, have good reason to be involved. We were informed of a tendency to try to contain or manage problems quietly. The planning of the response to this situation was “tightly held”, with small “closed sessions” preferred over a project or team response. People want more transparency.

*“It’s symptomatic of our model and how things are set up. It’s systemic.”*

The engagement survey found that two out of three employees trust the organisation, which means one out of three either are not sure or do not. Around half of those surveyed have confidence in the decisions made by senior leadership, which means about half are not sure or do not.

Incongruence between beliefs about how someone will or should act and how they do act leads to distrust.

Some of the employees we spoke to provided examples of behaviour that was contrary to the values of *Mana* and *Whānau*. The examples raised with us occurred in both horizontal and vertical relationships and included behaviour at the highest level of the organisation.

Central to this Review has been the importance of a no-blame approach, which is also at the heart of Wellington Water’s values. Yet several employees we spoke to said that blaming was in fact a common occurrence in parts of the organisation. We were told that there is “a bit of a blame culture – people jump to conclusions”. Some said they felt that the heat was unfairly directed onto them when the Chief Executive communicated the background to the estimation error. The communication about the error “said no finger pointing but the actions are not that”.

We were also told about instances of people being removed from participating in the process of understanding the error, as well as being excluded from conversations on other matters in which they had responsibility and being ignored when trying to escalate other matters of importance.

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We understand that when things go wrong in an organisation that serves shareholders controlled by elected councillors, pressure can drive irritability and frustration (which is an emotional response to stress) and create tension between people. Tempers can fray and frustration can grow into defensiveness and even aggression. This of course is not healthy either for the people involved nor for the organisation.

Behaviours that do not align with Wellington Water's definitions of the values of Mana and Whanau need better monitoring, no matter how senior the people involved. If necessary, there needs to be a process for escalating the issue directly to an independent party or the Board.

We believe there would be value in working with staff (beginning with senior leadership) to fully define expectations around individual behaviours and actions that support Wellington Water's values and including the outcome of this work in the Code of Conduct.

### Learned Helplessness and a reluctance to deliver bad news

In our review we heard Wellington Water described as a "reactive" entity with "a culture embedded over time" and, to an extent, a "she'll be right" attitude. Over time, people have got used to waiting ... and waiting ... for change. We were told that in some areas of the organisation this comes with a lack of pro-activeness to get on top of things, as well as some complacency and an aversion to being too structured or too process oriented. We were told that inaction and defeatism exist, that some good people are disengaged, and that:

*"One person can't make a decision, there is a reliance on Senior Leadership Team achieving a consensus."*

We understand that people in the organisation feel they have little control over their work life because reform has been taking so long, and we acknowledge that Wellington Water people are tolerating a relatively unusual work environment. However, Wellington Water has to fulfil its purpose and meet the expectations of its shareholders. It must ensure it is fit for purpose in this unusual period.

*"Learned helplessness – there is a culture that isn't changing much from a leadership point of view"*

Employees know the model is not working. They know they will be waiting until at least 2026 to see a difference, and those that have been with Wellington Water a long time have been holding out for the change. But they also want to be proud of the work Wellington Water does, and they want to be supported by leaders to make practical changes and to have tools and processes that help them do the best job they can while they are in transition. In some areas they want to help create these tools and better ways of working. They shared plenty of ideas for this.

*"There is a defensiveness in that we tend to come up with a rationale about why things are the way they are rather than being open to criticism and going 'Okay, how do we do things better?'."*

There is optimism too. Some we heard from, including some people newer to the Wellington Water, see opportunities to get on top of things, to bring an objective view, to challenge the status quo, and to focus on achieving great outcomes for their stakeholders.

There is opportunity for Wellington Water's values to be more consistently reflected in actions – for leaders to listen more to their people, to provide more proactive leadership (rather than reactive and unempowered) and to strengthen lines of accountability so that initiatives can be supported.

So, is there a reluctance to deliver bad news?

We would say that it depends, and potentially it depends on who you are.

We saw a lack of ownership of the estimation error, or a lack of interest in sharing or resolving it, by those we would expect would have a vested interest. That indicates to us both complacency and a poor understanding or assessment of organisational risk and its impacts.



The issue required attention from the beginning, and required the Mana that features in the organisation's values ("Individually, we bring our best to every situation").

The Chief Executive's downplaying of the matter to the Board because they thought the matter could be managed down, was a misjudgement, and may suggest a reluctance to work with the Board on issues as they arise. However, ensuring the Board of the organisation has the information it needs to meet its responsibilities is a priority for any Chief Executive and builds trust.

The first response in this case appears to have been to analyse, fix and possibly minimise, and then talk to the shareholders and other stakeholders. This may be a good strategy for some scenarios, such as quickly moving, quality-controlled environments, but it wasn't for this one. The Board could have provided wise counsel and helped management.

The Senior Leadership Team's inability to resolve the issue was, we heard from feedback, founded on misplaced assumptions and we agree the complicated structure makes lines of accountability opaque. Within the organisation, many people raised the issue: they wanted to be heard and they wanted the issue addressed so they could do a good job.



## Appendix 1: External Review Terms of Reference

# Wellington Water Limited: Capital programme estimating and budgeting systems.

The Board of Directors (**Board**) of Wellington Water Limited (**WWL**) have appointed Roy Baker and Kevin Jenkins (assisted by Suzanne Carter) to undertake a review of the circumstances surrounding the error that occurred on or about 1 May 2024 that meant that WWL's corporate cost had not been included in the LTP advice provided to councils relating to major projects carried out within the capital programme (**Estimation Error**). Accordingly, the review will report to the Board of WWL.

### Introduction

1. WWL is owned by Wellington City, Hutt City, Upper Hutt City, Porirua City and South Wairarapa District Councils and Greater Wellington Regional Council. On behalf of the shareholding councils, the company manages \$7 billion of assets which provide safe drinking water, treat wastewater and manage stormwater. WWL is amongst the largest organisation involved in water infrastructure management in New Zealand.
2. WWL and the Board receive overall leadership and direction from the Wellington Water Committee (**WWC**). The WWC is made up of representatives from the shareholding Councils and mana whenua and is Chaired by the Mayor of Hutt City, Campbell Barry.
3. WWL funding is provided by its shareholding councils and (with the exception of the Regional Council) the water rates and charges are the single largest, and fastest growing cost the Councils are obliged to pass on to their ratepayers.

### Background

4. As part of the development of the Councils' Long-Term Plans (**LTPs**), WWL provides recommendations on capital projects that should be included in the LTPs together with the associated budgets. Councils rely on the accuracy of this advice to develop a draft document, consult with their communities, and eventually adopt their LTP before 1 July 2024. This whole process can take more than 12 months.
5. There can be several iterations of information provided, but the first round of this advice was provided by WWL in September 2023.
6. The capital budgets should represent the total estimated capital cost to deliver the capital programme and should include the WWL corporate costs required to manage and support the capital programme.
7. On or about 1 May 2024, WWL staff realised that an error meant that WWL's corporate cost had not been included in the LTP advice provided to councils relating to the capital programme (**Estimation Error**). It took nearly three weeks to determine the scale of the Estimation Error and advise councils (estimated \$51 million or around 6%) in the first three-years alone.
8. While there is nothing to suggest that the wider asset advice is questionable, the Board is concerned that the Estimation Error has undermined WWL's role as a trusted advisor. The Board has decided to commission an independent review to identify what went wrong, look at the company's systems and processes and provide recommendations for improvement.

### Purpose of the review

9. The purpose of the review is to inquire into and report upon the following:

***How the Estimation Error occurred and identify lessons appropriate for an entity with a limited life to learn from in order to minimise future occurrences.***



### Scope of the review

10. In considering this question, the reviewers shall consider WWL systems and processes for developing financial elements for capital projects for the LTPs and the way they are provided to the shareholding Councils, and in doing so they will ask a number of questions to determine how systems and processes can be improved, including:
  - a. *How the Estimation Error occurred:*
    - i. What is the process WWL follow in compiling the capital programme estimates for the LTPs and is it fit for purpose, including comparisons, benchmarks and assurance steps.
    - ii. What is the process for establishing and apportioning the corporate cost for estimating purposes for the LTP, and is it appropriate for the WWL model?
    - iii. What is the state of WWL's systems and processes that support the LTP process and are they fit for purpose? What are the main factors in terms of preventing or detecting an abnormality in the estimates?
    - iv. What is the capacity of the staff involved in this process (out of scope of this review is the capability of staff)?
    - v. What are the roles of other parts of WWL such as the Finance team and Internal Audit in providing advice and assurance?
    - vi. What is WWL's approval process, and did it provide the appropriate checks and balances? What process was followed from management to governance to councils?
  - b. *What happened in response:*
    - i. When did people know in the organisation there was an Estimation Error?
    - ii. Why did it take so long to detect the Estimation Error?
    - iii. Why was there a delay in understanding the scale of the issue and advising the shareholders?
    - iv. Is there a culture problem in the organisation (e.g. the "learned helplessness" referred to in the Martin Jenkins Inquiry into the Cessation of Water Fluoridation by Wellington Water dated 21 June 2022) that sees a reluctance to deliver bad news?
    - v. Provide a timeline summarising the actions of WWL from the beginning of the process for developing financial elements for capital projects for the LTPs up until WWL communicating the Estimation Error to all of its shareholding councils and providing commentary on the quality of those actions.
    - vi. Provide specific comment on:
      - The management response,
      - The governance response, and • The shareholder response.
  - c. *Determine the root cause of why the Estimation Error happened:*
    - i. How did the following factors contribute to the error – organisational structure, oversight, capacity, culture, systems, processes, and resources?
  - d. *Recommendations on actions to address issues found in this review which will support management learning from these events - within the context of the water reform:*
    - i. What changes to culture, systems and processes are required to ensure there is not a repetition of this incident and generally that WWL is able to produce reliable cost forecasts for inclusion in its shareholder councils' budgets?
    - ii. Provide an action list to ensure this and similar issues do not arise again before WWL ceases to exist in its current form.
11. This review may consider any past incidents and behaviours from a systemic perspective to establish whether there are any parallels between past events and this Estimation Error (e.g. the findings and recommendations contained in the previous reviews or inquiries referred to below).
12. Any recommendations made as a result of the review needs to be appropriate in recognition that the lifetime of WWL is limited due to water reform. While WWL is still delivering critical water services, there will unlikely be an appetite from its shareholders for heavy investment in improvements in systems and capabilities prior to water reform, unless there is a clear rationale and evidence that such investment would be critical in the life of WWL or may be carried over into any new water entity.
13. The Board has the authority to amend these terms of reference.



### Out of scope of the review

14. The review will not ascribe blame or liability to any party or individuals and cannot be used in any disciplinary processes with any individuals involved and will not pre-empt or duplicate any other inquiry into any incidents that come within scope of this review. The review is not to inquire into, determine or report in an interim or final way or otherwise prejudice the following matters:
  - Whether the capability of staff may have contributed to the error,
  - Whether any employment laws have been breached,
  - Whether any disciplinary processes ought to be progressed,
  - Whether any questions of liability arise,
  - Any third-party inquiries or investigations into the Estimation Error, and
  - Any other reviews, inquiries or investigations into similar matters, except to assist the reviewers in establishing if there are any parallels between the events considered in these reviews and the Estimation Error.
15. For the avoidance of doubt and consistency with inquiries under the Inquiries Act 2013, this review has no power to determine civil, criminal or disciplinary liability of any person.

### Process for Review

16. Any documents and information the reviewers require to conduct the review will be made available to the reviewers, including the following:
  - a. A copy of the preliminary investigation carried out by staff to identify how the Estimation Error occurred. Any documents used to draw the preliminary conclusions will be attached to this report,
  - b. A copy of the Martin Jenkins Inquiry into the Cessation of Water Fluoridation by Wellington Water dated 21 June 2022; the Field Force Contract Optimisation Review Report (and its Executive Summary) 2023/2024 and WWL's response to it dated 20 December 2023; the Wellington City Council's Mayoral Taskforce on Three Waters Report 2020; and the Independent Report into the relationship between Wellington City Council and WWL dated April 2020; and any associated materials relating to any these reviews. These reports are being provided solely for information to assist the reviewers in establishing if there are any parallels between the events considered in these reviews and the Estimation Error,
  - c. Internal policies, and processes and procedures relating to/involving relevant third parties, and
  - d. A copy of the WWL organisation structure chart.
17. The reviewers can invite any of the following staff or stakeholders to voluntarily provide information or take part voluntarily in an interview for this review whose insights will be reflected as general themes in the report:
  - a. Any current WWL staff member, including the Chief Executive,
  - b. Any current Fulton Hogan employee who is working on secondment at WWL including the Alliance Director (Fulton Hogan Secondees),
  - c. Any current Board member including the Chair,
  - d. WWL's shareholding Councils represented by one representative from each Council and one person in PMO positions,
  - e. Suppliers of interest (e.g., HR culture advisers if they are being used), and
  - f. Any further documents or resources the independent reviewers require to carry out the review.
18. If it assist the reviewers to speak to any former WWL staff, Fulton Hogan Secondees or Board members, reasonable endeavours will be used to seek their agreement to participate.
19. Participation from people in the review process is voluntarily and optional only. All information disclosed by a participant will be kept in strict confidence Any pressure placed on a person to participate in the review, or any reprisal, retaliation, disciplinary action or other adverse action taken against a person for declining the offer to participate in the review is strictly prohibited.
20. The report will be respectful of WWL and its people by not identifying individuals by name or job title except where that is necessary to fulfil the terms of reference. The names of the people who participated in the review as well as any documents, notes, recordings or any other information (verbal or otherwise) made by either the participants or the reviewers during the course of this



review are owned by and held by the reviewers in strict confidence and will not be disclosed to anyone outside of the reviewers.

21. The review will be conducted in accordance with natural justice.

### Overview and Reporting

22. The Board Chair will oversee the review process and will be available to meet with the reviewers as required to discuss progress and to consider any changes to terms of reference and advise the reviewers of the names of people who may be appropriate for the reviewers to consider interviewing. He will nominate a contact person within WWL to act as day-to-day liaison and arrange meetings and provision of any additional information required.
23. The review will report findings and opinions on, and make any recommendations it considers fit within the scope of these terms of reference, and will include the following:
- Factual background, including a chronology of events,
  - Make findings that report the themes at a high-level in a way that will help WWL to learn from the Estimation Error, and
  - Make recommendations that will help WWL to improve its performance in the event of a similar incident and to minimise future occurrences.
24. The report will be provided to the Board in draft for legal advice and legal review, and for comment from the Board. The Chair will provide a copy of the draft report to the Chief Executive for her to share with any affected parties for comment prior to finalisation and to check the factual accuracy of the report and to socialise it with individuals who have had input into the review. The Board may provide commentary/additional questions that will need to be addressed in the final report.
25. The final report shall be presented at a Board meeting and then to a meeting of the WWC. That WWC meeting will only be closed to the public where there are good reasons to exclude the public under section 48 of the Local Government Official Information and Meetings Act 1987 for the WWC to consider the report in whole or in part.
26. The reviewers will be required to attend the Board meeting during its Board Only Time without WWL Management, and to attend the WWC meeting alongside WWL Management and the Board Chair.
27. The Board Chair will respond to any media queries and handle any public communications about this review, and the reviewers may be required to assist with responding to any media queries as required.

### Timeframe

28. The Board requires the draft report by Thursday 4 July 2024.
29. The reviewers will meet with the Board on Thursday 11 July to discuss the draft report.
30. The Board requires the final report by Monday 22 July.
31. The final report will be presented to the WWC on 26 July 2024.



## Appendix 2: Timeline of key events

### July 2023

- CE report to WWC – advised Wellington Water and the Regional Establishment Group will be engaging with councils in August and September 2023 to set out the unconstrained investment needs and funding scenarios, and seek feedback on investment priorities.
- Internal 24-34 Investment Advice Programme Governance Group chaired by CFO established and project plan developed.

### Aug 2023

- Discussion around Relationship between opex and capex programme and size of management fee.
- Start Development of capital programmes - key inputs:
  - National Transition Unit numbers.
  - Committed projects.
  - Renewal programmes.

### Sept 2023

- Continue development of programmes, establishing maximum deliverable levels.

### Oct 2023

- Indications from Finance that the current year's corporate costs were averaging 10%, up from 6% in previous years. We note the suggestion: "may need to check capex management fee labour allocations look reasonable".
- Wellington Water's Corporate budget process commenced.

### Nov 2023

- 9 November Board paper – Investment Advice 2024-2034 Update.
  - At stage 4 of process.
- Board Endorsed the principles and the proposed approach for providing the final (stage three) investment advice to Councils.
- 9 November Audit and Risk Committee consider paper 'Activities underway to support auditing of councils LTP documents.
- Planning team raise that the: impact of corporate cost increase to 10% was not reflected in Major Projects numbers.
- Discussion around rational for size of increase in corporate cost from 6% to 10%.
- Capex programmes provided to Councils for them to engage with their Councilor's e.g. HCC information was provided mid-November for their 27 November council meeting.
- NSP requested Finance and NDD to establish a way forward, noting that advice given to Councils at that date was net of capital allocations.

### Dec 2023

- Investment Advice Programme Governance Group winds up.

### Jan 2024

- Continue to collect updates to capex programme (internal).

### Feb 2024

- 15 Feb board meeting - Investment Advise 2024-2034 Update.



- Board noted (Wellington Water) is at the third and fourth stages of a four-stage process for providing investment advice.
- 15 Feb Audit Committee Emerging risk around audit and council expectations to provide 30-year investment plans and appropriately updated infrastructure strategies in addition to the agreed MVP-AMP identified.
- Mid Feb Freeze placed on internal changes/updates to programme. Start to pull together impact to discuss with Councils prior to their deliberations.

## Mar 2024

- Work into materiality of fee impact is undertaken and this continued into April. Prime issue seemed to be nil fee on Major Projects.
- 27 March Senior Leadership Team presentation about how corporate charges are developed and work.

## Apr 2024

- The question of what % corporate costs should be applied to Council capex was raised again.
- Planning team start work with Finance, NDD and others on the impact of closing out the 2023/24 capex programme to accommodate timing, scope and other agreed project changes and programme costs.
  - Close Out work signalled to each Council.
  - A Paper needs to go to Councils before their deliberations are complete.
  - GM NSP advised, and raised, that corporate cost is not fully accounted for within the capex programme.
- 18 April SWDC advised of corporate cost issue, SWDC were only doing an Annual Plan for 2024/25.
- Question was asked if the issue was to be included in the 2024/25 budget paper to Board.
- 30 April estimated cost impact of around \$19m pa escalated to GM NSP.

## May 2024

- 1 May CE was advised as a risk with impact around \$19m pā.
- 1 May Board Chair was verbally advised of 6% issue.
- 1- 2 May while discussing other matters with some board members, the Chair verbally informs them of the issue.
- 3 May Chair follows up with CE for an update on the issue.
- 9 May Board was advised impact of issue \$19m as part of discussion on major project paper.
- 14 May assumptions agreed around approach and calculation of missing corporate cost allocation: \$51m outcome over triennium.
- Draft papers prepared to Councils covering end of year changes, are then updated to include corporate cost omission.
- Instructions made not to apply 10% to years 4 - 10 of LTP as assuming it's in the contingency and for a pragmatic approach at this late stage.
- 17 May \$52m impact over the triennium by Council finalised.
- 17 May HCC Strategic Advisor verbally advised of Corporate Cost impact to them (\$20m) during their deliberations meeting.
- 17 May Wellington Water Head of Service Planning sends email with final LTP advice that includes reference to "\$20M .. to correctly allocate corporate costs"



- 20 May HCC CFO contacts other CFO's and informs of the problem
- 20 May Ripples from HCC flow back into Wellington Water. Issue verbally discussed and plan agreed for CE to phone all CEs on 21 May, before formal advice is sent.
- 24 May WWC meeting. Acting Board chair apologies to committee on behalf of Board for the Wellington Water error.

### Commentary on the Quality of the Actions taken, as outlined in the Timeline

Improvements could be made in several areas:

- The process itself would have benefitted from the Project Steering Group remaining in place until 30 May (rather than finishing in December 2023). This would have enabled the corporate cost issue to have been raised and resolved.
- While the issue started to surface in October/November its significance did not start to be realized until later.
- The interdependency of the corporate budget process and its timing was not understood.

A number of actions had a significant impact:

- The process of developing the capital programme.
- The Planning team were relatively new.
- Advice on the need to increase the corporate cost requirement to 10% should have been stronger, more timely and engagement with the business units responsible for capital project development and delivery undertaken.
- The impact of the change from 6% to 10% was not understood by those that needed to know. The allocation level had been 6% for a number of years and any issues regarding under provision would have been absorbed by capital delivery being under budget.
- More transparency with Councils was needed once the size of the funding gap was known.
- The initial belief "it's only 6% within a large capital programme, we can manage it internally" was ill founded.
  - The actions taken probably slowed down the need to drill into the issue and get a better understanding of the impact on Councils programme.
  - It was the Council's choice, not Wellington Water's, to decide resolutions for issue, so early engagement and full transparency with them should have occurred earlier (also see Section C).
- Late engagement with councils resulted in anger and mistrust from Councils.



### Appendix 3: How the estimation error occurred

The process that was followed (2024-34 Long Term -Development of Three Waters Capital Programmes) by the Service Planning team is set out in the attachment in Appendix 3. The previous LTP process attachment would have also helped inform this year's approach. The 4-stage model was communicated to the Board and progress updates were provided regularly.

The approach was reasonable given the unique and complex environment in which Wellington Water operates (see also Operating Context). It was designed to provide good quality information to Councils and to ensure Councils were aware of the risks associated with their lower level of capital investment.

The key flows of information were:

- Data already provided to the NTU was the starting point for developing a 10-year view for councils.
- The NTU data was an unconstrained view.
- It was necessary to turn this into a programme that was achievable to deliver.
- It was necessary to run a prioritization lens across the programme to ensure the WWC and Councils factored in strategic priorities for Three Waters.
- Councils were presented with a prioritised deliverable programme.
- Council fiscal constraints required the programmes to be recast.

Through all the above steps, information was flowing between the Service Planning team within NSP (who were the "aggregator" for production of the LTP numbers to Councils) and NDD, (primarily the Major Project area who are responsible for the individual projects costings and delivery). The Customer Operations Group and the Network Management Group were also involved where capital projects originated from them.

There were many iterations of the numbers, and spread sheets were heavily used.

We found the following key actions/beliefs collectively resulted in the full corporate cost (\$30m) not being included in what went to Councils for their draft LTPs:

- The NTU data was initially thought to include overheads, however it did not.
- The significance of the error was not appreciated/fully understood from the time it was first raised.
- As the programmes/projects were being assessed for deliverability and reworked, differences between the detailed individual project cost and the NTU number did not appear to trigger a concern. This may be because the Major Projects estimates in their Project Server application do not include corporate costs, they are added later.
- Committed projects needed to be in the programme, these should have included the corporate charge (albeit would have been only 6%).
- Within Major Projects 6% is not always applied, and a \$2m cap exists on some projects.
- Confusion about whether updated data given to the service planning team included or excluded the corporate cost became greater as people were trying to understand the magnitude of the gap
- The confirmation of the requirement to increase corporate costs from 6% to 10% came too late in the process, coupled with the fact that its implication was not well understood outside the Finance function and there were other competing pressures in Finance at the time, the timeline was too short for effective implementation.
- Ownership/accountability and responsibility was not clear in a number of areas.
- There were ineffective or no sign-off process as updated numbers passed to the planning team.



## Appendix 4: Wellington Water's Process to Develop the LTP

# 2024-34 Long Term Plan - Development of three waters capital programmes

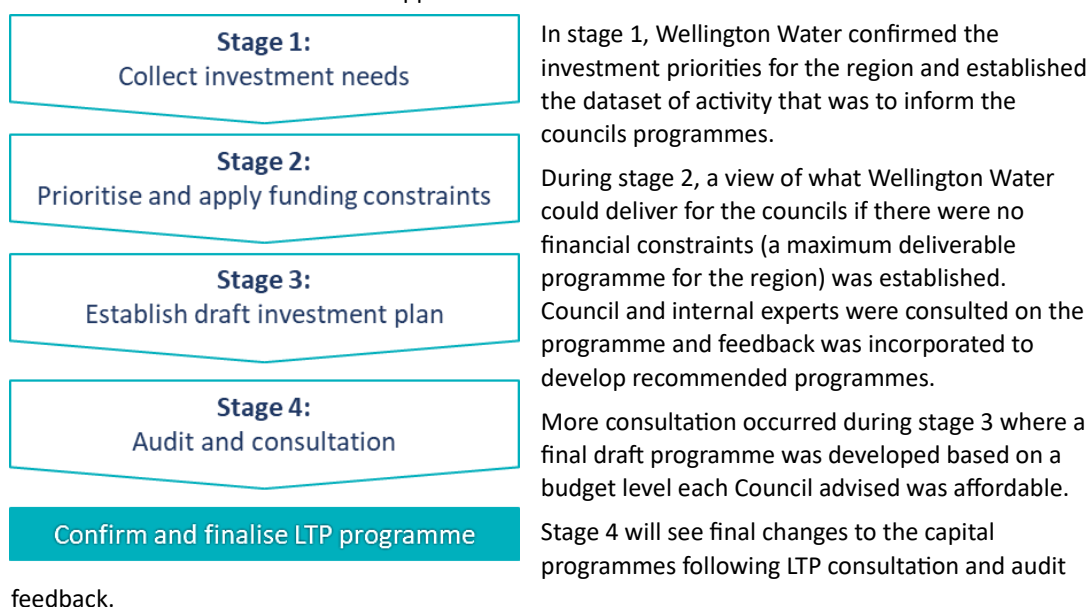
### Purpose

The purpose of this paper is to provide an overview of the approach taken to deliver the 2024-34 Long Term Plan (LTP) water programmes for the six Wellington Water Limited (Wellington Water) owner Councils.

The previous 2021-31 LTP water programme was developed in 2020 based on our understanding of the councils' three waters assets and investment needs, at that time. Since then, Wellington Water has gained better knowledge on the condition of Council's water assets and the compliance, health and safety, and environmental risks those assets present in their current state. Greater understanding of the infrastructure required to support Council's growth aspirations and respond to increasing level of service requirements has also been gained. This information has informed the councils investment needs for the 2024-34 LTP period.

### Approach

The councils' 2024-34 LTP capital expenditure (CAPEX) programmes were developed iteratively through a 4-stage process. This process looked to provide a regionally consistent approach to water services for the Wellington region – one which aligns with agreed strategic priorities and balances the needs of the region and individual councils with council affordability. Due to the iterative process, the capital programmes at each stage were point-in-time programmes which continued to be refined as new information and feedback was applied.



The approach in each of the stages is further detailed in the following sections.



### Stage 1: Collect investment needs

#### Purpose

The purpose of stage 1 was to:

- Bring a strategic lens to the programme and be top-down in approach
- Provide information to begin conversations about three water investments for the 2024-34 LTP
- Outline the immediate and long-term challenges facing Council's water assets and services
- Highlight the extent and nature of investment needed over the next 10 years and a level of investment that is deliverable across the region
- Seek direction on the desired outcomes Council seeks to achieve for its community Stage 1 ran from March 2023 to mid-September 2023.

#### Initiating the programme

Wellington Water started by collating and cleaning a dataset of projects from Wellington Water's Investment Register<sup>3</sup> and Project Server<sup>4</sup> system. The resulting dataset included every project and activity on Wellington Water's system, producing an unconstrained view of proposed investment for the region.

The unconstrained investment highlighted there is more work to do than Wellington Water has the capacity in the market to deliver. Investment would therefore need to be prioritised to ensure it is targeted to activity that delivers the highest benefit against agreed strategic priorities.

#### Investment Direction

The Wellington Water Committee provided direction at its 17 March 2023 meeting for Wellington Water to develop 2024-34 LTP programmes which continue to deliver on the five strategic priorities which guided water investment in the councils' 2021-31 LTPs. Those strategic priorities are:

- Looking after existing infrastructure
- Supporting a growing population
- Sustainable water supply and demand
- Improving environmental water quality
- Achieving net carbon zero emissions

Wellington Water then ran individual workshops with five out of six Councils to understand how Councillors viewed the regional strategic priorities to be addressed in their 2024-34 LTP and understand where their priorities lay.

Pre-circulation material was provided prior to workshops to give Councillors time to review material and form views. The content of the presentation provided an overview of the previous LTP process; current context and operating environment; and the current challenges overlayed with the strategic priorities. A group activity helped Councillors let Wellington Water know where to focus investment.

#### Outputs

Council workshops and presentations which provided Councils awareness of how the recommended programmes were being developed and an opportunity for them to ratify the approach to date. The workshops help Councils set the direction for Wellington Water to develop the recommended programme.

<sup>3</sup> The Investment Register is a database that houses all investment needs up to the point that they are in the delivery phase.

<sup>4</sup> Project Server is the project management tool used at Wellington Water.  
Final report



### Stage 1 key documents

- 17 March 2023 Wellington Water Committee paper
- 17 March 2023 Wellington Water Committee presentation
- Council Stage 1 presentation pre-circulation material
- Council Stage 1 presentations

### Stage 2: Prioritise and apply funding constraints

#### Purpose

The purpose of Stage 2 was for Wellington Water to present to councils an investment level that could be delivered – a maximum deliverable programme and to get an idea from the councils on their affordability level and the risks with investing at a level below what Wellington Water recommends. This stage ran between mid-September to mid-October. The following high-level activities were completed:

- Present initial investment options to Councils with indicative budget levels for both baseline and maximum deliverable, high-level activities, and risks for three waters assets and services investment
  - Integrate the feedback from Councils around their strategic priorities from stage 1
  - Validate the dataset
  - Build a more detailed programme
  - Document risks and consequence of reduced investment from the recommended programme
- Building the programme**

A regional maximum deliverable investment level was determined and apportioned to each council based on historic spend.

Starting with the unconstrained dataset, Wellington Water developed more refined CAPEX programmes for the councils. A prioritisation methodology was applied to determine the priority of projects against project's key attributes including criticality, risk and service objectives. The result was a ranked list of projects that formed the starting point of what could be included in the councils' programmes. At this point the ranking was based purely on project specific attributes and did not reflect a logical split of investment across water types or Local Government Act criteria (growth, renewal and level of service), or consider the deliverability of the programmes beyond the total investment level.

Following the prioritisation methodology being applied, a series of workshops were held with Wellington Water subject matter experts and council officers to inform and validate the prioritised approach, and factor in additional criteria to the prioritisation methodology. The workshop sessions facilitated conversations around which projects should be reprioritised, which should be in or out of the recommended programme and what could be deferred. All projects were considered across the region to ensure alignment with regional priorities.

Following the workshops, a desktop process was applied to the programme where projects were deferred or removed until the maximum deliverable value was reached. Again, iterations of the dataset were worked through between Wellington Water and <its supplier> until Wellington Water landed on an initial view of what a maximum deliverable programme could look like.

The maximum deliverable programme was the input for the workshop presentations for each Council. The programme was being developed during this stage, so the presentations represented a point in time view.



Baseline budgets were also set using the 2021-31 LTP figures and rough baseline programmes were developed by drawing a line under the programmes at the point that came close to the baseline budgets.

Stage 2 presentations were given to each council which included:

- a summary of the outcome from the stage 1 workshop activity where the strategic priorities were ranked by each council,
- an overview of each councils' unconstrained investment need, and
- an overview of the capital programmes that could be delivered under a baseline and maximum deliverable spend, including how each could contribute to the regional strategic priorities.

### Investment Direction

Internal technical reviews and Council workshops for direction setting. A second round of Council workshops was completed. Precirculation material was provided prior to workshops to give Councillors time to review material and form views and ensure a no-surprises approach.

### Outputs

Maximum deliverable programmes and workshop presentations.

Wellington Water received feedback from Councils after the workshop presentations on their priorities and what was considered affordable revealing the gap between the need and what could be progressed. This was the key input into stage 3.

### Stage 2 key documents

- Internal workshop instructions
- Senior Leadership Team (Senior Leadership Team) Updates
- Council Stage 2 presentation pre-circulation material
- Council Stage 2 presentations

## Stage 3: Establish draft investment plan

### Purpose

With an understanding of the budget constraints faced by Councils, Stage 3 was where Wellington Water began to develop more refined programmes that fit the budget directed by the Councils. these programmes will be used to support the councils' 2024-34 LTP consultation. Through the process of developing the capital programmes at this stage, Wellington Water sought to:

- Identify any gaps or omissions in the draft programmes
- Document risk and consequence of reduced investment below the Wellington Water recommended level
- Consider low-cost mitigation measures to reduce risk and/or increase confidence in future investment need
- Apply a bottom-up sense check to the programmes to ensure contractually committed and ongoing programmes of work were not missed

Stage 3 ran between mid-October 2023 to early-January 2023.



### Building the programme

Another series of workshops with Wellington Water subject matter experts and council officers were held through November to gather additional feedback and comment on the programmes to fit the councils' budgets. The programmes at this point were prioritised by applying the following inclusion criteria in prioritised order:

1. Contractually committed projects
2. Consenting and compliance related activity (including Global Consent activities)
3. Ongoing programmes of work (Modelling, Control Systems etc.)
4. Reactive renewals
5. Planned renewals
6. Other projects such as growth driven projects and level of service driven improvements

The councils' affordable budgets are all below an investment level recommended by Wellington Water. In some cases, the councils' annual budgets in the 2024-34 LTP period drop below the level of investment they are making in FY2023-24. This means that in the first triennium of the 2024-34 LTP most of the councils' programmes are consumed by activity in categories 1,2 and 3 in the bottom-up prioritisation above.

### Approval process

The draft programme was submitted to 3WDCM for endorsement and ratified by Wellington Water Senior Leadership Team. As with previous stages, Councils were provided precirculation materials to consider prior to workshops.

### Outputs

Final draft programmes to fit the council directed budgets that can be taken forward into LTP consultation.

Stage 3 workshop presentations summarising the programmes developed to fit the council directed budgets. These presentations were clear on the considerable risk exposed by non-funded projects and programmes.

### Stage 3 key documents

- Approach to network planned renewals
- Council Stage 3 presentation pre-circulation material
- Council Stage 3 presentations
- Stage 3 memo confirming budget and programme for consultation

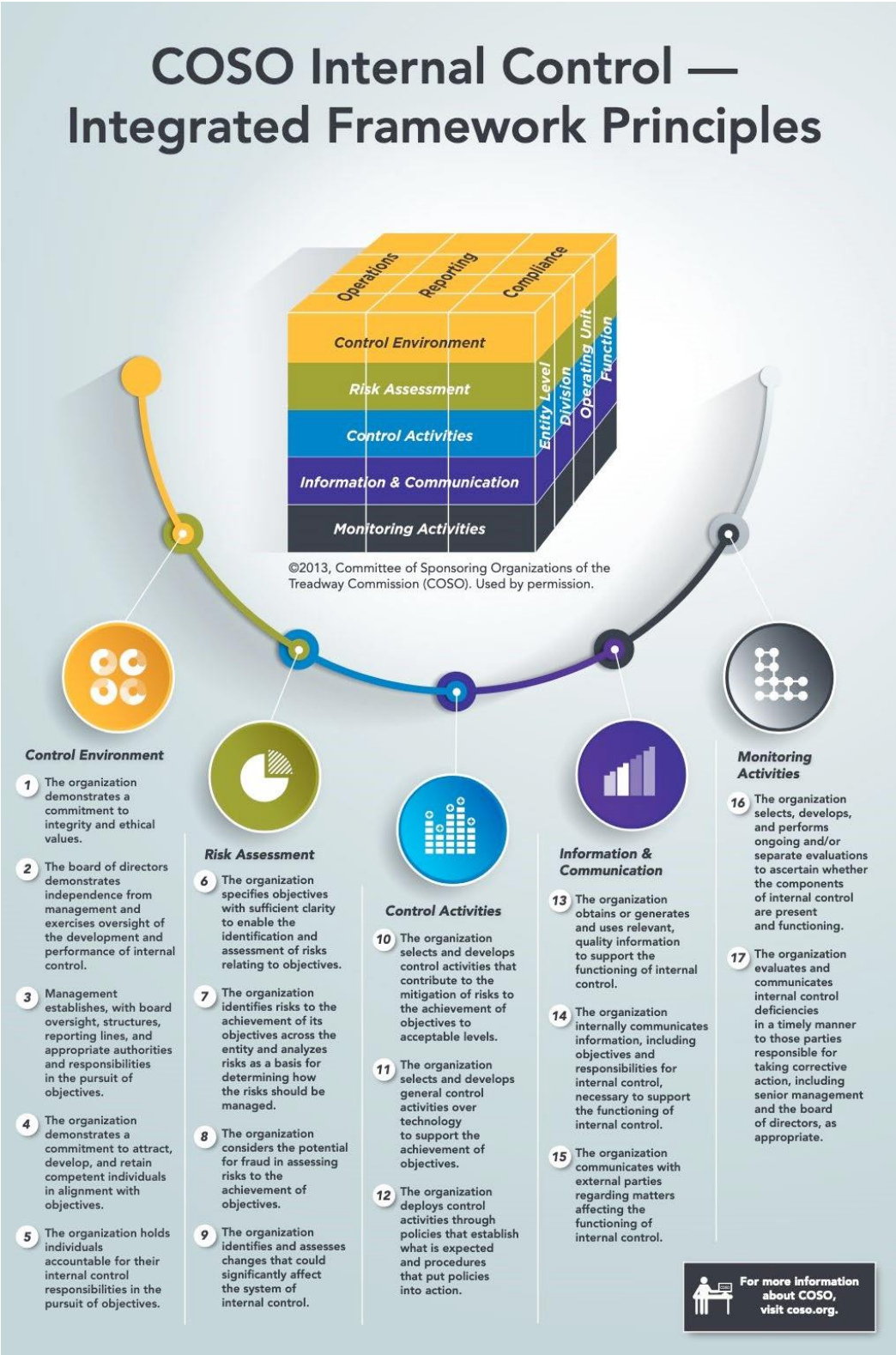
## Stage 4: Audit and consultation

### Purpose

In stage 4, Wellington Water will develop supporting material for council's LTP consultations to a level of detail that will satisfy audit requirements. This stage is commencing from early December and will continue through to March 2024.



Appendix 5: COSO Framework





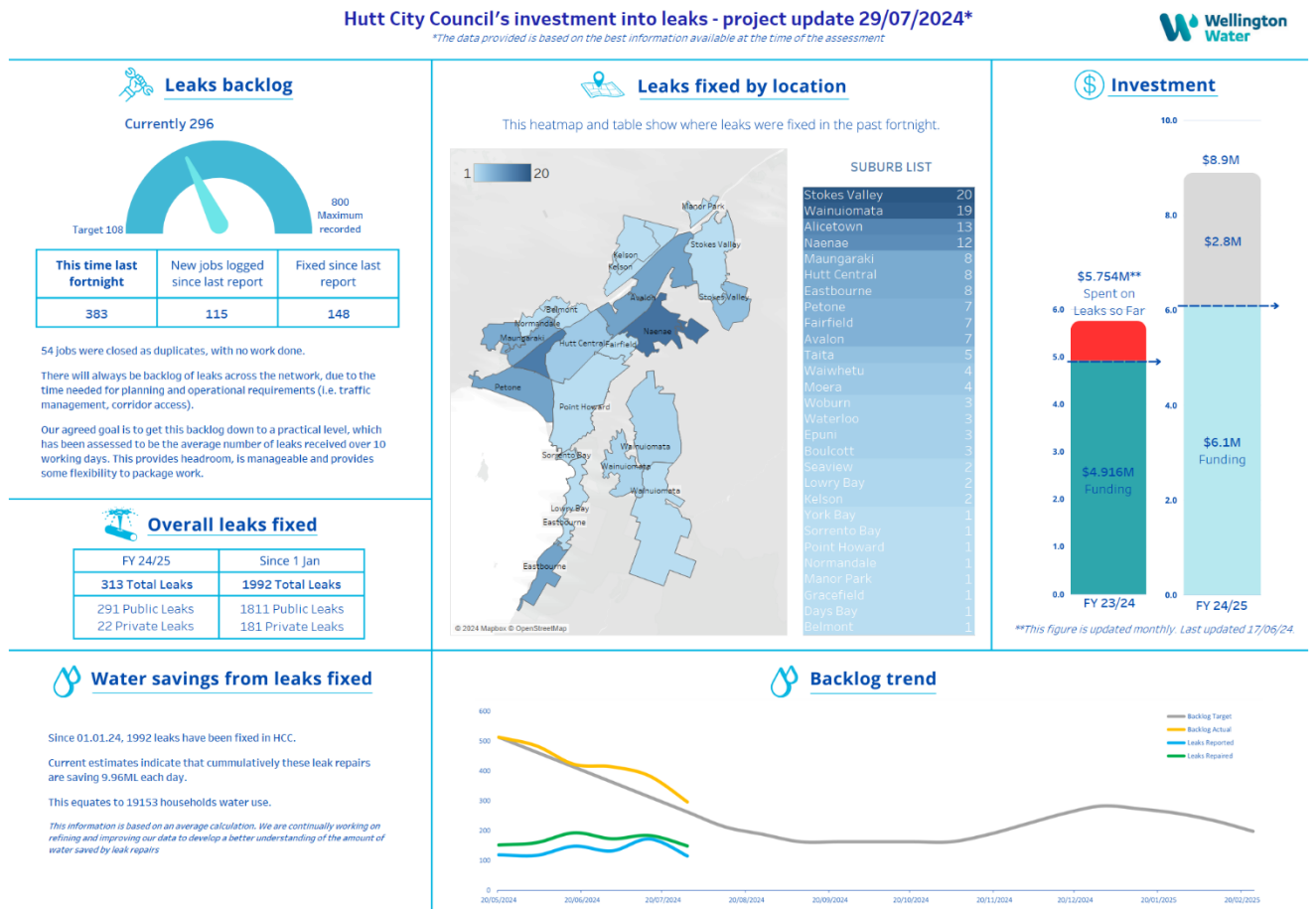
## Appendix 6: Lessons from the 2022 Inquiry into the cessation of water fluoridation by Wellington Water that repeat in this Report

In March 2022, Wellington Water announced that fluoride facilities at two water treatment plants had been turned off due to operational health and safety risks. Wellington Water later learnt fluoridation was actually stopped on different dates in 2021. The Board initiated an independent inquiry to obtain key insights and lessons about what went wrong so that Wellington Water management learnt from the events to perform to a higher standard in the future.

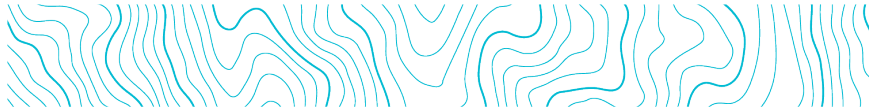
The Inquiry into the cessation of fluoridation by Wellington Water (2022) found:

- Both a lack of urgency to resolve ongoing problems (with fluoridation) and to communicate arising problems to the Senior Leadership Team, the Board, the Wellington Water Committee and the public (paragraph 20).
- A lack of visibility and prioritisation at senior management and governance levels, which one interviewee called “corporate invisibility”, meant that efforts to meet standards languished (paragraph 44).
- A lack of appreciation internally of the importance that shareholders and the public placed on effectively fluoridated water (paragraphs 46, 110).
- Absence of documented business processes and systems was a contributing factor to the fluoridation issue (paragraph 97).
- The capacity of the risk and audit functions was limited and focused on strategic-level audits so operational risks were not being “picked up” (paragraph 102).
- A reactive culture and learned helplessness (paragraph 103).
- Siloed and disconnected ways of working (paragraph 104).
- Unclear accountability and quality processes for escalating the issue were key contributors to the fluoridation problem (paragraphs 111, 112).
- A lot of people were copied into emails on the issue (senior management and operational staff) without any clear requests or commissioning of work (paragraph 116). People knew something needed to be done and were assuming that someone else was taking responsibility for leading the response. The issue wasn’t prioritised in a way that it could be led to resolution (paragraphs 117, 118).
- No escalation criteria to notify the Senior Leadership Team of the issue more quickly (paragraph 119). A process exists to help people report ‘Incidents of Significance’, an initiative undertaken after the Inquiry (2022) to help employees escalate a perceived risk or issue rapidly to management (through the Director of Regulatory Services), although this process wasn’t used for the purpose of drawing leadership attention to the corporate cost error.
- No established process for informing councils of the issue (paragraph 130).
- Internal emails showed it was suggested councils should be informed of the issues well before they actually were. However, there was a reluctance to do so until there was a firm plan in place for turning fluoridation back on (paragraph 131).
- An opportunity to work with councils to take a more joined up approach was identified (paragraph 147).









# Water services reform

## - Early indicative financial projections

Prepared 30 July 2024

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### **Purpose**

The purpose of this memo to explain financial modelling completed to understand the Council's financial outlook post transition to an assumed new water services entity, as part of the regional water services reform programme.

### **Summary**

The memo provided details of assumptions, with key aspects being

- Assumed go live date of new water services entity for the Wellington region of 1 July 2027.
- Assumed repayment of HCC water services debt on this date in full, with no further payments for "no worse off" funding, such as stranded overheads.
- HCC revenue adjusted to remove all water services related aspects.
- All figures used are based on budgets in Long Term Plan 2024-34 (LTP).

The key results of the financial modelling show:

- Capex investment - significant drop of \$1.2B over the 10-year period of LTP post transition to new entity (graph 1).
- Debt projections - the capex investment reduction has flow on impacts to debt levels. Net debt reduces to \$434M by 30 June 2028, compared to LTP level of \$891M (graph 2). Debt headroom improves in the same year by \$87M higher than LTP and continues to increase to improved levels than the LTP (graph 3).
- Net debt to revenue - whilst the LTP has a high of 216%, the post transition results show a much-improved position with a peak of 151% (graph 4).



- Balanced operating budget – achieved in 2028-29, which is the same timeframe as the LTP.

Key risks include:

- Asset revaluation work for three waters assets currently underway for Annual Report 2023/24 with uncertainty as what the outcome for these will be.
- Cost escalations across both opex and capex.
- Capital investment delivery performance.

**Further details**

**1. Rates revenue**

The rates increase assumptions factored into the financial modelling is based on removing Three waters related rates in the LTP.

Table 1: Projected rates revenue increase (after growth assumption)

|                                | 2026  | 2027  | 2028  | 2029  | 2030    | 2031  | 2032    | 2033    | 2034    |
|--------------------------------|-------|-------|-------|-------|---------|-------|---------|---------|---------|
| LTP 2024-34                    | 13.4% | 12.6% | 12.6% | 12.4% | 12.0%   | 7.0%  | 7.0%    | 7.0%    | 7.0%    |
| Post Water services transition | 13.4% | 12.6% | 10.9% | 10.2% | 13.5%   | 6.5%  | 8.6%    | 7.9%    | 7.9%    |
| Difference                     | -     | -     | 1.70% | 2.20% | (1.50%) | 0.50% | (1.60%) | (0.90%) | (0.90%) |

The dollar value decrease in rates revenue post transition is shown in table 2; with a total of \$1.1B less in rates revenue over 7 years post transition compared to the LTP.

Table 2: Projected rates revenue

|                                | 2026  | 2027  | 2028    | 2029    | 2030    | 2031    | 2032    | 2033    | 2034    |
|--------------------------------|-------|-------|---------|---------|---------|---------|---------|---------|---------|
| LTP 2024-34                    | 209.9 | 238.2 | 270.4   | 306.3   | 345.8   | 373.2   | 402.7   | 434.5   | 468.8   |
| Post Water services transition | 209.9 | 238.2 | 154.6   | 171.8   | 196.5   | 211.1   | 231.1   | 251.5   | 273.6   |
| Difference                     | -     | -     | (115.8) | (134.5) | (149.3) | (162.1) | (171.6) | (183.0) | (195.2) |



The indicative rates impact per average property category is presented below. These are based on the rating information for 2024-25 and are subject to change in future years.

**Table 3: Indicative rates per average property category**

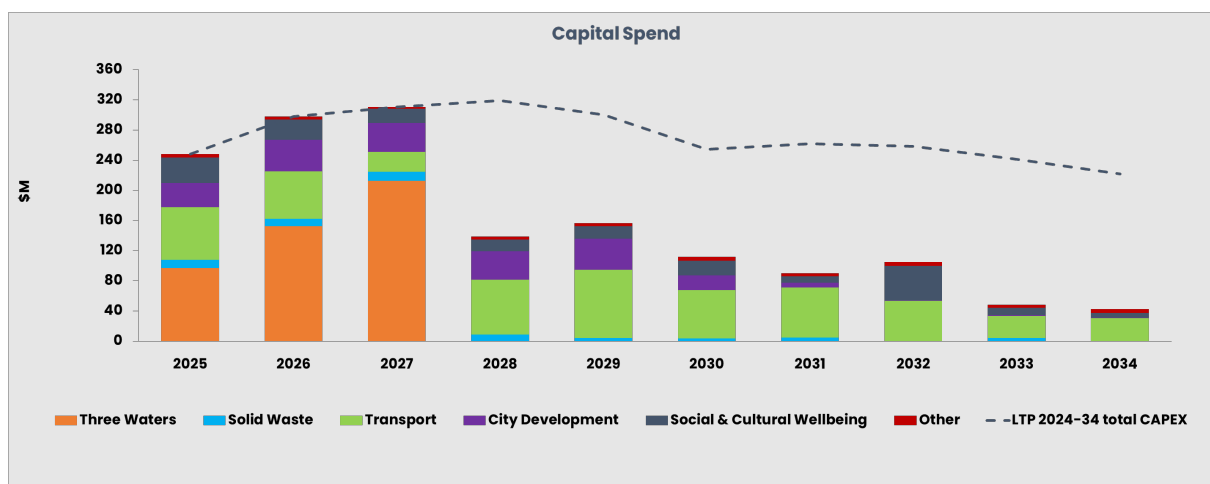
| Property Category           | 2024-25 rates | LTP 2028 rates | Post transition 2028 rates | Annual change \$ | Annual change % | LTP 2034 rates | Post transition 2034 rates | Annual change \$ | Annual change % |
|-----------------------------|---------------|----------------|----------------------------|------------------|-----------------|----------------|----------------------------|------------------|-----------------|
| Average Residential         | \$3,910       | \$5,760        | \$3,015                    | -\$2,745         | -48%            | \$9,781        | \$5,241                    | -\$4,540         | -46%            |
| Average Commercial Central  | \$22,645      | \$30,859       | \$26,373                   | -\$4,486         | -15%            | \$52,691       | \$48,859                   | -\$3,832         | -7%             |
| Average Commercial Suburban | \$19,325      | \$26,195       | \$21,367                   | -\$4,828         | -18%            | \$46,143       | \$39,587                   | -\$6,556         | -14%            |
| Average Rural               | \$2,696       | \$3,627        | \$3,376                    | -\$251           | -7%             | \$6,092        | \$5,909                    | -\$183           | -3%             |
| Utilities                   | \$28,311      | \$37,455       | \$34,562                   | -\$2,893         | -8%             | \$66,010       | \$64,032                   | -\$1,978         | -3%             |

## 2. Capital programme delivery

Our standard assumption is that 75% of the capital programme is delivered each year. Given the recent funding increases requested by Wellington Water Ltd (WWL) for the capital programme, together with improved delivery performance, we have assumed 100% delivery for Water Services capex for the purpose of these projections until 1 July 2027.

Based on this, the financial modelling includes \$462M capex delivery over the three year period for Water Services. These projections include the Infrastructure Acceleration Fund projects, however there are a range of risks with these projects which are at an early stage (e.g., concept design works in progress).



Graph 1: Updated projected capital programme post transition

The forecast capital investment drops down post transition with an average per annum of \$99M compared to an average of \$265M in the LTP. This reduced capex impacts on the projected borrowings. There is a total reduction in capex of \$1.2B over 10 years post transition compared to the LTP.

### **3. Asset transfer**

All assets and work in progress related to Water Services are assumed to transfer as at 1 July 2027. The details of the specific assets to be transferred, particularly for Stormwater, will need to be worked through. The estimated transfer was expected to be around 37% of the total Council asset value across all activities when this modelling was last performed. The asset transfer value is expected to be around \$724M at 1 July 2027 based on the LTP projections.

There is however an asset revaluation in progress for the Annual report 30 June 2024 and the asset transfer value cannot be reliably quantified at this stage. This is because there have been some early indications that the value of Water services assets have increased significantly higher than projected in the LTP. Once the revaluation and the audit process is completed this asset transfer value can be more reliably estimated and will be updated.

### **4. Operational costs and other funding**

The financial projections included assume that no funding is received by Council other than repayment of debt directly attributable to water services. So there is no “worse off funding” as such. Once the regional position is developed and there is better clarity on this, then this assumption will be reviewed.



We have assumed for this modelling that all water services operational revenue and costs will transfer to the new entity or be fully offset by funding received from or related to the new entity as from 1 July 2027. The exception is stranded overheads (estimated to be \$16.1M over 7 years), which have been assumed to be reallocated across the remaining activities with no additional funding assumed to offset this. This assumption will be further reviewed as the regional delivery model is developed.

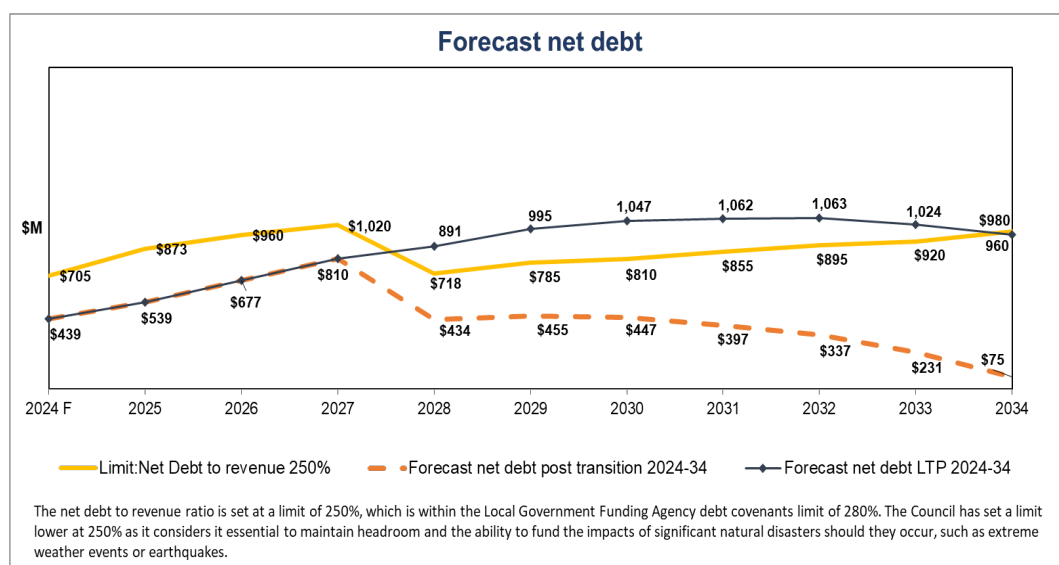
## 5. Debt and interest

Opening balance of debt for Three waters as at 1 July 2022 has been carried over from the work performed for the Three waters reform under the previous legislation, and as agreed with the National transition Unit of the Department of Internal Affairs in 2023.

The same methodology is being applied to the debt balances for the subsequent years. This is effectively an apportionment of total Council debt to the Three Waters Activities on the same basis as the debt calculations for the audited Annual Report Funding Impact Statements (i.e. debt funding for capital and operational expenditure not funded from operational revenue, excluding non-cash items like depreciation).

The debt and interest on borrowings is assumed to be repaid on transfer with the full payment being received on 1 July 2027. The debt is estimated to be around \$429M as at the end of 30 June 2027. This is subject to change dependent on the actual revenue, capital and operating costs incurred until then. As the regional model is further developed this assumption will be reviewed and updated.

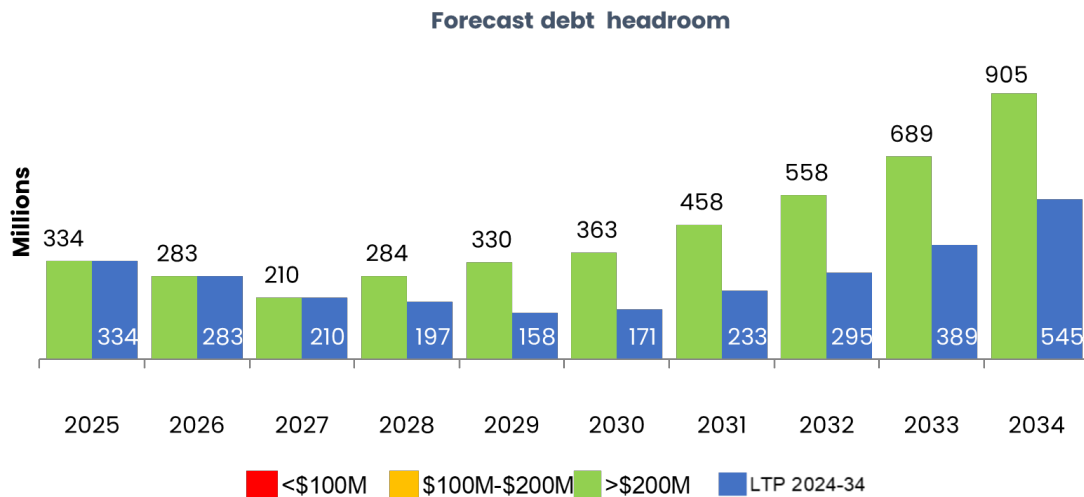
Graph 2: The comparison of projected debt pre and post transition is presented below, together with the debt to revenue limit post transition.





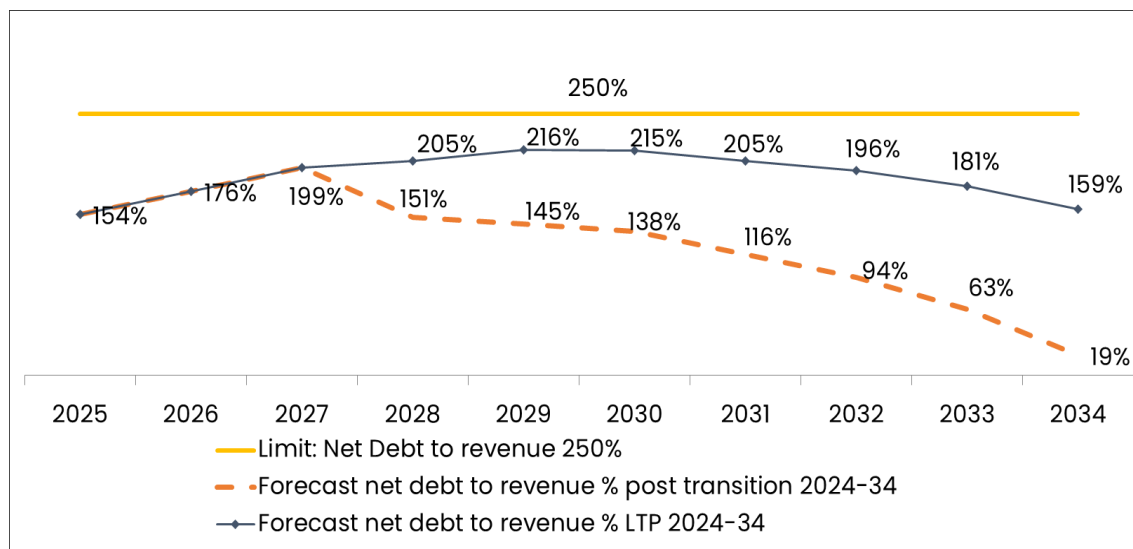
In the graph the blue line is the LTP (position including Water Services) and the orange dotted line graph being post transition, excluding Water Services. The assumed debt repayment of \$429M, results in a drop in debt levels, which continue to reduce given the lower capex spend and assumed rates revenue settings.

Graph 3: The comparison of the debt headroom pre and post transition, i.e., projected debt compared to the net debt to revenue limit



The debt headroom is more favourable due to the assumed debt repayment in 2028 and remains above \$200 million for all years.

Graph 4: The forecast net debt to revenue percentage against the limit of 250% pre and post transition is presented below.



The projections show a significantly favourable outlook. The net debt to revenue ratios are much lower post transition with the highest being 151% in 2028 compared to a high of 216% for the LTP.

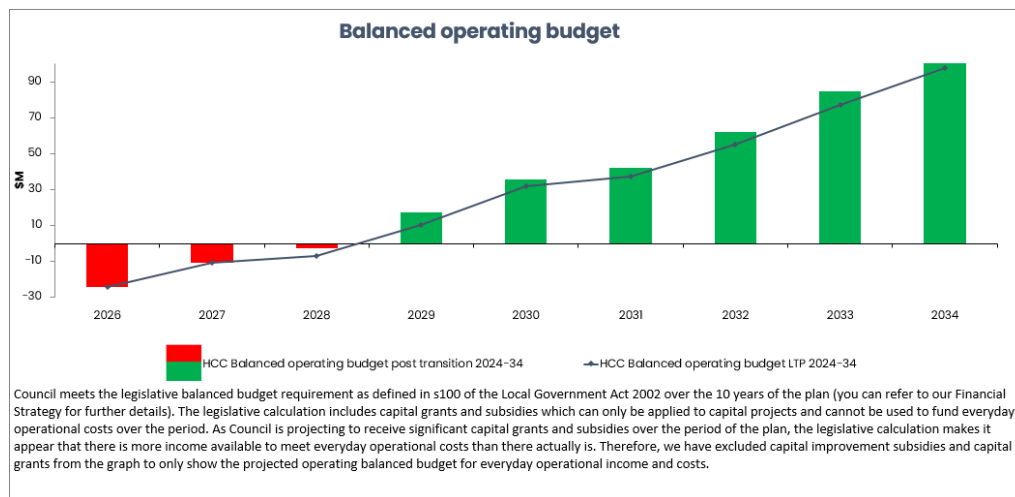


## 6. **Balanced operating budget impact**

The balanced budget post transition is projected to be achieved in 2028-29, which is the same as the LTP projections. This is largely dependent on:

- the debt repayment being received as assumed in the modelling,
- rates increases in future years being approved at the assumed increases, and
- no significant cost escalations beyond those currently approved and factored into the budgets.

**Graph 5: Balanced budget position based on LTP 2024-34 budgets**







15 August 2024  
File No: WGN950162

Hutt City Council  
30 Laings Road  
Hutt Central  
Lower Hutt, 5010

Wellington Office  
100 Cuba Street  
Te Aro, Wellington 6011  
PO Box 11646  
Manners Street  
Wellington 6142  
T 04 384 5708  
F 04 385 6960  
[www.gw.govt.nz](http://www.gw.govt.nz)

**Attn: Bruce Hodgins [Strategic Advisor, Hutt City Council]**

Copy sent to: [Bruce.Hodgins@huttcity.govt.nz](mailto:Bruce.Hodgins@huttcity.govt.nz)

Dear Bruce

## **Abatement Notice A1106 for Seaview Wastewater Treatment Plant Stage 1 - Biofilter Upgrades**

Attached is an abatement notice issued under section 322 of the Resource Management Act 1991. It is important that you read and understand the abatement notice including your rights that are listed on the notice. You may wish to seek your own legal advice on the matter.

**This notice requires you to take the following actions:**

- Complete (implement and make operational) the upgraded biofilter air distribution system and cell isolation system of three cells by **04 October 2024**, and the remaining three cells by **01 November 2024**;
- Provide a report of the works undertaken to repair and make operational the upgraded biofilter air distribution system and cell isolation system by **15 November 2024**;
- Undertake airflow distribution and H<sub>2</sub>S removal efficiency testing and provide a report demonstrating the effectiveness of the works to repair and make operational the upgraded biofilter air distribution system and cell isolation system by **17 January 2025**.

This notice imposes further conditions which must be complied with in Clause 4.

Please be aware that if you fail to comply with the abatement notice you are committing an offence under the Resource Management Act 1991. The Greater Wellington Regional Council (GWRC) may issue an infringement notice requiring you to pay a fine or prosecute you or seek an enforcement order if you do not comply with this abatement notice.

Wellington Office  
PO Box 11646  
Manners St, Wellington 6142

Upper Hutt  
PO Box 40847  
1056 Fergusson Drive

Masterton office  
PO Box 41  
Masterton 5840

0800 496 734  
[www.gw.govt.nz](http://www.gw.govt.nz)  
[info@gw.govt.nz](mailto:info@gw.govt.nz)





Your site will be visited by an officer from GWRC in due course to determine whether the abatement notice has been fully complied with.

I am the warranted enforcement officer who issued this abatement notice, so any inquiries can be directed to me at GWRC on 021 943 061.

**Charges associated with investigating the incident**

It is GWRC policy to recover our costs where it is necessary to carry out additional site visits and investigation due to non-compliance with resource consent conditions. You will receive a separate letter and invoice regarding recovery of costs.

Yours sincerely,

A handwritten signature in black ink that reads 'A O'Brien'.

**Amanda O'Brien**

Senior Compliance, Monitoring and Enforcement Officer  
Environmental Regulation

Encl: Abatement Notice A1106





Notice number: A1106

## Abatement Notice

### In accordance with sections 322, 323 and 324, Resource Management Act 1991

**To:** Hutt City Council  
30 Laings Road  
Hutt Central  
Lower Hutt, 5010

Attn: Bruce Hodgins [Strategic Advisor, Hutt City Council]

**1. Wellington Regional Council gives notice that you must take the following actions:**

- i. Complete (implement and make operational) the upgrades to the Seaview Wastewater Treatment Plant biofilter air distribution system (plenum) and biofilter cell isolation system, for three cells in total.
- ii. Complete (implement and make operational) the upgrades to the Seaview Wastewater Treatment Plant biofilter air distribution system (plenum) and biofilter cell isolation system for remaining three cells - six cells in total; and update and submit for recertification the Environmental Management Plan.
- iii. Provide a report of the works undertaken to repair and make operational the upgraded biofilter air distribution system and cell isolation system outlined in Clause 1(i) and Clause 1(ii) following the completion of the works.
- iv. Undertake airflow distribution and H2S removal efficiency testing and provide a report demonstrating the effectiveness of the works to repair and make operational the upgraded biofilter air distribution system and cell isolation system outlined in Clause 1(i) and Clause 1(ii) following the completion of the works.

**2. The location to which this abatement notice applies is:**

The site known as the Seaview Wastewater Treatment Plant

Waterman Street, Seaview, Lower Hutt

Legal Description: Lot 9 DP 368065 and Lot 3 DP 338433

Biofilter at or about NZTM X:1,759,612, Y: 5,433,025

**3. You must comply with this abatement notice within the following period:**

Action 1(i) of this notice must be complied with by 00:00 on 04 October 2024

Action 1(ii) of this notice must be complied with by 00:00 on 01 November 2024

Action 1(iii) of this notice must be complied with by 00:00 on 15 November 2024.



Action 1(iv) of this notice must be complied with by 00:00 on 17 January 2025

**4. This notice imposes the following further conditions which must be complied with by the relevant dates:**

- i. Complete remedial actions (implement and make operational) for three cells within the Seaview Wastewater Treatment Plant biofilter air distribution system (plenum) and biofilter cell isolation system by **04 October 2024**, including but not limited to:
  - a. Excavation and stockpiling of existing biofilter media
  - b. Removal and disposal of existing lateral air distribution crates
  - c. Installation of ball valves on each air outlet pipe to the biofilter for cell isolation
  - d. Installation of new full floor crate air distribution system (plenum)
  - e. Reinstatement of stockpiled biofilter media
- ii. Complete remedial actions (implement and make operational) for the remaining three cells (six in total) within the Seaview Wastewater Treatment Plant biofilter air distribution system (plenum) and biofilter cell isolation system by **01 November 2024**:
  - a. All items required under Condition 4(i)(a) to 4(i)(e); and
  - b. Update the Environmental Management Plan (required under WGN950162 Condition 11 and Condition 12) and submit for recertification to Manager, Environmental Regulation, Wellington Regional Council including but not limited to:
    - i. A preventative maintenance programme for the biofilter;
    - ii. An annual independent audit of the biofilter; and
    - iii. A Corrective Action Record for investigation and actions to be taken when biofilter system measurements are outside the optimum ranges.
- iii. Prepare and submit to GWRC a report that details the works undertaken to repair and make operational the upgraded biofilter air distribution system and cell isolation system within two weeks of the completion of Clause 1(ii) but no later than **15 November 2024**;
- iv. Undertake airflow distribution and H2S removal efficiency testing (or equivalent if agreed with GWRC) to demonstrate the distribution of air for treatment and odour removal efficiency across the biofilter; and provide a report demonstrating the effectiveness of the works to repair and make operational the upgraded biofilter air distribution system and cell isolation system by **17 January 2025**.

**5. This notice is issued under:**

Section 322(1)(b)(i) of the Resource Management Act 1991.

**6. The reasons for this notice are:**

***Consents and conditions***

- 6.1 Hutt City Council (HCC) holds Resource Consent WGN950162 which allows for discharges of air from the Seaview Wastewater Treatment Plant.



Condition 6: *on completion of commissioning, there shall be no discharges of air that are noxious, dangerous, offensive or objectionable at or beyond the boundary of the property. These discharges include odour and dust.*

Condition 25: *All biofilters shall be designed to meet the following criteria:*

- (a) The distribution system shall be designed to ensure that gasses are effectively dispersed throughout the filter bed,*
- (b) The sides of the filter bed shall be designed and constructed to ensure that untreated process gasses cannot bypass the filter media,*
- (c) The beds shall be designed so that there is sufficient redundancy to allow maintenance to be carried out on the bed without a breach of condition 6.*

- 6.2 Abatement Notice A958 was issued to HCC on 14 June 2021 requiring you to cease the unauthorised discharge of contaminants, namely offensive and objectionable odour, to air at or beyond the boundary of the property from Seaview Wastewater Treatment Plant (SWWTP).

***Incidents and Correspondence prior to 19 December 2023***

- 6.3 A total of 111 complaints have been received directly to GWRC relating to Seaview WWTP odour between **31 October 2023** and **12 December 2023**. In the opinion of enforcement officer, odour was assessed as being offensive and objectionable beyond the boundary of SWWTP, on 13 occasions.
- 6.4 On **01 November 2023** at 11:10 am Greater Wellington Regional Council (GWRC) received notification from WWL's Wastewater Contracts Administrator that they had received a complaint that stated:
- "On Friday 27th October and again yesterday Tuesday 31 October the odour in the Seaview area has been extremely bad and by the afternoon people have had to leave work due to vomiting and breathing issues. Is there something else that is going on in the area that we need to be aware of? Is it possible to have further air tests as it appears to be worsening"*
- 6.5 On **01 November 2023**, GWRC warranted enforcement officers received an odour notification at 15:49 and went to site and undertook an odour assessment to assess compliance with the Resource Management Act 1991. The odour was assessed as objectionable and offensive beyond the boundary.
- 6.6 On **08 November 2023**, WWL issued a letter to neighbouring residents and to the interested parties mailing list regarding the replacement of the biofilter media at Seaview WWTP.
- 6.7 On **16 November 2023** I requested and received from WWL, the June 2023 Air Quality Consulting NZ Limited Odour Investigation Report. This report included a review of odour complaints, an odour-scouting survey over 8 days, on-site ambient and process-related H2S monitoring, visual and odour observations made during a site visit on **31 March 2023** and recommended improvements to the plant to mitigate odour. A key part of this report notes immediate attention needed on the biofilter.



- 6.8 A please explain was issued to WWL on **24 November 2023** for the period between **31 October 2023** through to **20 November 2023**.
- 6.9 On **06 December 2023** a community meeting was held by HCC. Approximately 50 – 60 people were in attendance. Members from HCC, WWL and Veolia all presented, apologised, and HCC committed to spending an additional \$13 million on odour mitigation and upgrades over the next 1-3 years.
- 6.10 The please explain response was received from WWL on **08 December 2023** and stated that the odour issues were attributed to the poor state of the bark media in the biofilter at Seaview WWTP prior to **14 November 2023**. A project was put in place to complete replacement of the media in all six cells with the assessment, design, and remediation of the plenum of the two last cells to be completed in January 2024.
- 6.11 The please explain response stated odour after **14 November 2023** was attributed to maintenance and shut off isolation issues when replacement works began.
- 6.12 The please explain response further stated mechanical issues on site around the time of initial notifications on **31 October 2023** that added to the odour included one of the two milliscreen augers required replacement and doors were open to remove the auger, a mechanical failure in PST #3 meant that tank was drained down for repair and Clarifier #3 had a wheel failure which meant it had to be operated at reduced flow (33% of normal flow) and there was a chance of going 'septic' which can lead to odour.
- 6.13 A total of 111 complaints have been received directly to GWRC relating to Seaview WWTP odour between **31 October 2023** and **12 December 2023**. Infringements were issued to WWL and Veolia on **19 December 2023** for all 13 occasions for both a breach of the Section 15(1)(c) and a breach of abatement notices A956 and A957 respectively. Infringements were also issued to HCC and UHCC on **19 December 2023** for all 13 occasions for a breach of their respective abatement notices A958 and A959 respectively.

***Incidents and Correspondence from 19 December 2023***

- 6.14 There has been a total of 423 complaints received directly to GWRC relating to SWWTP odour over 8.5 months (between **31 October 2023** and **09 July 2024**). Additional to the 13 occasions that infringements were sent for, there have been at least a further 17 occasions, where odour was assessed by warranted officers as offensive and objectionable beyond the boundary of Seaview WWTP, with the last date being **26 June 2024**.
- 6.15 The biofilter media replacement was completed on **19 December 2023**, however, GWRC continued to receive complaints and continued to assess odour as offensive and objectionable beyond the boundary. It is noted that despite a poor-quality assessment of the underlying plenum when bark was removed, the plenum in that last two cells were not replaced in January 2024.
- 6.16 After communication with WWL along with GWRC's engagement of an independent technical odour expert, it was agreed that the next steps towards remediation and bringing the plant into compliance include a staged response of first biofilter plenum replacement and biofilter cell isolation followed by milliscreen pipe replacements, milliscreen room and dryer room treatment, external pipe repairs and finally an assessment to understand the



need for long-term replacement of the dryer with stand-alone odour control. All works would require review and update of maintenance and monitoring plans.

- 6.17 On **21 March 2024** a Community Liaison Group meeting was held where the project outline was provided to community members with the reassurance that the first stage of works would be completed in winter.
- 6.18 A meeting held on **23 July 2024** between GWRC and WWL confirming that the works would not be completed by the winter deadline, however, Wellington Water Limited were reasonably confident that they could meet the timeframe of 18 October 2024 as each cell is expected to take 1 week to complete (6 weeks) and the 18 of October allows 11 weeks.
- 6.19 On **30 July 2024** a further Community Liaison Group meeting was held, and it was confirmed that three stages were funded with the first two stages understood and underway and the third stage relating to the dryer odour being dependent on the outcome of the first two stages. It was confirmed that mid-late October was a reasonable timeframe for stage 1 works to be completed and stage 2 works to be completed by end of 2025.
- 6.20 On **05 August 2024** WWL confirmed the required work programme and anticipated completion dates for the stage 1 works. These have been adopted in this Abatement Notice, except for completion of remediation of all cells, which has been brought forward to 01 November 2024 (WWL proposed 15 November 2024) due to confirmation at the CLG on 30 July 2024 that mid-late October was reasonable for completion of stage 1.

#### **Breaches**

- 6.21 In my opinion, the discharge of offensive and objectionable odour beyond the boundary of SWWTP is not expressly allowed by a resource consent, a rule in a regional plan or a national environmental standard and contravenes section 15(1)(c) of the Resource Management Act 1991 which states that:

*“No person may discharge any contaminant from any industrial or trade premises into air unless the discharge is expressly allowed by a national environmental standard or other regulations, a rule in a regional plan as well as a rule in a proposed regional plan for the same region (if there is one), or a resource consent.”*

- 6.22 In my opinion, the discharge of offensive and objectionable odour beyond the boundary of SWWTP contravenes Condition 6 of Resource Consent WGN950162 and is therefore not expressly allowed by a resource consent. Condition 6 of Resource Consent WGN950162 states that:

*“on completion of commissioning, there shall be no discharges of air that are noxious, dangerous, offensive or objectionable at or beyond the boundary of the property. These discharges include odour and dust.”*

- 6.23 In my opinion you have further breached your abatement notice A958 which was issued to you on 14 June 2021 and requires you to cease the following:

*“Unauthorised discharge of contaminants, namely offensive and objectionable odour, to air at or beyond the boundary of the property”*



- 6.24 You have received this notice because you are the holder of Resource Consent WGN950162(01) and are responsible for ensuring compliance with all conditions of that consent, you jointly own the land on which the wastewater treatment plant operates, and you jointly own Wellington Water Limited who are responsible for the management of wastewater services (including Seaview Wastewater Treatment Plant) on your behalf. You are also the recipient of abatement notice A958.

***Effects***

- 6.25 The odour intensity, duration, extent and wide-reaching impact is significant.
- 6.26 Effects from odour notifications and conversations with notifiers have included feeling ill, nausea, headaches, wanting to vomit, stress, anxiety, unable to use outside areas of their own homes or nearby recreational areas, smell permeating inside, smell being stuck on clothing, and a feeling of being trapped with not being able to sell homes as no-one wants to live there due to the odour.
- 6.27 Culturally, across all cultures, the idea that odour caused by wastewater is occurring in areas where people reside, sleep, eat and work is inappropriate and offensive.
- 6.28 Kokiri Marae is located in close proximity to the WWTP on Barnes Street to the south and the Owhiti Urupa is located immediately to the north. No cultural impact assessment has been undertaken to date; however, poor odour may discourage community members to attend these locations and reduce connection to cultural connection and lost loved ones.
- 6.29 Businesses have been impacted with staff leaving work early to get away from smell, customers not coming into businesses and long-term impact on business including permanent records of business ratings online.
- 6.30 While some weather conditions (wind direction, wind speed and rainfall) presented relief periods in odour intensity across the period, it is noted that due to the significant volume of complaints received, the odour was deemed to be near continuous and did occur on a regular or frequent basis. Radius of odour has been estimated to be 2-3 km at peak with reports from Lowry Bay and Waterloo.

**7. Consequences of not complying with this notice:**

If you do not comply with this notice, you may be prosecuted under section 338 of the Resource Management Act 1991 (unless you appeal and the notice is stayed as explained below), or an infringement notice may be served on you under section 343C of the Resource Management Act 1991.

**8. Right of appeal:**

You have the right to appeal to the Environment Court against the whole or any part of this notice. If you wish to appeal, you must lodge a notice of appeal in form 49 (Resource Management (Forms, Fees, and Procedure) Regulations 2003) with the Registrar, Environment Court, PO Box 5027, Wellington, within 15 working days of being served with this notice.

An appeal does not automatically stay the notice and so you must continue to comply with it unless you also apply for a stay from an Environment Judge under section 325(3A) of the



Resource Management Act 1991 (see form 50, Resource Management (Forms, Fees, and Procedure) Regulations 2003). To obtain a stay, you must lodge both an appeal and a stay with the Environment Court.

**9. Application to change or cancel this notice:**

You also have the right to apply in writing to Wellington Regional Council to change or cancel this notice in accordance with section 325A of the Resource Management Act 1991.

**10. Wellington Regional Council authorised the enforcement officer who issued this notice. Its address is:**

Greater Wellington Regional Council  
100 Cuba Street, Te Aro  
PO Box 11646  
Wellington 6142

Phone: 04 384 5708  
Facsimile: 04 385 6960

**11. The enforcement officer is acting under the following authorisation:**

Appointment as an enforcement officer by Wellington Regional Council under section 38(1)(a) of the Resource Management Act 1991 as certified by Warrant No. 1026.



Signature of enforcement officer

15 August 2024

Date notice issued

**Note:** Irrespective of any appeal and irrespective of any time for compliance specified in this notice, you may be liable to prosecution or other enforcement action if the activity or inactivity in question contravenes the Resource Management Act 1991, a resource consent, or a rule in a plan. This notice is issued without prejudice to additional or alternative enforcement action being taken by Wellington Regional Council.



**Report no: ARSC2024/4/210**

## **Tupua Horo Nuku Update**

### **Purpose of Report**

1. To update the Audit and Risk Subcommittee on the Tupua Horo Nuku (Eastern Bays Shared Path) Project.

### **Recommendations**

That the Subcommittee receives and notes the content of this report.

### **Background**

2. Tupua Horo Nuku (the Project) is a 4.4km walking and cycling path that runs along Marine Drive. The project includes new seawalls for improved coastal resilience.

### **Discussion**

3. Construction is currently active in three bays. Work is nearing completion in Sunshine Bay and York Bay. An update of programme completion dates for each bay is included in Table 1.

Table 1: Project Completion Dates by Bay

| <b>Milestone</b>        | <b>Original Completion</b> | <b>Revised Completion</b> | <b>Status</b> |
|-------------------------|----------------------------|---------------------------|---------------|
| Nga Matau/Point Howard  | Mar 2025                   | Apr 2025                  | Not started   |
| Whiorau/Lowry Bay       | Jan 2026                   | Mar 2026                  | Started       |
| York Bay                | Sep 2025                   | Nov 2024                  | Started       |
| Mahina Bay              | May 2026                   | Jun 2025                  | Not started   |
| Sunshine Bay            | Apr 2024                   | Oct 2024                  | Started       |
| Ma-koromiko/Windy Point | Oct 2023                   | Oct 2023                  | Complete      |
|                         | Project Completion         |                           | June 2026     |



4. The project is working with Wellington Water Limited on the upgrade of the Eastern Bays sewer main which will be within the Project timelines to minimise future disruption in the area.
5. A trial is underway increasing construction working time through extending traffic management hours. The trial adds up to five hours per day (dependant on daily tides) for construction. Active monitoring and reporting of delays are in place to enable changes to be made should delays become excessive.

### Options

6. There are no options as this report is a noting report.

### Risk Update

7. There are several current risks of note for the project that are identified below:
  - a. Eastern Bays Sewer Main – The impact of the inclusion of the Eastern Bays wastewater main on the project programme is being assessed to ensure works are sequenced to remain inside forecast programmes.
  - b. Mahina Bay – An appropriate solution for the relocation of the power poles in Mahina Bay has not been identified and is necessary to avoid programme delays. The Project is working directly with Wellington Electricity to identify an appropriate solution.
  - c. Ngau Matua/Point Howard – Centreport is upgrading the oil pipeline in Ngau Matau with their current schedule going past June 2026. The location and timing of Centerport’s work overlaps a section of the shared path in the same bay. The Project continues to work with Centreport on a solution that would ensure the path is delivered, following the completion of the oil pipeline.
  - d. Programme dependancy – The Project is scheduled for completion at a similar time to the Te Ara Tupua Project to avoid incurring additional costs. Both projects are forecast for completion in mid-2026.
  - e. Reputational Risk – Hutt City Council is delivering four Bird Protection Areas (BPA) required through resource consent conditions. Local residents are very engaged with the construction of the Bishop Park BPA. Council officers are working to ensure timely and transparent communication, including on site meetings with Councillors, the Community Board, and residents.
  - f. Further challenges – Challenges that impact the schedule are identified as construction commences in the individual bays. These may include worsening road conditions, challenging deep rock foundations, weather, and notably working with the tides. Most of these items have been considered and factored into the schedule with appropriate mitigations identified and put into place.



### Financial Considerations

8. Table 2 shows the actual and forecast budget included in the final LTP 2024-34. Spend as at June 2024 on the Project is \$37.2M against 40.3% progress.

Table 2: Actual and Forecast LTP Budget

|         | 2022-24<br>Actual<br>'000M | 2024/25<br>LTP Budget<br>'000M | 2025/26<br>LTP Budget<br>'000M | Total<br>2022-26<br>'000M |
|---------|----------------------------|--------------------------------|--------------------------------|---------------------------|
| Capex   | 37.2                       | 22.7                           | 20.05                          | 79.95                     |
| Revenue | -23.21                     | -17.86                         | -14.4                          | -55.47                    |
| NET     | 13.99                      | 4.84                           | 5.65                           | 24.48                     |

9. The project team are working with Council to provide accurate project cost escalation forecasts. These will be presented for discussion before the end of the year.

### Climate Change Impact and Considerations

10. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.
11. The increased resilience outcome of Tupua Horo Nuku will help to enhance Lower Hutt City's resilience to climate change.
12. The construction of the shared path is intended to promote a modal shift to cycling and walking leading to an expected long-term reduction in vehicle emissions.

### Consultation

13. The Tupua Horo Nuku project was included in the Council's Long Term Plan 2024-34 consultation.
14. Ongoing and relevant consultation is conducted as usual practice prior to the opening of any of the six separate bays.

### Legal Considerations

15. Covered by PAA with specific advice sought via Council legal, where and if necessary.

### Financial Considerations

16. Escalations to be highlighted through the monthly Major Projects Steering Group Committee.

### Appendices

There are no appendices for this report.

**Author:** Rona Lemalu, Project Delivery Manager

**Reviewed By:** Andrea Mitchell, Business Manager

**Reviewed By:** Paul Hewitt, Head of Transport

**Approved By:** Jon Kingsbury, Director Economy & Development



**Report no: ARSC2024/4/211**

## **Insurance renewal update**

### **Purpose of Report**

1. To provide the Subcommittee with a further update regarding Council's May 2024 insurance programme renewal and an overview of several work streams currently underway to best protect Council against continued insurance market tightening. This includes insurance cover capacity and cost.

### **Recommendations**

That the Subcommittee:

- (1) notes that Council has successfully renewed its Property and Infrastructure insurance programme for policies commencing 1 May 2024 for a 12-month term;
- (2) notes the remaining policies, renewed on 1 November 2023, for a 12-month term;
- (3) notes the insurance renewal challenges as outlined in paragraphs 10 and 11 of the report; and
- (4) notes that insurance costs for 2024/25 are expected to be within the budget.

### **Background**

2. Council together with Kāpiti Coast District (KCDC), Porirua City (PCC) and Upper Hutt City Councils (UHCC), collectively known as the Outer Wellington Shared Services Insurance Group (OWSS), has been purchasing insurance for their respective assets on a combined basis since 2009.
3. Greater Wellington Regional Council (GWRC) joined the OWSS in 2016 to insure its above ground assets only through the collective. For insurance purposes only, the OWSS Councils and GWRC are collectively known as the Wellington Councils Insurance Group (WCIG).
4. The previous insurance update provided to the Subcommittee, (Report ARSC2023/4/244 on 29 August 2023) provided extensive background information regarding the nature of Council's insurance programme since October 2017.
5. Aon New Zealand (Aon) provides advice and support to the collective. Ani Te Whaiti, a representative of Aon, will be available to attend the Subcommittee meeting if required.
6. Council's insurance programme has two annual renewal dates of 1 May and 1 November.



7. The major policies were renewed on 1 May 2024, being the:
  - a. Material Damage and Business Interruption (MDBI) for above ground assets; and
  - b. Natural Catastrophe Damage to Infrastructure (NCDI) for underground assets.
8. The other remaining policies were renewed on 1 November 2023, and include Employee and Statutory Liability, General Liability, Professional Indemnity, Crime, Cyber Liability, Travel, Fine Arts and Vehicles.
9. This report builds on previous insurance updates and seeks to provide the Subcommittee with detailed information on Council's 2023/24 insurance renewal challenges and highlight several work streams currently underway to best position Council against continued insurance market tightening, particularly for the Wellington region, and increasing premiums.

### **Insurance Renewal Challenges**

10. Following a particularly challenging insurance market in 2023, in the 12 months from March 2023 to March 2024 post Auckland floods and Cyclone Gabrielle, New Zealand suffered no catastrophic weather events. This provided a necessary reprieve for local insurers and their reinsurers and overall market conditions stabilized:
  - a. The concern of climate change and the frequency of damaging weather events remains. Insurers continue to review their portfolios and new business opportunities to carve out risks with higher exposure to natural disaster and catastrophe risk and underwrite or decline to provide cover for these exposures. Reinsurance pricing continued to increase in 2023 although not to the same extent as the year prior.
  - b. At a local level the Insurance Council of New Zealand (ICNZ) a representative body of 28 of the major insurers in New Zealand, is urging 'bold action' from the Government to build New Zealand's resilience against the impact of climate change. ICNZ presented these messages to the Inquiry into Climate Adaptation to the Finance and Expenditure Select Committee last month.
  - c. NZ Treasury data (July 2024, Finity Consulting) reflects the focus of insurers on high-risk flood zones through their underwriting and pricing. Another trend showing the price of residential home insurance in New Zealand increased 30% in just 18 months.
  - d. The insurance market for buyers such as Hutt City Council in high seismic risk and coastal areas, is challenging - this is the norm.
  - e. The Wellington Combined Insurance Group (WCIG) prepared well for the 1 May 2024 renewal. We had the benefit of London markets visit in February 2024 and we took the opportunity to meet and discuss our portfolio and establish some face to face connections in a relationship that has largely been developed online. London provided 65% of our placement for the WCIG group and 100% of the placement for the Outer



Wellington Shared Services group, developing these relationships is strategic. Ultimately, we were in the enviable position this year of having more cover available than we required and this allowed us to trade away some of the more expensive capacity and replace with better priced cover.

11. Looking ahead to 2025 it is expected that there will be a continuation of the current market environment where insurers maintain their selective underwriting criteria and price for the increased frequency of weather events.

### **Summary of Council's Insurance Programme**

12. As in previous years, Council's two largest insurance policies (by value of cover and of cost) relate to Material Damage and Business Interruption (MDBI), for above ground assets, and Natural Catastrophe Damage to Infrastructure (NCDI), for below ground assets.
13. These insurance policies are shared arrangements for the group of Councils known as the Outer Wellington Shared Services collective <sup>1</sup> and Wellington Insurance Group<sup>2</sup>. The insurance cover is provided by New Zealand and International markets from London, Europe and Bermuda, with nearly 30 insurers taking up different risk positions within each programme.

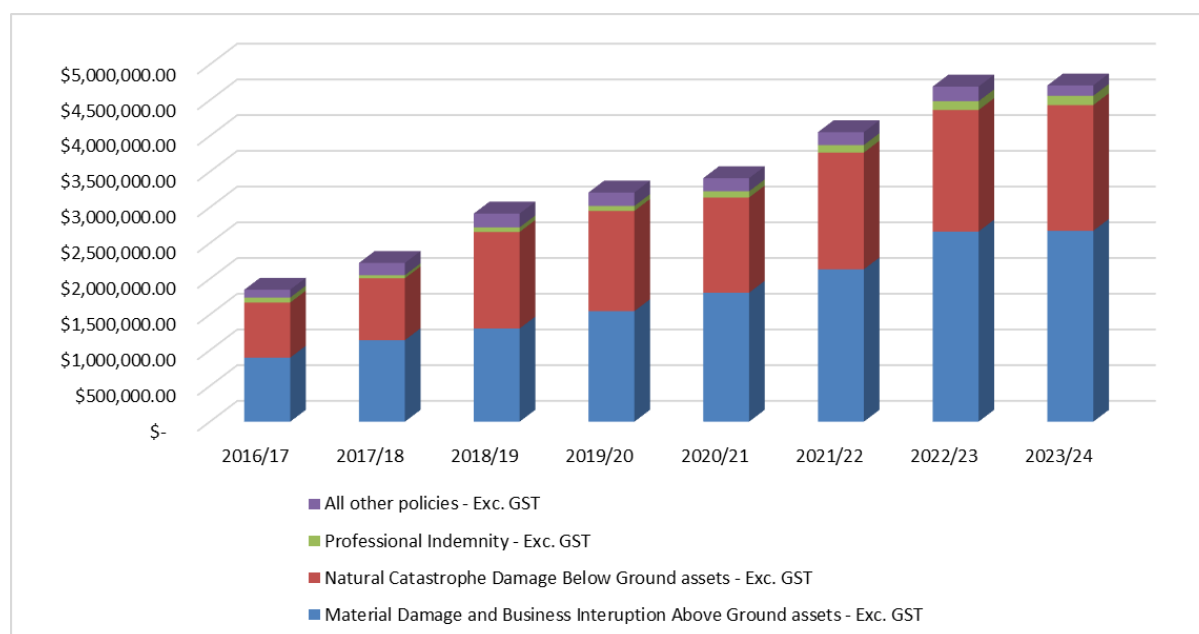
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<sup>1</sup> This is an arrangement between this Council, Kapiti Coast District Council, Upper Hutt City Council and Porirua City Council to share insurance cover and save on insurance premium cost

<sup>2</sup> This is an arrangement between this Council, Greater Wellington Regional Council, Kapiti Coast District Council, Upper Hutt City Council and Porirua City Council to share insurance cover and save on insurance premium cost.



14. The following chart provides a comparison between renewal terms for the renewal periods between 2016/17 and 2023/24. The cost increases relate to MDBI and NCDI, being Council's more significant insurances within its total insurance programme. Premium increases were primarily driven by increases in the asset portfolio, asset value and market driven insurer premium increases.



### Preparations for the future

15. For 2024/25 AON have recommended loss modelling be reviewed to inform insurance considerations for the group. This probable maximum loss modelling will be undertaken for both the 'above ground' 100% insured Material Damage assets; and the 'below ground' 40% insured Natural Catastrophe assets. This modelling will employ GNS latest seismic hazard model 'Riskscape' bringing the most current science to the exercise.
16. Throughout our group discussions, we explored ideas of greater risk retention, for premium savings or small and phased levels of 'self-insurance'. There was consensus amongst Councils that the group begin to consider these concepts and develop understanding to add this as an option to the toolbox. These conversations will start again in the 2024-25 preparations.

### Significant asset classes not covered by any insurance policy

17. Roading infrastructure assets are not covered under Council insurance policies.

### Climate Change Impact and Considerations

18. There are no specific climate change matters to consider in relation to this report.

### Consultation

19. There are no consultation matters arising from this report.



**Legal Considerations**

20. There are no legal matters arising from this report.

**Financial Considerations**

21. The budgeted cost of insurance cover from the Long-term Plan for the 2024/25 year is \$5.77M. The actual cost is expected to be within budget.

**Appendices**

There are no appendices for this report.

**Author:** Glenn Usoalii-Phillips  
Treasury Officer

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**Reviewed By:** Darrin Newth  
Financial Accounting Manager

**Approved By:** Jenny Livschitz  
Group Chief Financial Officer



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**Report no: ARSC2024/4/212**

## **Risk Management and Assurance Update**

### **Purpose of Report**

1. To update the Audit and Risk Subcommittee on activities undertaken to maintain and improve risk management at Council. The risk register was last considered by this Subcommittee on 30 April 2024.
2. This report also covers an update on other assurance activities.

### **Recommendations**

That the Subcommittee:

- (1) receives and notes the information in the report;
- (2) notes there are eight risks (no change since the last update) on Council's strategic risk register;
- (3) notes the overall residual risk rating relating to "Legislative and regulatory changes creating higher cost or reducing subsidies" risk (previously known as Government Reforms - Risk 1) has decreased to medium (previously high);
- (4) notes the update on "Other Activities" contained within the report; and
- (5) notes the Risk Register as at 31 July 2024 attached as Appendix 1 to the report.

### **Background**

3. Risk and Assurance provides frequent updates on the activities to maintain and improve Council's risk management awareness.
4. The Strategic Risk Register ("the register") is a living document and updated quarterly at a minimum through consultation with risk owners. This allows for relevant and timely information to be presented to key stakeholders.
5. Providing timely information enables meaningful discussions and decision making. It also provides an opportunity to actively manage key risks and focus sufficient attention to key areas.
6. There is a high-level understanding and awareness of risk management across Council.



### **Council's Risk Register**

7. There are currently eight risks listed on the Strategic Risk Register. (no change since the last update to the Audit and Risk Subcommittee on 30 April 2024)
8. Of the eight risks listed on the register:
  - a. seven risks have an overall residual risk rating of medium; and
  - b. one risk has an overall residual risk of low (Workforce, Capability and Engagement).
9. All residual risk ratings remain unchanged, except for one risk.
10. Risk 1, "Legislative and regulatory changes creating higher costs or reducing subsidies" (previously known as Government Reforms) had components of its residual risk rating changed, resulting in an overall decrease in the residual risk rating. The overall residual risk rating is now medium (previously high).
11. This change is reflective of Council's confidence on the treatments put in place and its engagement with relevant parties.
12. No new risks were added to the register and there were no risks removed since the last update.
13. There continues to be positive outcomes through the various mitigating treatments in place to address the risks.
14. Risks that are not captured on the strategic risk register continue to be monitored via operational risk registers by the respective business unit leads, and escalation occurs as required in alignment with the risk assessment criteria set. Risk and Assurance continue to provide advice and support to business units on the evaluation and assessment in higher risk areas and developing of operational risk registers.

### **Other activities**

15. The annual refresh of business continuity plans has now been completed. This ensures plans are current, fit for purpose, and practical to implement.
16. Additionally, the Conflict of Interest Policy has recently being updated as part of its three-year periodic refresh process. The Office of the Auditor General guidelines on conflicts of interest and other available public sector organisation's conflict of interest policies have been considered.
17. This update included minor amendments, most of which were to make the policy applicable to the Council Group (previously referenced only Council).

### **Climate Change Impact and Considerations**

18. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.



**Consultation**

19. Not applicable.

**Legal Considerations**

20. Not applicable.

**Financial Considerations**

21. The work programme for Risk and Assurance is funded from baseline budgets.

**Appendices**

| No.                 | Title                   | Page |
|---------------------|-------------------------|------|
| 1 <a href="#">↓</a> | Strategic Risk Register | 105  |

**Author:** Nishana Reddy  
Risk and Assurance Manager

**Reviewed:** Jenny Livschitz  
Group Chief Financial Officer

**Approved:** Jo Miller  
Chief Executive



# STRATEGIC RISK REGISTER (JULY 2024)



## Key:

**Inherent risk** – assessed level of risk before any control treatments/mitigations have been put in place to reduce the severity impacts should the risk eventuate.

**Residual risk** – assessed level of risk after control treatments/mitigations have been put in place to reduce the severity impacts should the risk eventuate.

## 1. Legislative and regulatory changes creating higher costs or reducing subsidies

**Risk Owner:** Chief Executive, **Secondary Risk Owner:** Director – Environment and Sustainability, Director Economy and Development, Director Strategy and Engagement

### Risk Ratings:

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Likely        | Major  | High |

| RESIDUAL RISK |          |        |
|---------------|----------|--------|
| Likelihood    | Impact   | Risk   |
| Possible      | Moderate | Medium |

| Likelihood   | Almost Certain |       |        |       |         |  |
|--------------|----------------|-------|--------|-------|---------|--|
|              |                |       |        |       |         |  |
|              |                |       |        |       |         |  |
|              |                |       |        |       |         |  |
|              |                |       |        |       |         |  |
|              | Insignificant  | Minor | Modest | Major | Extreme |  |
| Consequences |                |       |        |       |         |  |

Risk Appetite: Low appetite

**Risk Description:** The government has repealed the Three Waters legislation, made changes to the fast-track provisions of the Resource Management Act and the Transport funding priorities and stopped the review of the Resource Management legislation. This creates uncertainty for Councils and impacts a number of areas such as planning processes, work programmes, resourcing requirements, funding mechanisms and cost associated with implementing and changing course. It also presents opportunities for Councils to work together and present information to the new government.

If Council is not adequately prepared and/or engaged in the changes of central government's priorities then there may be disruption/cancellation/delays to work programmes which are important to the interests of the city, resulting in loss of trust and confidence.

There are potential opportunities from the legislative and regulatory changes to improve the wellbeing of our communities with a memorandum of understanding in place and Hutt City now working closely with nine other councils to respond to the governments Local Water Done Well policy.

There may also be opportunities and impacts on Council's financial position, financial performance, operations, impacts on staffing, service delivery and outcomes to our community.



## STRATEGIC RISK REGISTER

**Risk Drivers:**

- Uncertainty around Council's end role and obligations;
- Uncertainty of Council's financial position in the future post the impact of changes implemented;

**Current controls**

- Officers and elected members are proactively engaging in legislative change processes, providing feedback on new legislation and policies such as the Resource Management and Building Act changes, including through LGNZ, Taituarā, the Mayoral Forum.
- Hutt City Council is committed to a joined-up approach for the Wellington region on working together on a water service delivery plan which is required under the Government's new Local Water Done Well policy.
- Working to reprioritise work programmes to align with changes to government priorities and funding available.

**Planned mitigation actions:**

- As more details become available, all potential opportunities and implications for Council and our communities will be assessed and will be responded to;
- Continue to perform detailed analysis of any impacts; and
- Quality advice prepared to support Council and other decision making.

**2. Asset Planning and Management**

**Risk Owner:** Director – Economy and Development, **Secondary Risk Owners:** Director Neighbourhoods and Communities and Head of Assets and Facilities Management

**Risk Ratings:**

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Possible      | Major  | High |

| RESIDUAL RISK |        |        |
|---------------|--------|--------|
| Likelihood    | Impact | Risk   |
| Unlikely      | Major  | Medium |

|            |                |                  |       |               |       |        |
|------------|----------------|------------------|-------|---------------|-------|--------|
| Likelihood | Almost Certain |                  |       |               |       |        |
|            | Likely         |                  |       |               |       |        |
|            | Possible       |                  |       |               |       |        |
|            | Unlikely       |                  |       |               |       |        |
|            | Rare           |                  |       |               |       |        |
|            |                | Insigni-<br>cant | Minor | Moder-<br>ate | Major | Extrem |
|            |                | Consequences     |       |               |       |        |

Risk Appetite (service delivery): **Low**  
 Risk Appetite (strategy): **Moderate**

**Risk Description:** If assets are not optimised / fit for purpose or adequately maintained, then this may result in health and safety risks for Council staff and communities and assets not being able to achieve the desired outcomes or service at required levels.

If assets are unsafe, then there will be public dissatisfaction as a result of closures.

There may be higher whole of life costs and financial loss due to poor planning for new construction (higher operating costs), reactive maintenance / renewal and reduced lifespans.

Trust and confidence may be lost as environmental outcomes will not be achieved or are too expensive for local communities to use.



## STRATEGIC RISK REGISTER

**Risk Drivers:**

- Ageing assets, lack of sufficient investment / budget allocation. Renewal's investment required to address backlog as assets continue to age / deteriorate;
- Resourcing shortfall of expertise, technical advisers, contractor availability and contractor performance affecting delivery;
- Reactive and unbudgeted maintenance is very costly;
- Inflationary pressures and supply change delays and disruptions;
- Accelerated asset demand and consumption due to population growth and urban intensification, made worse by unsustainably low revenue;
- Changing needs and expectations of our population and rising expectation of public to provide a higher level of service;
- Uncertainty around funding (e.g., NZTA subsidy for maintenance, operations renewals);
- Inconsistent Long-Term Asset Management Plans across all asset types and sites;
- Economic, environment, financial constraints, impacts on assets management plans;
- Significant increases in infrastructure cost and access to materials/services that are critical to deliver our infrastructure programme as a result of the COVID -19 pandemic;
- Water Reform impacts on resourcing / technical expertise, work programme impacts;
- Legislative requirements and changes to standards to meet requirements means further investment in renewals is required (e.g., seismic for buildings, machinery, and components at pools / water supply / sewage treatment etc. for compliance and heritage aspects: Petone Wharf, Naenae pool);
- Increasing impacts of climate change, natural hazards, liquefaction prone soils, floods, slips as a result of storm events;
- Financial security of partners, local bodies and subsidiaries put assets and community enjoyment of assets at risk; and
- Central Government has injected significant capital into a number of projects throughout New Zealand. This has acted to stimulate the economy, but the effect is that if there are more projects then increased capacity is required to deliver them.

**Current controls**

- Effective contractor management and monitoring of performance to ensure delivery against service levels;
- Inspections and analysis of condition and useful life to understand and prioritise spending on maintenance, operations, and renewals;
- Ongoing funding for life of the asset in business cases;
- Completed assessment of asset conditions;
- Regular stakeholder communication about asset condition and level of investment required;
- Asset Management Plans approved for built and green assets, including asset divestment and savings (August 2023);
- Clear work programmes developed for all projects;
- Establishment and filling of critical roles;
- Proactively managing mould issues at Petone Library and Hardwick Smith Lounge;
- Review of the roading asset management work programme completed, and work has commenced to action the programme;
- Ongoing independent Quantity Surveyor advice on RiverLink cost estimates, with budget reviews undertaken as part of LTP 2024-34; and
- An Asbestos Management Policy and procedures documents developed and implemented.


**Planned mitigation actions:**

- Site safety compliance remediation work programme underway;
- Ongoing work on partnering with strategic contractors; and
- Ongoing work on Alliance type models and assessing of shared risks, collectively working to mitigate risks;
- Independent review on the current state of Asset and Facilities Managements practices; and
- Asbestos survey to be completed in 2024.



## STRATEGIC RISK REGISTER

## 3. Health and Safety

| <b>Risk Owner:</b> Chief Executive, <b>Secondary Risk Owner:</b> Chief People Officer   |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
|---|----------|--------|---------------|--|--|------------|--------|------|--------|-------|------|---------------|--|--|------------|--------|------|----------|----------|--------|
| <b>Risk Ratings:</b> <div style="display: flex; justify-content: space-around; align-items: flex-start;"> <table border="1" style="margin-bottom: 20px;"> <thead> <tr><th colspan="3">INHERENT RISK</th></tr> <tr><th>Likelihood</th><th>Impact</th><th>Risk</th></tr> </thead> <tbody> <tr><td>Likely</td><td>Major</td><td>High</td></tr> </tbody> </table> <table border="1"> <thead> <tr><th colspan="3">RESIDUAL RISK</th></tr> <tr><th>Likelihood</th><th>Impact</th><th>Risk</th></tr> </thead> <tbody> <tr><td>Possible</td><td>Moderate</td><td>Medium</td></tr> </tbody> </table>  </div> <p style="text-align: right;"><b>Risk Appetite: No Appetite</b></p>   |          |        | INHERENT RISK |  |  | Likelihood | Impact | Risk | Likely | Major | High | RESIDUAL RISK |  |  | Likelihood | Impact | Risk | Possible | Moderate | Medium |
| INHERENT RISK   |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| Likelihood  | Impact   | Risk   |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| Likely  | Major    | High   |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| RESIDUAL RISK   |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| Likelihood  | Impact   | Risk   |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| Possible  | Moderate | Medium |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| <b>Risk Description:</b> If while undertaking operational activities on behalf of the Council there's a risk of injury, illness or death of a staff member, contractor, or member of public, or damage to plant or equipment occurs from hazards within the work environment, there's a risk of the following: <ul style="list-style-type: none"> <li>• Prosecution under the Health and Safety at Work Act 2015 resulting in fines, reputation, damage to employment brand;</li> <li>• Individual prosecution or imprisonment for Officers under the Act (Chief Executive and Directors are deemed Officers under the Act);</li> <li>• Staff, public and/or stakeholder loss of trust and confidence in Council;</li> <li>• Financial impacts for Council to cover costs of treatment, leave and potentially service delivery disruption; and</li> <li>• Continuity issues and loss of organisational or operational knowledge.</li> </ul> |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| <b>Risk Drivers:</b> <ul style="list-style-type: none"> <li>• Resourcing issues or constraints;</li> <li>• Breakdown in workplace practices and failed or absent controls;</li> <li>• Complex and high-risk activities that are managed through contractors or partnerships with overlapping duties with varying levels of capability;</li> <li>• Lack of understanding of health and safety responsibilities leading to a reduction in psychological safety culture and attitude to and ownership of health and safety risks;</li> <li>• Varying levels of staff engagement and workload pressures, which can lead to heightened levels of stress, and low resilience; and</li> <li>• External drivers including an increase in antisocial behaviour and public aggression, threats to personal and facility safety due to mental health issues and pressures in the community.</li> </ul>   |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |
| <b>Current controls</b> <ul style="list-style-type: none"> <li>• Existing H&amp;S management framework and reporting system (Assura);</li> <li>• An active and engaged HSW committee and representatives;</li> <li>• H&amp;S Hazard and Risk register and active controls;</li> <li>• Staff operational H&amp;S induction and training; including 'Situational Awareness', 'Good Yarn' and safeguarding children;</li> <li>• Leaders HS&amp;W training and induction programme;</li> <li>• Development of the Leadership Framework and delivery of leadership training and communications;</li> <li>• Debriefs/investigations of events and publishing of lessons learned to provide learning opportunities;</li> <li>• Assets and Facilities work programme including Seismic Performance Register and strengthening activity, Asbestos register, facilities repairs and maintenance work including oversight of mould issues;</li> </ul>  |          |        |               |  |  |            |        |      |        |       |      |               |  |  |            |        |      |          |          |        |



## STRATEGIC RISK REGISTER

- Wellbeing Programme and Employee Assistance Programme; and
- HSW team focus on hazard and contractor management, site audits, enhancing organisation H&S capability as outlined and prioritised in the HSW workplan.

**Planned mitigation actions:**

- Identification of critical risks;
- Introduction of H&S reporting to Audit & Risk Subcommittee;
- Enhance H&S metrics and reporting to demonstrate performance of safety systems;
- Facility upgrades;
- Ongoing review of the wider HSW framework to ensure all H&S policies, procedures and other documents are fit for purpose, and adequate;
- Development of Crisis and Emergency Management Framework and appropriate plans, policies and procedures;
- Development of a Wellbeing & Belonging Strategy to provide direction for supporting psychosocial risks, mental health & wellbeing, and psychological safety; and
- Review of physical controls, training, and processes for managing antisocial behaviour.

**4. Planning for Climate Change****Risk Owners:** Corporate Leadership Team**Risk Ratings:**

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Likely        | Major  | High |

| RESIDUAL RISK |          |        |
|---------------|----------|--------|
| Likelihood    | Impact   | Risk   |
| Possible      | Moderate | Medium |

| Likelihood   | Almost Certain |       |          |       |         |  |
|--------------|----------------|-------|----------|-------|---------|--|
|              |                |       |          |       |         |  |
|              |                |       |          |       |         |  |
|              |                |       |          |       |         |  |
|              |                |       |          |       |         |  |
|              | Insignificant  | Minor | Moderate | Major | Extreme |  |
| Consequences |                |       |          |       |         |  |

**Risk Appetite:** Moderate

**Risk Description:** If Council's planning, adaptations, mitigations do not adequately respond or absorb the impacts of climate change, then there may be impacts to personal safety, disruption to business and transport (e.g. storms, floods, slips/ erosion, surges etc.), threats to the ongoing financial sustainability of businesses, impacts on community wellbeing, economic impacts, potential infrastructure asset impairment/reduced useful life/increased costs for assets in risk prone areas and loss of trust and confidence.

**Risk Drivers:**

- Topography, river and shoreline movements, speed of change such as sea level rise;
- Insufficient global and local focus, prioritisation and funding of climate initiatives;
- Climate Change Commission reports and NZ Government's responses (or lack of it) at a national or local level will have an impact on HCC's ability to drive environmental objectives;
- Challenges in adapting and aligning plans over time to address new legislation and Government's directives could be cost prohibitive for HCC in the current financially constrained environment; and
- Availability of funding for projects and activities that affect the speed of adaptation and mitigation.



## STRATEGIC RISK REGISTER

**Current controls**

- Council approved interim Carbon Reduction & Climate Resilience Plan 2021-2031, includes all the work to decarbonise Council assets, improve efficiency & electrifying of vehicle fleet, establish environmental policies and implement strategies to achieve carbon zero targets. Initiatives are monitored and progress tracked against objectives;
- Climate Change and Sustainability Committee established, with oversight on climate change work;
- Various projects implemented or under way to reduce emissions (e.g. Heavy Electric vehicle charging hub – Silverstream landfill, phasing out of fossil gas at aquatic facilities etc);
- Lower Hutt climate action pathway was published in March 2022. (Pathway to reduce city wide emissions);
- Low Carbon Acceleration Fund launched in Feb 2024 to assist with co-funding for projects in Lower Hutt that result in accelerated carbon reduction actions;
- Additional funding of \$20M has been included in Council plans for Eastern Hutt Road resilience works;
- Capital Investment projects underway with a focus on climate change includes:
  - RiverLink Project - flood protection;
  - Tupua Horo Nuku (Eastern Bays Shared Path) - coastal resilience;
  - District Plan – hazard mapping;
  - Integrated Transport Strategy; and
  - Working closely with GNS on geotechnical information and slips.

**Planned mitigation actions:**

- Long-term plan 2024-34 includes a new Food and Green Organics Collection Service, for implementation in 2027, to reduce organic material going to landfill and resulting in methane emissions. This is subject to funding and further work which is underway as per the Council resolution.

**5. Information and Technology****Risk Owner:** Chief Digital Officer**Risk Ratings:**

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Possible      | Major  | High |

| RESIDUAL RISK |        |        |
|---------------|--------|--------|
| Likelihood    | Impact | Risk   |
| Unlikely      | Major  | Medium |

|            |                |                    |       |               |       |        |
|------------|----------------|--------------------|-------|---------------|-------|--------|
| Likelihood | Almost Certain |                    |       |               |       |        |
|            | Likely         |                    |       |               |       |        |
|            | Possible       |                    |       |               |       |        |
|            | Unlikely       |                    |       |               |       |        |
|            | Rare           |                    |       |               |       |        |
|            |                | Insignifi-<br>cant | Minor | Mod-<br>erate | Major | Extrem |
|            |                | Consequences       |       |               |       |        |

**Risk Appetite: No Appetite**

**Risk Description:** If key systems become unavailable or unusable to process transactions, provide services and progress Council's outcomes, or an unauthorised access or use of systems occurs (Cyber-attack), then this may result in loss of data, adverse impacts on service delivery, financial loss (cost to restore backup, reduced productivity), compliance breaches if personal information or sensitive data is released (e.g., Privacy Act, Public Records Act, LGOIMA) and loss of trust and confidence in Council.



## STRATEGIC RISK REGISTER

**Risk Drivers:**

- Increase in external malicious cyber-attacks globally and locally;
- Education levels of staff around awareness and malicious threats;
- Staff creating / downloading applications for use on Council devices without obtaining the correct authorisation and/or fully understanding the associated security risks;
- Potential IT security and policies not clearly understood;
- Management of information by staff; and
- Legacy systems are increasingly not fit for purpose.

**Current controls**

- Cyber security governance and strategy in place;
- Security reporting completed quarterly to Security Governance Group;
- Ongoing staff training and communication to maintain awareness;
- Change control process enforced for changes to all IT systems;
- Annual penetration testing;
- Annual security audit;
- IT security systems well managed and tested regularly;
- Network security patches maintained;
- Managed security contracts and security monitoring tools in place;
- Digital strategy, roadmap and funding for investments are in place;
- Prompt reporting of security and data breaches;
- Key core systems (finance, rates, document management, email) are SaaS (Software as a Service) solutions replicated across multiple datacentres (in the cloud);
- Secure backup solution for all systems (backing up on prem and in cloud) in place; and
- Strong login password criteria and Multi Factor Authentication (MFA) implemented across Council.

**Planned mitigation actions:**

- Ongoing work in the Te Kōhao (Go Digital) Programme outcomes to improve redundancy and security;
- Recruitment underway for additional cyber security staff; and
- Project in progress to move to a Hybrid Cloud solution (Public / Private hosted Cloud).

**6. Financial Management****Risk Owner:** Group Chief Financial Officer**Risk Ratings:**

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Likely        | Major  | High |

| RESIDUAL RISK |          |        |
|---------------|----------|--------|
| Likelihood    | Impact   | Risk   |
| Possible      | Moderate | Medium |

|            |                |               |       |          |       |         |
|------------|----------------|---------------|-------|----------|-------|---------|
| Likelihood | Almost Certain |               |       |          |       |         |
|            | Likely         |               |       |          |       |         |
|            | Possible       |               |       |          |       |         |
|            | Unlikely       |               |       |          |       |         |
|            | Rare           |               |       |          |       |         |
|            |                | Insignificant | Minor | Moderate | Major | Extreme |
|            |                | Consequences  |       |          |       |         |

**Risk Appetite:** Moderate

**Risk Description:** If Council's financial capacity and revenue does not meet demand and service needs, then it may not be able to prudently manage its financial obligations.



## STRATEGIC RISK REGISTER

This may result in:

- Standard and Poor's Credit Rating Agency (S&P) downgrade. (In August 2023 S&P amended our rating from an AA with a stable outlook, to an AA with a negative outlook. This followed from the Annual Plan 2023-24 where there were significant financial pressures from high inflation, interest costs etc. The next S&P review is scheduled for August 2024 and follows on from the Long-Term Plan 2024-2034 which has seen further financial pressures and significant increases in debt levels, heightening risks of a downgrade further);
- Increased cost of funding and/or inability to borrow, impacting on debt;
- Liquidity issues;
- Project delays;
- Deferral of asset maintenance/renewals;
- Service levels below community expectations;
- Suppliers unwilling to engage with Council to provide services;
- Difficulties in accessing skilled staff to deliver projects; and
- Loss in trust and confidence.

**Risk Drivers:**

- Reduced revenue combined with increased / unplanned / unbudgeted costs and/or requirement for higher debt levels;
- Uncertainty of central government reforms, in particular water services;
- Uncertainty in global market and economic conditions effect on domestic / regional / local economy;
- Capacity / resourcing constraints and lack of sufficient capabilities (understanding) around managing debt collection and associated legislative rules;
- A shock event such as an earthquake would impact borrowing costs (on top of increased borrowing to spend on assets/projects) and reduced disposable household and local businesses income;
- Sustainability of Council debt levels and unfavourable interest rate changes;
- Cost escalations due to supply chain issues, disruptions, inflationary pressures and shortages of both skills and materials; and
- Economic climate conditions with increased cost of living impacting unfavourably on Council revenue sources and overall financial position.

**Current controls**

- Future investment priorities and projects confirmed through Long Term Plan 2024-2034;
- In depth budget review process as part of Long-term Plan 2024-2034; included comprehensive advice on financial risks, including debt headroom capacity constraints.
- Treasury Risk Management Policy, liquidity management, forecasting, monitoring; with additional specialist advice on treasury strategy, given the economic conditions;
- Financial Strategy debt limits and monitoring mechanisms;
- Transparent reporting and financial management;
- Scrutiny during budget setting and project business cases;
- Financial performance monitoring processes which include monthly reporting to Corporate Leadership Team and quarterly reporting to Policy, Finance and Strategy Committee which enables financial issues to be raised and proactively managed;
- Increased oversight and monitoring of major projects;
- Policies, tools and options for rates relief and payment options, with proactive promotion of these;
- Use of good quality data to inform decisions and planning;
- Implemented and continue to work on improvements to project cost estimates process;
- Proactive engagement on the new government policy programme to ensure financial risks and impacts are well understood;
- Working closely with the local government sector and Local Government Funding Agency; and
- Have ongoing assurance activities in place.

**Planned mitigation actions:**

- Ongoing mitigations and planned actions around portfolio / programme / project management, asset management and procurement will drive better understanding of costs and help identify savings and efficiency opportunities; and
- Take up opportunities to influence central government policy and advocate for communities in financial hardship.



## STRATEGIC RISK REGISTER

## 7. Procurement

Risk Owner: Group Chief Financial Officer

## Risk Ratings:

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Likely        | Major  | High |

| RESIDUAL RISK |          |        |
|---------------|----------|--------|
| Likelihood    | Impact   | Risk   |
| Unlikely      | Moderate | Medium |

|            |                |               |       |          |       |         |
|------------|----------------|---------------|-------|----------|-------|---------|
| Likelihood | Almost Certain |               |       |          |       |         |
|            | Likely         |               |       |          |       |         |
|            | Possible       |               |       |          |       |         |
|            | Unlikely       |               |       |          |       |         |
|            | Rare           |               |       |          |       |         |
|            |                | Insignificant | Minor | Moderate | Major | Extreme |
|            |                | Consequences  |       |          |       |         |

Risk Appetite (strategy/ financial):  
Moderate

**Risk Description:** If sub-optimal practices around the procuring of goods, works and services materialise, then this will impact the achievement of wider outcomes for procurement and create financial losses for Council due to:

- Unfavourable or sub-optimal contract terms;
- Difference in rules when partnering with other agencies;
- Missed opportunities to leverage bargaining power;
- Reduced service levels below community expectations;
- Poor vendor performance;
- Inappropriate KPIs that promote or incentivise the wrong vendor behaviours;
- Increased risk of fraud and corruption in the appointment process; and
- Loss of trust and confidence.

## Risk Drivers:

- Lack of sufficient skills and knowledge in procurement planning and executing "go to market" activities;
- Lack of a robust framework to plan and manage vendor performance;
- Lack of standardised reporting and transparency over vendor performance;
- Competitive market conditions resulting in lack of available supplier resource in contractor market, particularly the civil and construction areas across NZ that will draw on the same expertise / supplier resource; and
- The complexity and impact of the broader outcome's framework on suppliers and reporting.

## Current controls

- Procurement Strategy approved by Council on 27 March 2024;
- Consistent use of Procurement practices and capabilities, and an established strategic framework to maximise commercial opportunities, performance standards, efficiencies, and effectiveness;
- Procurement team has oversight across all sourcing activities to ensure early identification and mitigation of potential risk exposures;
- Procurement guide is available to staff that outlines the policy, process, and practices;
- On-going advice and guidance being provided across HCC business areas on procurement practices as required, leading to a shift in mindset around simplification of processes which leads to efficiencies to all stakeholders;
- Regular communications with other Councils in the region, exploring opportunities for combined market approach for similar service and gaining economies of scale;
- Enterprise-wide contracts register in place, enabling better analysis of spend, measurement of vendor



## STRATEGIC RISK REGISTER

- performance and increase the overall effectiveness of contract management; and
- Ongoing training and support on the enterprise-wide contracts register.

**Planned mitigation actions:**

- Ongoing review of practices, ensuring sourcing efficiencies, whilst maintaining the integrity of processes;
- Annual review of procurement plans to ensure it is fit for purpose;
- Continuing to develop a procurement training framework;
- Working on including procurement practices and Council's approach with on-boarding of new staff; and
- Ongoing procurement workshops to educate Council staff on good procurement practices and lessons learnt from previous procurement activities.

**8. Workforce capacity, capability and engagement****Risk Owner:** Chief People Officer**Risk Ratings:**

| INHERENT RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Likely        | Major  | High |

| RESIDUAL RISK |        |      |
|---------------|--------|------|
| Likelihood    | Impact | Risk |
| Unlikely      | Minor  | Low  |

| Likelihood | Almost Certain |               |       |          |       |         |
|------------|----------------|---------------|-------|----------|-------|---------|
|            | Likely         |               |       |          |       |         |
|            | Possible       |               |       |          |       |         |
|            | Unlikely       |               |       |          |       |         |
|            | Rare           |               |       |          |       |         |
|            |                | Insignificant | Minor | Moderate | Major | Extreme |
|            |                | Consequences  |       |          |       |         |

**Risk Appetite (strategy):** Moderate

**Risk Description:** If workforce capacity, capability and engagement is not effectively managed, maintained and developed, this may result in disengagement and/or resignations of key staff - leaving gaps of knowledge and increasing costs to recruit, induct and train, loss of intellectual property, wellness impacts and increased pressure on remaining team members due to workloads.

We need to ensure we have people in the right place with the right skills, so we have both the capacity and capability to deliver on the plans for our city and to better serve our communities. We also need to ensure we provide a positive work environment and experience for our people. Workforce pressures impact organisational effectiveness and Council's ability to deliver its LTP.

**Risk Drivers:**

- Retention and recruitment, particularly of skilled staff (including in regulatory and policy areas), continues to be key areas of focus;
- Higher levels of remuneration being paid, particularly by central government which impacts on our ability to attract and retain talent due to our proximity to Wellington;
- Increased employee expectations of employers and the experience, compensation, flexibility etc they provide;
- Changing nature and expectations of leadership;
- Pressure in some parts of the business which should be resolved through ongoing improvements to systems and processes;
- Ongoing realignment activities and inadequate focus and effort put into these leading to disengagement, lack of role clarity etc; and



## STRATEGIC RISK REGISTER

|  |
|--|
| <ul style="list-style-type: none"> <li>Not having sufficient staffing levels for workloads (including to deliver significant capital investment programme).</li> </ul>   |
| <p><b>Current controls</b></p> <ul style="list-style-type: none"> <li>Ongoing engagement with staff including providing regular opportunities for feedback through our Waiora Surveys, follow-up discussions and action plans;</li> <li>Clear performance expectations being set, aligned with organisational priorities and the business planning process. Expectation of ongoing feedback and coaching being undertaken by leaders;</li> <li>Recent remuneration review process (July 2024), however this didn't provide the opportunity to address relativity issues and recognise performance to the usual extent due to budget constraints;</li> <li>Ongoing exit surveys with timely reporting to identify areas for improvement proactively by tracking attrition statistics and feedback trends over time;</li> <li>Wellbeing programme activities including regular communications and promotion of support services available such as Vitae for EAP Services;</li> <li>Regular All Staff Hui's and pānui/kōrero comms to share information and ensure connection across Council;</li> <li>Leadership education and learning opportunities such as webinars and the leadership forums, through the Te Ara Whakatupu programme;</li> <li>Providing internal promotions and secondment opportunities where appropriate;</li> <li>Supporting the business to prioritise recruitment activity and get the best outcomes;</li> <li>Delivery of initiatives outlined in the Organisation &amp; Capability Development Plan;</li> <li>Go1 digital eLearning platform being utilised to provide access to learning activities (onboarding, compliance, core capabilities etc), and to support professional and personal growth and development;</li> <li>Performance development framework that provides resources for the various conversations our leaders need to have; and</li> <li>Monthly and quarterly reporting undertaken to enable identification of trends and support decision-making.</li> </ul> |
| <p><b>Planned mitigation actions:</b></p> <ul style="list-style-type: none"> <li>Focus on continuing to embed the Mana Kōrero framework to support a culture of regular feedback and enable high-performing teams;</li> <li>Focus on increasing uptake of goals entered into CultureAmp (at least 80%), to ensure staff are meeting performance expectations and working productively;</li> <li>Development of a Wellbeing and Belonging Strategy to provide an intentional approach to supporting staff wellbeing;</li> <li>Improve diversity information collected to enhance reporting and ensure our workforce represents the communities we serve;</li> <li>Ongoing promotion of opportunities internally through Te Pataka and better access/visibility of vacancies;</li> <li>Completion of a leadership framework to describe what good leadership looks like at Hutt City Council;</li> <li>Continuing to provide development opportunities through Te Ara Whakatupu;</li> <li>Implementation of new HRIS and payroll systems; and</li> <li>Delivery of initiatives outlined in the Waiora Survey 24-25 Action Plan.</li> </ul>   |



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**Report no: ARSC2024/4/213**

## **Three-Year Internal Audit Plan 2025-2027**

### **Purpose of Report**

1. To seek approval from the Audit and Risk Subcommittee for the Three-Year Internal Audit Plan 2025-2027.

### **Recommendations**

That the Subcommittee:

- (1) receives and notes the report;
- (2) approves the prioritisation of the internal audits/review engagements; and
- (3) approves the Three-Year Internal Audit Plan 2025-2027, attached as Appendix 1 to this report.

### **Background**

2. Internal Audit is an independent, objective assurance and advisory activity, within the Risk and Assurance service offering. It is one component of the total assurance Council receives through the various activities it undertakes.
3. Its purpose is to add value by providing meaningful advice to key stakeholders through a systematic, disciplined approach to the improvement of operational controls.
4. It also helps achieve key strategic priorities, effective risk management practices and governance processes.
5. Whilst this internal audit plan is set for three years, this plan may be revised and updated annually on a rolling basis to ensure ongoing relevance with Council's risk profile and priorities.
6. It prioritises engagements using a risk-based approach of Council's strategic and operational risk profiles, key strategic priorities and business objectives, current economic environment, management's concerns and Risk and Assurance insights of services and core business processes.
7. This three -year internal audit plan has been developed using a risk-based approach. It also has some flexibility to allow for ad-hoc engagements to be added -on and/or engagements to be shifted, depending on the scenario.



8. The activities undertaken to develop this plan included:
- a. noting the total assurance activities across Council to manage exposure to the risk of achieving key priorities;
  - b. considering the risks listed on the Council Strategic Risk Register;
  - c. reviewing of the management reports provided by Audit NZ in prior years;
  - d. consulting with key stakeholders across Council; and
  - e. reviewing available internal audit plans for similar Councils; and
  - f. in consultation with directors.
9. The following internal audit engagements are planned for 2024/25:
- a. Accounts Payable Review (end-to-end process), Q1
  - b. Accounts Receivable Review (focus on building consent revenue/debtors), Q2
  - c. Sensitive Expenditure Review, Q3
  - d. Procurement and Contract Management Review (high-level), Q4.

### **Climate Change Impact and Considerations**

10. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.

### **Consultation**

11. Not Applicable.

### **Legal Considerations**

12. Not Applicable.

### **Financial Considerations**

13. Not Applicable.

### **Appendices**

| No.               | Title                          | Page |
|-------------------|--------------------------------|------|
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Risk and Assurance Manager - Finance

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**Reviewed By:** Jenny Livschitz  
Group Chief Financial Officer

**Approved By:** Jo Miller  
Chief Executive



# INTERNAL AUDIT PLAN 2025-2027



## 1 EXECUTIVE SUMMARY (OVERVIEW)

The Internal Audit Plan 2025-2027 outlines the planned internal audit engagements and related assurance activities for the period 1 July 2024 to 30 June 2027.

Whilst the internal audit plan is set for three years, this plan may be revised and updated annually on a rolling basis for the approval by the Corporate Leadership Team and Audit and Risk Subcommittee to ensure ongoing relevance with Council's risk profile and priorities.

The internal audit plan prioritises audits using a risk-based component of Council's strategic and operational risk profile, key strategic priorities and business objectives, current economic environment, management's concerns and Risk and Assurance's insights of services and core business processes.

This audit plan has been developed by:

- Taking account of the key risks identified in the risk register;
- Using the internal auditor's experience of the organisation and the sector more generally to identify other areas of risk which may warrant attention;
- Reviewing Audit New Zealand's Management report; and
- Discussing identified risks and other relevant issues with management to identify the potential scope of internal audit.

The plan allows for some flexibility to ensure appropriate coverage or to accommodate audits that may be reprioritised in response to changing risk profiles and priorities. Any material changes to the programme are communicated to the Corporate Leadership Team and Council's Audit and Risk Subcommittee.

The internal audit activity is one component of a suite of total assurance activities to meet risk, control and governance framework objectives.

Council has an in-house Risk and Assurance function through which all engagements on this plan will be delivered. Only where technical specialist expertise is required for a particular audit engagement, this will be sought outside of Council. Any specialised work outsourced will be performed under the supervision of Risk and Assurance.

## 2 DEFINITION<sup>1</sup>

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## 3 PLANNING

Through planning, a number of business processes and/or initiatives were identified as potential auditable areas. A prioritisation process was undertaken to allow for linkage of internal audit activity to key risks and management input.

The prioritisation criteria included consideration of the extent/degree to which the:

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<sup>1</sup> Institute of Internal Auditors definition of internal auditing.



- Activity is aligned with strategic priority strands;
- Activity is relied upon to mitigate key risk;
- Proposed review would support key process improvement initiatives;
- Area impacts on service delivery and/or financial performance;
- Activity contributes to meeting key stakeholder accountability expectations;
- Assurance received from previous audits or from other assurance activity; and
- Maturity of processes.

The scope of internal audit aims to avoid gaps and/or duplication of effort with other sources of assurance. Therefore, Risk and Assurance will consider reviewing key activities / components to ensure they can be relied on to provide assurance.

A review sponsor will be identified for each engagement performed.

## 4 SCOPE

Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Council's strategic objectives are appropriately identified and managed;
- The actions of Council's officers and contractors are in compliance with Council's policies, procedures, and applicable laws, regulations and governance standards;
- The results of operations or programmes are consistent with established objectives and goals.
- Operations or programmes are being carried out effectively and efficiently;
- Established processes and systems enable compliance with policies, plans, procedures, practices, contractual obligations, laws and regulations that could significantly impact Council;
- Information and the means to identify, measure, analyse, classify, and report such information is reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

## 5 FUNCTION OF RISK AND ASSURANCE

The Risk and Assurance function is responsible to use professional judgement, formulating an opinion and reporting on the effectiveness and adequacy of internal controls and governance processes within auditable areas. This function works collaboratively with management to achieve pragmatic solutions to audit findings and opportunities for improving business processes and controls.

The Risk and Assurance Manager responsibilities include:

- Ownership and delivery of the internal audit plan;
- Ownership and management of the risk management end-to-end function, including reporting on strategic risks to the Audit and Risk Subcommittee on a quarterly basis;
- Ownership and management of relevant policies, registers and providing advice as required;
- Fraud Risk assessments; and
- Review of Business Continuity.

NB: assurance engagements over Risk and Assurance's non-audit responsibilities must be overseen by an external provider in order to safeguard independence and objectivity.

## 6 TYPES OF INTERNAL AUDIT ACTIVITY

A sponsor will be identified for each planned review. Internal audit activity may involve:

- **Audit:** the examination and evaluation of the adequacy and effectiveness of management's control over operational risk as well as the quality of performance in carrying out assigned responsibilities to achieve the business units/process/functions goals and objectives. (The audit report provides a positive assurance opinion on management control).



## INTERNAL AUDIT PLAN 2025-2027

- **High Level Review:** limited scope assessment of the adequacy and effectiveness of controls over key risks. Subject to a satisfactory outcome, a report is issued that confirms no significant or material issues were identified (i.e. a "Negative Assurance"). If significant issues are identified, the level of risk implies an audit is required.
- **Change Reviews:** analysis of risks for implementation of new systems, structures, products or processes and benefits realisation.
- **Risk Monitoring and Review:** continuous monitoring of risks and the control environment.
- **Projects and initiatives:** this category includes risk management advice, assistance, secondments, and other risk related activities which provide management with risk management guidance and staff with a better understanding of business processes and activities.

## 7 REPORTING AND MONITORING

Reporting to management will include an assessment of the state of controls in the area reviewed and will have an emphasis on improvements. The internal audit report will include management's comments and corrective action taken or to be taken in regard to the specific findings along with an anticipated timeframe for completing the corrective action.

The final report is available to the Director and/or process owner, the sponsor, the Corporate Leadership Team and Chief Executive. A high-level summary of the findings will be provided quarterly to Audit and Risk Subcommittee as part of the *"Risk Management and Assurance Update"*.

Risk and Assurance is responsible for follow-up on findings and implementation of corrective actions. All significant findings will remain in an open issues file until cleared.

### 7.1 NAVIGATING THIS DOCUMENT

The table under **section 7.2** maps the key risks to sources of assurance to determine the adequacy of overall coverage and to minimise duplication of effort. The top risks are taken from the strategic risk register.

Where there are other sources of assurance, the scope of internal audit aims to avoid gaps and overlaps (duplication of effort).

Meetings were held with key stakeholders and prioritisation criteria were applied to determine the internal audit plan set out under **section 8**.

**Section 9** outlines the preliminary scope for the reviews listed under **section 8**.



## 7.2 MAPPING RISK TO ASSURANCE

| Risk identified in the risk register   | Ranking | Internal audit reviews proposed for upcoming three-year period   | Other sources of assurance  | Notes  |
|--|---------|--|---|--|
| 1. <b>Assets</b> do not deliver expected outcomes effectively, efficiently or sustainably.   | Medium  | <ul style="list-style-type: none"> <li>➤ Asset Management Review (Review the processes to ensure alignment between key planning documents relating to core Council assets and progress made on addressing the improvement areas/gaps identified by Taituarā and the independent review of the Transport business unit)</li> <li>➤ Infrastructure project review</li> </ul> | <ul style="list-style-type: none"> <li>➤ Asset Management practices review by Taituarā (formerly SOLGM) Technical Advisor</li> <li>➤ NZTA Waka Kotahi two yearly investments audits on transport infrastructure</li> <li>➤ LTP 2024-2034 audit by Audit NZ</li> </ul>     | <ul style="list-style-type: none"> <li>➤ Q1/2 2024/25 - Independent review on the Transport business unit contract management practices against leading practices.</li> </ul>      |
| 2. <b>Health and safety</b> of staff and people on premises.   | Medium  |  | <ul style="list-style-type: none"> <li>➤ H&amp;S Manager current state review of the H&amp;S policies and procedures; and</li> <li>➤ Facilities Management stocktake / review of facilities compliance requirements.</li> </ul>   | <ul style="list-style-type: none"> <li>➤ Working towards moving to ISO45001</li> <li>➤ Developing of Wellbeing and Belonging Strategy (estimated completion Q3 2024/25)</li> </ul> |
| <p>3. <b>Legislative and regulatory changes creating higher costs or reducing subsidies</b> - uncertainties around the legislative and regulatory changes in government reforms impacts a number of areas such as planning processes, work programmes, resourcing requirements and funding mechanisms.</p> <p>There are potential opportunities from the legislative and regulatory changes to improve the wellbeing of our communities and financial efficiencies, with a memorandum of understanding in place and Hutt City now working closely with other Councils in the region to establish a water service delivery plan (Local Water Done Well). There may also be opportunities and impacts on Council's financial position, financial performance, operations, impacts on staffing, service delivery and outcomes to our community.</p> | Medium  |  | <p><b>Resource Consent</b></p> <ul style="list-style-type: none"> <li>➤ Specialist advice from DLA Piper</li> </ul> <p><b>Building Consents</b></p> <ul style="list-style-type: none"> <li>➤ IANZ two-yearly audit</li> </ul>   |  |
| 4. Failure to plan for and manage <b>climate change</b> and its impacts.   | Medium  |  | <ul style="list-style-type: none"> <li>➤ Lumen Energy advice for energy audits.</li> <li>➤ Lumen Energy peer review Council's carbon footprint.</li> <li>➤ Council approved interim Carbon Reduction &amp; Climate Resilience Plan 2021-2031, includes all the</li> </ul> |  |



## INTERNAL AUDIT PLAN 2025-2027

| Risk identified in the risk register  | Ranking | Internal audit reviews proposed for upcoming three-year period  | Other sources of assurance   | Notes   |
|---|---------|---|--|---|
|   |         |   | work to decarbonise Council assets, improve efficiency & electrifying of vehicle fleet, establish environmental policies and implement strategies to achieve carbon zero targets. Initiatives are monitored and progress tracked against objectives.<br>➤ Climate Change Disclosures- initial work underway  |   |
| 5. <b>Information and Technology</b>  | Medium  | ➤ System Implementation (TBC - either CRM or HRIS- to be implemented Q3/4 204/25) – achieving of objectives, outcome and costs<br>➤ Review of Bookable System, benefits realisation   | ➤ Audit New Zealand annual review;<br>➤ Externally monitored device located on the network;<br>➤ Monitors all traffic across the network;<br>➤ Managed TaaS network solution (industry compliant);<br>➤ Security access penetration testing; and<br>➤ Finance and rates systems are SaaS software (cloud based) with redundancy / continuity plans | ➤ The Privacy Act 2020 came into force on 1 December 2020, with Council undertaken a review on the implementation of the changes to the Act in 2022/23.   |
| 6. <b>Financial management</b> - financial capacity to meet demand, needs and prudent management of financial obligations.                        | Medium  | ➤ Sensitive Expenditure Review<br>➤ Accounts Payable Review (end-to-end process)<br>➤ Accounts Receivable Review (focus - Building Consents revenue/debtors)<br>➤ Fraud Risk data analytics/unusual transaction Review<br>➤ Tax Compliance Review | ➤ Standards and Poors credit rating assessments<br>➤ Technical advice: rates/financial strategy<br>➤ PwC advice for treasury risk management<br>➤ PwC annual tax review;<br>➤ Audit NZ audits Annual Report, LTP;<br>➤ Forecasting, reporting monthly to CLT and quarterly to Council's Policy, Finance, Strategy Committee                        | ➤ Electronic Purchase Order system fully implemented from February 2021;<br>➤ From July 2021, purchase card transaction processes relating to approval, coding and attaching of valid supporting documentation was performed electronically through the TechnologyOne, CIAnywhere system. |
| 7. <b>Procurement</b> practice and contract management and monitoring impacts service levels and HCC costs.                                       | Medium  | ➤ Procurement and contract management (focus on high value, high risk, complexity contracts, managing of vendor performance and tracking of financials)   | ➤ Specialist technical advice is sought on high complex, high risk procurement activities.   | ➤ A centralised Procurement function established in 2022. In October 2023, an additional staff resource was added to the team to increase capacity for support to the wider organisation.   |
| 8. <b>Workforce capacity, capability and engagement</b> impacts Council's ability to successfully deliver its vision, strategies and commitments. | Low     |   |  | ➤ Organisation re-alignments performed in areas required.   |



## 8 INTERNAL AUDIT THREE YEAR PLAN

| Internal audit reviews  | 2024/25 | 2025/26 | 2026/27 |
|---|---------|---------|---------|
| a. Accounts Payable Review (end-to-end process)   | Q1      |         |         |
| b. Procurement and contract management Review (high-level)  | Q4      |         |         |
| c. Procurement and contract management Review (Full review)   |         |         | Q2      |
| d. Accounts Receivable Review (focus on building consent revenue/debtors)   | Q2      |         |         |
| e. Assets Management Review   |         | Q2/Q3   |         |
| f. Property Leases Review (High-level)  |         | Q2/Q3   |         |
| g. Sensitive Expenditure Review   | Q3      |         |         |
| h. Information and Technology -Review of new Facilities Booking System, benefits realisation                                |         |         | Q3/4    |
| i. Fraud risk review and fraud focussed data analytics (unusual transaction analysis) – periodic two-yearly review          |         | Q4      |         |
| j. Review of Strategic Capital Project (RiverLink component of the project or a project within the Transport business unit) |         | Q1/Q2   |         |
| k. Information and Technology – Go Digital Project (Either Customer Relationship Management or HRIS/Payroll)                |         |         | Q1      |
| l. Contingency  | ✓       | ✓       | ✓       |
| m. Follow-up  | ✓       | ✓       | ✓       |
| n. Planning, reporting and liaison  | ✓       | ✓       | ✓       |

NB: Internal audits could be reprioritised depending on priority and the feasibility of resourcing, particularly externally resource where required.

Refer **Section 9 “Audit Universe”** for listing of auditable activities and details of preliminary scope.

Risk and Assurance will consult with the sponsor and activity/process owners on scope, timing and approach.



## 9 AUDIT UNIVERSE

| Auditable Activity <sup>2</sup> and Preliminary Scope   | In alphabetical order |
|---|-----------------------|
| <b>1. Accounts Payable Review (end-to-end process)</b><br>A review of the processes over addition of new suppliers, receipting of goods and services, timely processing of supplier invoices, payment facilities and the maintenance of the supplier Masterfile data. Ensure controls are adequate and operating effectively around the Electronic Purchase Order system, including ensuring expenditure has occurred, goods/service exists, is complete, correct cut-off, authorisation and evidence reviewed by authorisers at each stage.  |                       |
| <b>2. Asset Management Review</b><br>Review the processes to ensure alignment between key planning documents relating to core Council assets i.e. asset management plans and LTP: collaboration with other groups, the robustness of data, outcomes aligned to LTP (including sustainability goals), execution of plan, all of life costs. Planning and updating processes and reporting changes / variances e.g. actual v planned v forecast asset management plan. Timing to align with LTP/Annual plan process.<br>Follow-up on progress made on addressing the AM practices gaps issued by Taituarā and the through the independent review performed by Deloitte.   |                       |
| <b>3. Accounts Receivable Review (focus on building consent revenue/debtors)</b><br>Review and assess that Council approved fees and charges are consistently and effectively applied and the effectiveness and adequacy of controls in place over recording and collection of building consent revenue, credit control, debt management and potential root causes for high amounts of debts in the process.  |                       |
| <b>4. Fraud risk review and fraud focussed data analytics (unusual transaction analysis)</b><br>Assess the adequacy and effectiveness of management's control of fraud risk, and to identify opportunities for improvement.   |                       |
| <b>5. Information and Technology</b><br>Review and assess if the objectives and benefits of this project has been realised, actual and budgeted cost are in alignment and impacts of benefits not realised.   |                       |
| <b>6. Procurement and Contract Management Review</b><br>Review the processes for the management of contracts, from the initial tender process, contract payments through to the monitoring and reporting of performance, health and safety obligations and induction. Controls will be reviewed for adequacy and effectiveness and include both capital and operational procurement/contracts. Controls over the completeness, accuracy and authorisation of purchase orders and accounts payable invoices.<br>Assess how procurement practices deliver best value for money to ratepayers, enable innovative delivery of services and support environmental sustainability outcomes e.g. green procurement.<br>Identify and assess how contract management practices allow alignment with its partners to successfully deliver community outcomes and ensure the full benefit from contractual arrangements is obtained. |                       |
| <b>7. Property Leases Review (high-level)</b><br><b>8.</b> Review of rents on Council owned properties including setting the rent, income collection and renewals.  |                       |
| <b>9. Review of Strategic Capital Project</b><br><b>10.</b> Review and assess the management, monitoring and reporting of strategic capital projects. Governance structure(s), oversight, adequacy of resourcing to achieve outcomes. Review of either a Riverlink component of the project or a project within the Transport business unit against good practice in relation to project management and service performance will be undertaken.   |                       |
| <b>11. Sensitive Expenditure Review</b><br>A review of the adequacy and effectiveness of controls over processing of sensitive expenditure, supporting documentation and approval process, in alignment with Council's policies.  |                       |
|   |                       |

<sup>2</sup> Auditable activities could be based on a location, team, function, financial statement area, compliance requirement, or other justification as having a role in creating or preserving value for Council. These have some role in managing one or more risks to the achievement of Council objectives. If it can't be tied to an objective and risk, the activity will not be featured here.



INTERNAL AUDIT PLAN 2025-2027

| Auditable Activity <sup>2</sup> and Preliminary Scope   | In alphabetical order |
|---|-----------------------|
| <b>12. Operational/ Ad Hoc Audits, as required</b>  |                       |
| Review key operations to ensure risks are managed and controlled. Scope to be determined on a case-by-case basis. |                       |



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**Report no: ARSC2024/4/215**

## **HRIS/Payroll Project Update**

### **Purpose of Report**

1. This report provides an update, as agreed at the Audit and Risk Subcommittee meeting on 27 February 2024, on Council's progress on the Human Resources Information System (HRIS) and Payroll Project.

### **Recommendations**

That the Subcommittee:

- (1) notes the new HRIS and Payroll system to be implemented as part of the Te Kohao (Go Digital) Programme was initially due to go live in mid-2022;
- (2) notes that on 27 February 2024 the previous provider and Hutt City Council signed a settlement agreement to terminate the contract;
- (3) notes in May 2024 the HRIS/Payroll project was re-started following approval by the Te Kohao (Go Digital) Programme Board to progress the initiation phase of the project;
- (4) notes on 22 July 2024 a specialist HRIS/Payroll Project Manager started in the Te Kohao (Go Digital) team at Hutt City Council to manage the project; and
- (5) notes the Holidays Act Remediation project is on hold pending the delivery of the Holidays Act compliant payroll system.

For the reason outlined in the report.

### **HRIS/Payroll project delivery update**

2. The HRIS/Payroll project was established to ensure that Council has Human Resources and Payroll systems that are fit for purpose, enhance the employee experience, enable access to workforce data and are compliant with the relevant legislation.
3. The project was initially due to be delivered during 2022 but was placed on hold in June 2022 due to a delay in the release of a critical feature that Council required, and because the vendor was unable to provide confirmation that the software was compliant with the Holidays Act 2023 (the Act).
4. Following workshops and discussions with the vendor, they were unable to provide confidence to Council that the system is fully compliant with the Act and that it contains the functionality that Council requires.



5. On 14 August 2023, officers commenced a legal process to exit the contract. On 27 February 2024 Council signed a settlement agreement to terminate the contract.

### **Recommendation of the HRIS/Payroll project**

6. In March 2024 a workshop was held with key internal stakeholders to discuss the project scope and agree the next steps to recommence the project. This workshop identified the need for a specialist HRIS/Payroll Project Manager to manage the project.
7. A project brief was presented to the Go Digital Programme Board in May 2024. This brief outlined a high-level approach to recommence the project and complete the initiation phase. The key outcome of this phase is to select a new provider and develop a business case to be agreed by the Go Digital Programme Board. The initiation phase includes:
  - a. project initiation – review work done to date to define objectives, scope and key requirements/functionality that is required to meet Council needs, identify pain points and systems/processes that need to be improved as part of this project.
  - b. market research - conduct research to identify potential vendors that offer the features and capabilities Council needs. Discuss with other Councils their approach to HRIS/Payroll.
  - c. procurement – develop and agree a procurement approach and engage with the market.
  - d. vendor evaluation and selection
  - e. business case development and sign off.
8. It is expected that the initiation phase will be completed in Quarter 3 2024/25.
9. A specialist HRIS/Payroll Project Manager started with Council on 22 July 2024. A detailed project initiation document, providing more detail on the deliverables in the steps above, has now been completed and work has commenced on gathering key requirements.
10. A risks workshop has been scheduled with the Project Team to identify key risks associated with the project. However, a few key risks have been identified as lessons learnt from the previous iteration of the project, including:
  - a. availability of suppliers – if there is a reduced availability of suppliers with the capability and right sized solutions that have been proven in the New Zealand market, then the project may be delayed or may not be feasible within the defined requirements which may mean the requirements need to be adjusted.
  - b. budgetary constraints – if there are no systems available within the current budget, then additional funding may be required, and other



projects within Go Digital would have to be deprioritised or descoped from the programme.

- c. process improvement change – if there is an unwillingness to adopt change processes or if the business attempts to customise the new systems to meet old existing processes, the system will not be able to fix key pain points, and benefits will not be realised.
  - d. Holidays Act compliance – if there are no systems available that meets current or future Holidays Act compliance then the project may be delayed, or requirements or processes adjusted to meet legislative requirements.
11. A robust initiation phase that includes identification and prioritisation of requirements will be the core mitigation for these risks. Further mitigation plans will be developed for both these risks and risks identified in the workshops.
12. The Holidays Act remediation project is currently on hold pending implementing the new HRIS/Payroll system.
13. The project will deliver progress updates to the Audit and Risk Committee at each quarterly meeting throughout its duration.

### **Climate Change Impact and Considerations**

14. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.

### **Consultation**

15. Not applicable

### **Legal Considerations**

16. Officers worked with external lawyers to support Council to exit the previous contract.

### **Financial Considerations**

17. A budget of \$1M has been allocated to this project from within the Go Digital Programme budget.

### **Appendices**

There are no appendices for this report.

**Author:** Megan Connew-Simmons  
Programme Manager

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**Approved By:** Lyndon Allott  
Chief Digital Officer



**Report no: ARSC2024/4/87**

## **Sensitive Expenditure Disclosures**

### **Purpose**

1. To provide the Subcommittee with a listing of sensitive expenditure incurred by Elected Members, Chief Executive and Directors for the period 1 April 2024 to 30 June 2024.

### **Recommendations**

That the Subcommittee:

- (1) receives and notes the information; and
- (2) notes the Sensitive Expenditure disclosure information attached as Appendix 1 to the report: Summary of Sensitive Expenditure 1 April 2024 to 30 June 2024.

### **Background**

2. Information has been extracted from our financial system from relevant cost centres and expenditure codes where sensitive expenditure is highly likely to be coded.
3. The list of transactions for the quarter from 1 April 2024 to 30 June 2024 is attached as Appendix 1 to the report.
4. This information will also be published on Council's website.  
<http://www.huttcity.govt.nz/Your-Council/sensitive-expenditure/>
5. The current information provided by the Office of the Auditor General on sensitive expenditure can be located on their website.  
<https://oag.parliament.nz/good-practice/sensitive-expenditure>

### **Appendices**

| <b>No.</b>                 | <b>Title</b>  | <b>Page</b> |
|----------------------------|---|-------------|
| 1 <u><a href="#">1</a></u> | Sensitive Expenditure Listing 1 April to 30 June 2024 | 130         |

**Author:** Darrin Newth, Financial Accounting Manager

**Reviewed By:** Jenny Livschitz, Group Chief Financial Officer

**Approved By:** Jo Miller, Chief Executive



## Summary of Sensitive Expenditure 01 April 2024 to 30 June 2024

### Chief Executive and Directors

| Representative | Date      | Amount \$ | Paid to                | Description  |
|----------------|-----------|-----------|------------------------|--|
| Miller, J      | 28 Mar 24 | 31.82     | Purchase Card          | Uber Trip to Welly Awards Wellington from Laings Road for four people  |
| Miller, J      | 14 May 24 | 156.52    | Bellbird NZ Ltd        | Catering Mana Whenua quarterly hui for 17 people, HCC hosting  |
| Miller, J      | 2 Jun 24  | 78.26     | Purchase Card          | Catering for CE Forum for 10 people, HCC hosting   |
| Miller, J      | 2 Jun 24  | 28.96     | Purchase Card          | Catering for CE Forum for 10 people, HCC hosting   |
| Miller, J      | 25 May 24 | 180.00    | Bellbird NZ Ltd        | Catering for Tenths Trust Meeting for 15 people 21 May 2024, HCC hosting   |
| Miller, J      | 2 Apr 24  | 258.76    | Purchase card          | CLT away day costs for 11 people   |
| Blackshaw, A   | 30 Apr 24 | 183.72    | Orbit Corporate Travel | Mayoral visit to Hawke's Bay and Tairāwhiti Hotel stay and associated fees at Emerald Hotel Gisborne 15 April 2024 |
| Blackshaw, A   | 28 Mar 24 | 975.00    | Taituarā NZ            | Taituarā Excellence Awards in Dominion Museum Wellington – 10 attendees  |
| Griffiths, J   | 24 May 24 | 15.65     | Purchase Card          | Car Park ECom- to attended PwC AI Masterclass in Wellington  |
| Griffiths, J   | 22 May 24 | 45.71     | Purchase Card          | Catering for internal staff Hui – approx. 46 attendees   |
| Griffiths, J   | 20 Jun 24 | 26.24     | Purchase Card          | Light snacks to support workshop with external partners - 14 attendees   |
| Kingsbury, J   | 6 May 24  | 20.00     | Purchase Card          | Hutt Valley Chamber of Commerce – membership fee   |



|              |           |          |                         |   |
|--------------|-----------|----------|-------------------------|---|
| Kingsbury, J | 31 May 24 | 286.96   | Fraser Park Sportsville | Costs for leadership team away day for 7 people 31 May 24   |
| Kingsbury, J | 7 Mar 24  | 950.00   | Taituarā NZ             | Two day forum at Te Whanganui-a-Tara Wellington - Working with Council Controlled Organisations 8 - 9 May 24  |
| Kingsbury, J | 12 Jun 24 | 1,043.48 | Taituarā NZ             | Te Hui Taituarā Conference 2024 Taituarā 2024   |
| Kingsbury, J | 13 Apr 24 | 31.83    | Purchase Card           | All day parking in Wellington while at various appointments (RiverLink, NZTA, Consultants)  |
| Kingsbury, J | 16 Apr 24 | 9.22     | Purchase Card           | Parking in Wellington while attending a meeting with Greater Wellington Regional Council  |
| Kingsbury, J | 17 Apr 24 | 8.96     | Purchase Card           | Parking in Wellington while attending a meeting with Greater Wellington Regional Council  |
| Kingsbury, J | 24 Apr 24 | 23.13    | Purchase Card           | Parking in Wellington while attending Regional Transport Committee meeting  |
| Kingsbury, J | 1 May 24  | 30.96    | Purchase Card           | Parking in Wellington while attending Regional Transport Committee meeting  |
| Kingsbury, J | 7 May 24  | 8.96     | Purchase Card           | Wilson P019-Wellington - RiverLink meeting  |
| Kingsbury, J | 22 May 24 | 17.65    | Purchase Card           | Parking in Wellington while attending Riverlink Workshop in CBD   |
| Kingsbury, J | 29 May 24 | 23.13    | Purchase Card           | Parking in Wellington while attending Te Awa Kairangi Partnership Governance Group Meeting  |
| Kingsbury, J | 31 May 24 | 23.13    | Purchase Card           | Parking in Wellington while attending Greater Wellington Regional Council meeting for RiverLink paper   |
| Kingsbury, J | 5 Jun 24  | 74.60    | Purchase Card           | Catering for E&D Group/team get together - afternoon tea for x47 people   |
| Kingsbury, J | 7 Jun 24  | 48.52    | Purchase Card           | Lunch meeting with Callaghan CEO with 3 attendees   |
| Kingsbury, J | 15 Jun 24 | 17.65    | Purchase Card           | Parking in Wellington while attending Greater Wellington Regional Council briefing for Coordinated Delivery Plan Briefing to Partner Sponsors & PGG |



|                     |           |       |               |   |
|---------------------|-----------|-------|---------------|---|
| <b>Kingsbury, J</b> | 20 Jun 24 | 17.65 | Purchase Card | Parking in Wellington while attending Greater Wellington Regional Council briefing for Coordinated Delivery Plan Briefing to Partner Sponsors & PGG |
| <b>Kingsbury, J</b> | 25 Jun 24 | 6.78  | Purchase Card | Parking in Wellington while attending Frequency NZ Wellington Client Breakfast on behalf of CE  |
| <b>Kingsbury, J</b> | 26 Jun 24 | 23.13 | Purchase Card | Parking in Wellington while attending Te Awa Kairangi Partnership Governance Group Meeting  |

### Mayor and Councillors

| <b>Representative</b>                 | <b>Date</b> | <b>Amount \$</b> | <b>Paid to</b>                  | <b>Description</b>   |
|---------------------------------------|-------------|------------------|---------------------------------|--|
| <b>Council – Cr Stallinger</b>        | 19 June 24  | 413.92           | Reimbursement                   | Chartered Accountants Australia New Zealand Training Modules x 3                                   |
| <b>Council – Cr Barratt</b>           | 3 May 24    | 20.00            | Hutt Valley Chamber of Commerce | Pre-budget speech with Nicola Willis, Minister of Finance - 9 May 24                               |
| <b>Council – Cr Morgan</b>            | 10 May 24   | 20.00            | Hutt Valley Chamber of Commerce | Pre-budget speech with Barbara Edmonds, Labour's spokesperson for Finance - 21 May 24              |
| <b>Council – Cr Morgan</b>            | 22 May 24   | 219.00           | Inspiring Stories               | Attendance at Festival for the Future symposium in Wellington 17-18 July 2024                      |
| <b>Council – Cr Morgan</b>            | 3 May 24    | 20.00            | Hutt Valley Chamber of Commerce | Pre-budget speech with Nicola Willis, Minister of Finance - 9 May 2024                             |
| <b>Council – Cr Brown</b>             | 30 April 24 | 680.72           | Orbit Corporate Travel          | Car rental for travel on 14 April 2024 to Te Kura Reo o Raukawa course at Parawera Marae, Putaruru |
| <b>Council – Cr Brown</b>             | 30 April 24 | 103.93           | Orbit Corporate Travel          | Additional fare for change to flights Hamilton to Wellington 19 April 2024                         |
| <b>Council – Cr Brown</b>             | 31 March 24 | 202.86           | Orbit Corporate Travel          | Flight Hamilton to Wellington 19 April 2024 following Te Kura Reo o Raukawa                        |
| <b>Council – Deputy Mayor – Lewis</b> | 31 March 24 | 655.18           | Orbit Corporate Travel          | Flights Wellington to Hamilton for Coastal Restoration Trust Conference 19-24 March 2024           |
| <b>Council – Cr Tupou</b>             | 13 June 24  | 356.99           | Purchase Card                   | Attendance at He Māori Ahu function 26 June 2024   |



|                       |           |          |                        |  |
|-----------------------|-----------|----------|------------------------|--|
| <b>Mayoral Office</b> | 24 Apr 24 | 1,431.27 | Purchase Card          | LGNZ conference registration for SuperLocal 20 to 23 August 24 for Mayor Campbell Barry  |
| <b>Mayoral Office</b> | 11 May 24 | 42.61    | Purchase Card          | 2 pairs of childrens pyjamas donated to Oxygen for children in hospital for winter   |
| <b>Mayoral Office</b> | 9 Apr 24  | 106.09   | Purchase Card          | Flowers from Mayor, Mayor's Office & Councillors to Cr Shaw after recent bereavement 8 April 2024. Purchased from Hutt City Florist.   |
| <b>Mayoral Office</b> | 31 Mar 24 | 9,670.20 | Orbit Corporate Travel | International flights and associated fees from Wellington – London (via Auckland) 5 June 24 for Infrastructure UK delegation 16-22 June 2024. Travel dates 5 June – 27 June 2024.  |
| <b>Mayoral Office</b> | 30 Apr 24 | 234.93   | Orbit Corporate Travel | Hotel stay and meals at Swiss-Belboutique, Napier 15 April 24 for Mayor Campbell Barry for Cyclone recovery trip to Gisborne and Hawkes Bay 15-16 April 2024   |
| <b>Mayoral Office</b> | 10 Apr 24 | 6.96     | Reimbursement          | Parking at Te Papa on 26 March 2024 for the National Freshwater Conference   |
| <b>Mayoral Office</b> | 24 Apr 24 | 3.48     | Reimbursement          | Parking in Napier for Mayor's meeting with Napier & Hastings Councils re Cyclone Gabrielle   |
| <b>Mayoral Office</b> | 30 Apr 24 | 377.91   | Orbit Corporate Travel | Hertz Rent A Car and associated fees for Gisborne trip 15 April 24 for Mayor Campbell Barry for Cyclone recovery trip to Gisborne and Hawkes Bay 15-16 April 2024 (drove from Gisborne to Hawkes Bay)  |
| <b>Mayoral Office</b> | 31 May 24 | 316.79   | Orbit Corporate Travel | Domestic flights and associated fees for Auckland to Wellington 27 August 2024   |
| <b>Mayoral Office</b> | 24 Apr 24 | 58.10    | Reimbursement          | Mayor's parking for Hutt Mana Board Meeting on 5 April 2024 (\$4.61), Mayor's parking in Wellington for meeting on 10 April 2024 (\$8.96), Mayor's parking in Wellington on 11 April 2024 for the Combined Sector Meeting (\$26.61), Mayor's parking in Wellington on 12 April 2024 for the Metro Sector Meeting (\$8.96) 9.02am - 11.02am, Mayor's parking in Wellington on 12 April 2024 for the Metro Sector Meeting. 11.03am - 1.03am (\$8.96) |
| <b>Mayoral Office</b> | 20 Jun 24 | 322.84   | Orbit Corporate Travel | Domestic flights and associated fees for Auckland to Wellington 27 August 2024 for Mayor Campbell Barry for speaking at Building Nations conference on 28 August 2024  |
| <b>Mayoral Office</b> | 20 Jun 24 | 2,548.80 | Orbit Corporate Travel | Hotel stay at The Strand Palace Hotel, London Mayor Campbell Barry in 22 out 25 June 2024 for London meetings following Infrastructure delegation  |



|                       |           |        |                      |  |
|-----------------------|-----------|--------|----------------------|--|
| <b>Mayoral Office</b> | 21 Jun 24 | 30.58  | US Customers         | American visa for Mayor's trip to New York for Bloomberg Harvard City Leadership Initiative 14-17July 2024   |
| <b>Mayoral Office</b> | 23 Apr 24 | 85.31  | Purchase Card        | Corporate Taxi fare from Takina to Laings Road following World Tourism Summit 23 April 24  |
| <b>Mayoral Office</b> | 23 Apr 24 | 62.61  | Purchase Card        | Corporate Taxi fare from Laings Road to Takina for World Tourism Summit 23 April 24  |
| <b>Mayoral Office</b> | 11 May 24 | 75.65  | Purchase Card        | Corporate Taxi fare from Laings Road to Renouf Centre for V4 Diplomatic Tennis Cup 10 May 2024   |
| <b>Mayoral Office</b> | 13 May 24 | 56.87  | Purchase Card        | Corporate Taxi fare from Christchurch airport to Crown Plaza 12 May 2024 ahead of the Institute of Directors Conference 13 to 14 May 2024              |
| <b>Mayoral Office</b> | 5 Jun 24  | 79.04  | Purchase Card        | Corporate Taxi fare from Laings Road to Rongotai College (instead of airport) ahead of flights to London 6 June 24                                     |
| <b>Mayoral Office</b> | 24 May 24 | 46.87  | Purchase Card        | Taxi fare from Lower Hutt Event Centre (Citizenship Ceremony) to Walter Nash Stadium for the Hutt Valley Sports Awards 23 May 2024                     |
| <b>Mayoral Office</b> | 2 May 24  | 20.00  | Purchase Card        | Mayor Campbell Barry registration for Pre-budget speech with Nicola Willis 9 May 2024  |
| <b>Mayoral Office</b> | 12 Apr 24 | 30.44  | Purchase Card        | Mayor Barry registration at The Cullen Breakfast - Grant Roberston 23 Apr 24   |
| <b>Mayoral Office</b> | 17 Jun 24 | 5.55   | Purchase Card        | 1 x Juice purchased on 17 June from Woolworths for the Volunteer event on 20 June at the Dowse co-hosted by Acting Mayor Tui Lewis and MP Chris Bishop |
| <b>Mayoral Office</b> | 16 Apr 24 | 443.00 | Blue Carrot 2019 Ltd | Catering for Social Housing event at Dowse 3.15pm 18 April 2024. Approximately 61 attendees  |
| <b>Mayoral Office</b> | 24 May 24 | 108.60 | Blue Carrot 2019 Ltd | Morning tea catering for new Japan Ambassador at Laings Rd 27 May 24 1.00pm. Approximately 8 attendees   |
| <b>Mayoral Office</b> | 27 Mar 24 | 239.00 | Blue Carrot 2019 Ltd | Catering for Rainbow stakeholder event at Laings Rd 28 March 24 4.00pm. Approximately 25 attendees   |
| <b>Mayoral Office</b> | 27 May 24 | 108.60 | Blue Carrot 2019 Ltd | Catering for Morning tea at Laings Rd for Eastbourne Possum Hunters 28 May 24 10.00am. Approximately 10 attendees                                      |
| <b>Mayoral Office</b> | 8 Apr 24  | 359.80 | Blue Carrot 2019 Ltd | Catering for Afternoon tea at Laings Rd for Eastern Hutt Road workers 5 Apr 24 2.00pm. Approximately 50 attendees                                      |



|                       |           |        |                      |   |
|-----------------------|-----------|--------|----------------------|---|
| <b>Mayoral Office</b> | 22 Apr 24 | 405.00 | Te Raroa Holdings    | Catering for Planting Campaign Launch on 19 April at East Harbour Kindergarten 1pm. Approximately 60 attendees  |
| <b>Mayoral Office</b> | 30 Apr 24 | 249.00 | Blue Carrot 2019 Ltd | Catering for Māori Wardens event at Laings Rd 2 May 24 4.00pm. Approximately 28 attendees   |
| <b>Mayoral Office</b> | 8 Apr 24  | 8.51   | Purchase Card        | Orange Juice and Cookies for Mayor hosting Arakura School Council for morning tea on 9 April 2024. Approximately 17 attendees   |
| <b>Mayoral Office</b> | 17 Apr 24 | 112.50 | Purchase Card        | Soft drinks for upcoming stakeholder events hosted in the Mayor's Office (enough for 90 people)<br>Biscuits for afternoon tea with Petanque Club on 18 April 2024<br>Muesli Bars for ANZAC Day volunteers |

NB: The Mayor's expenses are approved by the Audit and Risk Subcommittee Independent Chair.

### Chair – Audit and Risk Subcommittee

| <b>Representative</b> | <b>Date</b> | <b>Amount \$</b> | <b>Paid to</b> | <b>Description</b>  |
|-----------------------|-------------|------------------|----------------|---|
| <b>Tindal, S</b>      | 19 April 24 | 314.18           | Reimbursement  | One day of rental car charge in lieu of taxi or uber costs equivalent to fares to and from Auckland Airport and to and from Wellington Airport to attend Council subcommittee meeting |
| <b>Tindal, S</b>      | 22 May 24   | 70.99            | Reimbursement  | Uber to Council subcommittee meeting – Wellington to Lower Hutt return  |

NB: The Independent Chair's travel expenses are approved by the Head of Democratic Services.





**TO:** Chair and Members  
Audit and Risk Subcommittee

**FROM:** Andrew Quinn

**DATE:** 11 August 2024

**SUBJECT:** WHAKATUPU NGAENGAE

### **Purpose of Memorandum**

1. To provide an update to the subcommittee on the progress and management of the Whakatupu Ngaengae Project (pool and town centre development) since the last update to this subcommittee on 25 June 2024.

### **Recommendation**

That the Subcommittee:

- (1) receives and notes the information; and
- (2) notes the following progress that has been made on the Whakatupu Ngaengae project in the reporting period June 2024 to August 2024:
  - (a) work on the new Naenae Pool and Fitness Centre is in the final stages of fit-out. Plans are being made for a series of communications and events leading to a grand opening, dates for which will be made public at the end of August 2024;
  - (b) the completion of Te Mako – Naenae Community Centre was celebrated with a public opening event on 29 June 2024 to a large crowd of residents and visitors. Team Naenae Trust are now operating Te Mako.
  - (c) designs for Walter Mildenhall Park are nearly complete following extensive community engagement. The project scope has been determined using co-design principles and confidence is high that this part of the project can be completed on-time and on-budget.

### **Naenae Pool and Fitness Centre**

2. The pool project is in the final fit-out stage of construction. On any day there are over 75 individual trade contractors on site and over 250,000 project hours have been expended since the build started in June 2022. Due to the strict safety protocols imposed by Main Contractor Apollo, the work is being performed safely and without risk to health.
3. Work continues to close in the building envelope, as this is a key risk to completion. Off-site fabrication of the perimeter glazing has been slow, leading to hold-ups with the installation. Measures have been implemented to mitigate these delays through temporary weather proofing and this has enabled the internal fit-out to proceed.



4. There has been a consequential delay to the remaining milestone dates previously agreed with Crown Infrastructure and the associated drawdown of funds. \$5.4M can be drawn down once the building is weathertight and the remainder on completion.
5. We are currently working with the site team from Apollo to understand what is time-critical to completion. This review will be completed by the end of August 2024, by which time we will be able to agree on a plan for opening and advise the public.
6. Meantime work is progressing on the internal fit-out. Major elements of the pool have already been completed such as the hydro slides and tower, the main pool tank with bulkheads, the deep leisure pool tank, shallow beach pool with toddler's pool, a hydrotherapy bench, moveable floor and bleacher seating. All roof top air-conditioning plant has been installed, and the dosing and filtration systems in the various plantrooms are nearing completion.
7. In the next month, work is due to progress in the following areas: fit-out of reception and staff areas, building services installed for o Leisure Pool Hall and party room, lining to the community room, bleacher seating, completion of pool water services, commissioning of building services and installation of acoustic panels to Leisure Pool Hall.
8. The project will deliver close to its social procurement target of 80% and 77% of the work by value has gone to suppliers working in the Wellington Region. In addition, up to 80% of the construction materials that would normally go to waste is being re-cycled.
9. The project is also on track to deliver the planned benefits: (1) improved health and well-being of the people of Hutt City, (2) increased connection for the Naenae community, (3) local economic development opportunities through local procurement and employment, and (4) an environmentally efficient facility that will be more sustainable.

#### **Te Mako – Naenae Community Centre**

10. The completion of Te Mako – Naenae Community Centre was celebrated with a public opening event on 29 June 2024 to a large crowd of residents and visitors. Team Naenae Trust are now operating the Centre and the doors were opened on Monday 1 July 2024.
11. The features of the building include a reception desk, co-working space with desks and comfortable furniture, two large activity spaces for communal events, a community kitchen, kitchenette, accessible and family toilets and two small meeting rooms. There is a public address and audio-visual system in the main activity spaces and public wifi available to all users. This part of the project has now been handed back to Council to integrate into its BAU operations.



**Walter Mildenhall Park**

12. Following extensive engagement with the community, the project team is now completing designs with the aim of seeking tenders mid-September 2024. Officers will continue to engage with some sections of the community e.g. schools to ensure that everyone's voice has been heard.
13. Resource consent for the project was granted 7 August 2024, which enables the project to proceed with confidence.

**Risk**

14. The cost of the Naenae Pool and Fitness Centre build continues to be reviewed at regular intervals and remains within the \$68M budget cap. There remains high confidence that the pool project can be completed within budget as suggested by the last quantified risk assessment that was presented at the last meeting (attached again for completeness).
15. The latest risk register in the appendices of this report demonstrates that all risk mitigations are being carefully monitored for effectiveness.
16. Officers continue to monitor construction market conditions, particularly in the local supply chain. Materials delivered earlier to the construction site have now been incorporated into the works.
17. The key risk of adverse weather conditions will diminish once the building envelope is fully closed in, as most of the remaining works will then be inside the building. This remains a key focus for the team as we pass through the winter months.
18. The key risk to satisfactory completion is in the build up to opening and the timing of the community events that are being planned.

**Financial Considerations**

19. The project team has reviewed and updated the current financial profile of the project for the 2024/34 Long-Term Plan. As reported above, the project is still tracking well to the capital expenditure budget of \$68M.
20. CIP are providing co-funding of \$27M through the COVID-19 response and recovery fund. To date, Council has drawn down \$14.85M of the \$27M of co-funding and will drawdown the next payment of \$5.4M in September 2024 when the building is weathertight. The remaining payment of \$6.75M will be made on completion.
21. Expenditure on Te Mako was \$6.65M, inclusive of purchase of the old Post Office. This leaves \$2.35M for the further development of Walter Mildenhall Park, which is the chosen priority for the Community Advisory Group. The scope of the park project has been scaled to fit within remaining budget.



**Legal Considerations**

22. There are no legal considerations to report.

**Appendices**

| No.                 | Title                                     | Page |
|---------------------|---|------|
| 1 <a href="#">↓</a> | Quantified risk assessment (QRA) May 2024 | 140  |
| 2 <a href="#">↓</a> | Risk register - June 2024                 | 145  |

**Author:** Andrew Quinn  
Project Manager (Naenae)

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**Approved By:** Andrea Blackshaw  
Director Neighbourhoods and Communities

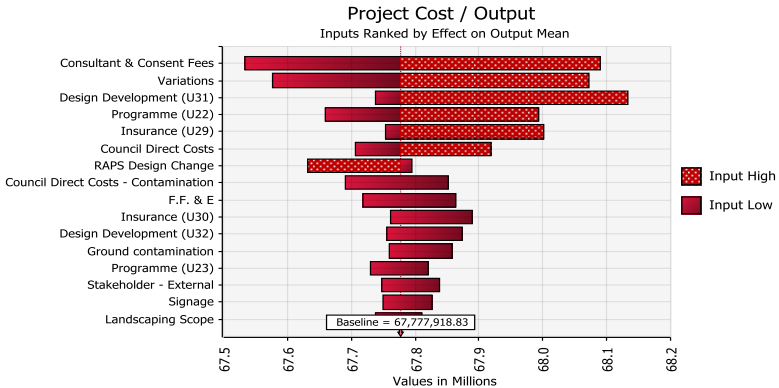
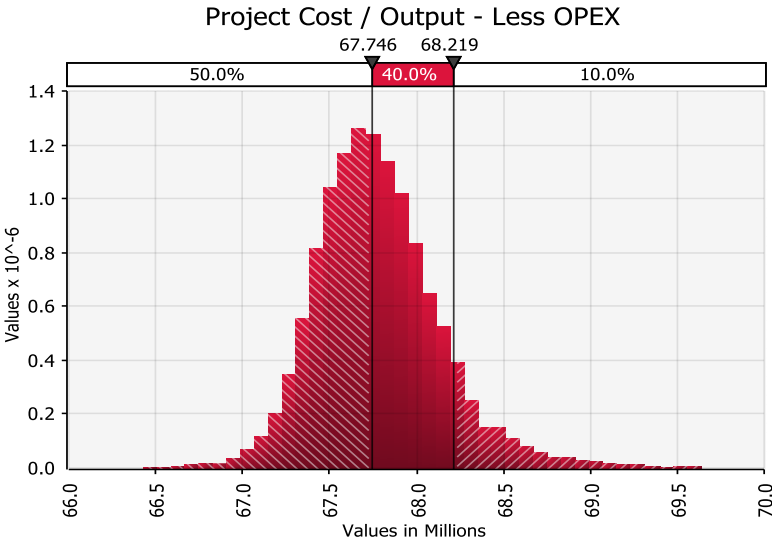


Quantitative Risk Assessment



Project: Naenae Pool  
Principal: Hutt City Council  
Date: 06 May 2024

| Description   | Output - Baseline |
|---|-------------------|
| Project Budget  | 68,000,000        |
| Estimated Project Costs [FR29], Excluding Contingency | 67,029,838        |
| Risk and Opportunity                                  | 635,000           |
| Risk Review   | 685,000           |
| Opportunity Review                                    | ( 50,000)         |
| Project Cost  | 67,664,838        |
| P50   | 67,746,362        |
| P50 Variance to Estimated Project Costs               | 716,524           |
| P50 Budget Variance                                   | ( 253,638)        |
| P90   | 68,219,127        |
| P90 Variance to Estimated Project Costs               | 1,189,289         |
| Extra value over P50                                  | 472,765           |
| P90 Budget Variance                                   | 219,127           |
| Project Budget P-value                                | 77%               |





# Quantitative Risk Assessment



Project: Naenae Pool  
Principal: Hutt City council  
Date: 06 May 2024

|       |                                      | Financial Report 32 |      |             |             |
|-------|--------------------------------------|---------------------|------|-------------|-------------|
| No.   | Description                          | Quantity            | Unit | Rate        | Amount      |
| 1.0   | Demolition Works                     | 1                   | Item | 1,360,000   | 1,360,000   |
| 2.0   | Aquatic & Fitness Centre [D&B]       | 5,445               | m2   | 10,653      | 58,003,911  |
| 3.0   | Variations                           | 1                   | Item | 642,857     | 642,857     |
| 4.0   | F.F. & E                             | 1                   | Item | 538,000     | 538,000     |
| 5.0   | Transformer Relocation               | 1                   | Item | 333,761     | 333,761     |
| 6.0   | Future Cost Escalation               | 1                   | Item | Excluded    | Excluded    |
| 7.0   | Consultant & Consent Fees            | 1                   | Item | 4,308,916   | 4,308,916   |
| 8.0   | Council Direct Costs                 | 1                   | Item | 969,782     | 969,782     |
| 9.0   | Council Direct Costs - Contamination | 1                   | Item | 2,547,507   | 2,547,507   |
| 10.0  | Community Artwork                    | 1                   | Item | 180,000     | 180,000     |
| 10.0  | OPEX Budget Transfer                 | 1                   | Item | (1,854,896) | (1,854,896) |
| Total |                                      |                     |      |             | 67,029,838  |



## Quantitative Risk Assessment



**Project:** Naenae Pool  
**Principal:** Hutt City council  
**Date:** 06 May 2024  
**Risk Review**

| No.  | Description            | Detail   | Probability | Low/P5  | Mid/ P50 | High/P95  | Commentary  |
|------|------------------------|--|-------------|---------|----------|-----------|---|
| 1    | Ground contamination   | Contaminated ground risk - risk to remove stockpile  | 25%         | 30,000  | 60,000   | 120,000   | Based on risk to remove current stockpile, allowance to remove as contaminated and bring in new cleanfill, Low = 50m3, Mid = 200m3, High = 400m3              |
| 2    | Ground contamination   | Additional Contamination   |             |         |          |           | Excluded  |
| 3    | CIP                    | Project Funding  |             |         |          |           | Excluded  |
| 4    | Ground Conditions      | Pockets of poor ground conditions  |             |         |          |           | Excluded, included in Contamination VO  |
| 5    | Stakeholder - External | Stakeholder requirements (water polo / underwater hockey...)   |             |         |          |           | Excluded, included in F.F.&E.   |
| 5.1  | Stakeholder - External | F.F.&E   | 50%         | 25,000  | 50,000   | 100,000   | Risk allowance for additional F.F.&E. allowances in excess of Contract/Budget   |
| 6    | Stakeholder            | Spa Pool   |             |         |          |           | Excluded  |
| 7    | Existing Services      | Existing Services - Gas  | 10%         | -       | 5,000    | 10,000    | Provisional Sum, stand over costs only, minimal risk  |
| 8    | Existing Services      | Existing Services - other  | 15%         | 15,000  | 50,000   | 100,000   | Allowance for other services, nominal (risk reduces at completion of carpark)   |
| 9    | Greenstar              | Solar  |             |         |          |           | Excluded  |
| 10   | Greenstar              | Extra environmental efficiencies   |             |         |          |           | Excluded  |
| 11   | Greenstar              | Independent Commissioning Agent  |             |         |          |           | Excluded, included in Consultant Fees   |
| 12   | Ground-water           | Dewatering during construction   |             |         |          |           | Excluded  |
| 13   | Heritage               | New Soffit Timber (retained quantity/quality of retained)  |             |         |          |           | Excluded, included in Variations  |
| 14   | Programme              | Programme prolongation - construction  | 50%         | 120,000 | 240,000  | 360,000   | Risk of an Extension of Time Claim past July 2024, with costs.  |
| 14.1 | Programme              | Programme prolongation - Prof Fees   | 100%        | 50,000  | 100,000  | 150,000   | Low = 20 days, Mid = 40 days, High = 60 days<br>Costs associated with Consultant Fee extension past July 2024<br>Low = 20 days, Mid = 40 days, High = 60 days |
| 15   | Covid                  | Reduced productivity   |             |         |          |           | Excluded  |
| 16   | Covid                  | Supply chain disruption, alternative products  |             |         |          |           | Excluded  |
| 17   | Procurement            | Local subcontractor procurement  |             |         |          |           | Excluded  |
| 18   | Infrastructure         | Capacity depends on contribution   |             |         |          |           | Excluded  |
| 19   | Insurance              | Contract works insurance   |             |         |          |           | Excluded, Contractor Risk   |
| 20   | Insurance              | Insurance Claim due to Earthquake  | 10%         | 25,000  | 250,000  | 350,000   | Non-working time  |
| 21   | Insurance              | Insurance Claim due to Other (i.e. weather event, flood, fire)   | 20%         | 10,000  | 75,000   | 200,000   | Non-working time  |
| 22   | Design Development     | Contractor Claim for design development between Developed to Construction (Items not formally submitted) | 5%          | 250,000 | 800,000  | 1,100,000 | Items from Schedule of Changes (14/08/23) yet to be submitted   |
| 23   | Design Development     | Contractor Claim for design development between Developed to Construction - (IR01-03)                    | 25%         | 50,000  | 78,000   | 150,000   | Currently submitted and rejected  |



Quantitative Risk Assessment



Project: Naenae Pool  
Principal: Hutt City council  
Date: 06 May 2024

|    |                    |  |     |        |        |        |  |
|----|--------------------|--|-----|--------|--------|--------|--|
| 24 | Design Development | Contractor Claim for design development between Developed to Construction – IR06 |     |        |        |        | Excluded, included in Variations                     |
| 25 | Signage            | Statutory / External Building Signage  | 50% | 20,000 | 45,000 | 75,000 | Signage over and above Provisional Sum               |
| 26 | Art Initiatives    | Design development (i.e. entrance Pou, million stars)                            |     |        |        |        | Excluded, included in Community Artwork              |
| 27 | Contract           | Change in QS resources   | 10% | 20,000 | 50,000 | 80,000 | Allowance for additional consultant input for claims |



Quantitative Risk Assessment



Project: Naenae Pool  
Principal: Hutt City council  
Date: 06 May 2024  
Opportunity Register

| No. | Description        | Detail   | Probability | Low/P5 | Mid/ P50 | High/P95 | Commentary  |
|-----|--------------------|--|-------------|--------|----------|----------|---|
|     |                    |  |             | Low/P5 | Mid/ P50 | High/P95 |   |
| 1   | RAPS Design Change | Contractor derived design change resulting in greater Contamination disposal costs | 5%          | -      | 315,000  | 777,480  | Allowance for reimbursement of costs associated with additional contamination removal as a consequence of reducing extent of RAPs |
| 2   | Landscaping Scope  | Overlap of scope between Pool contract and Walter Mildenhall Park                  | 75%         | 20,000 | 50,000   | 75,000   |   |



Naenae Pool & Fitness Centre Risk Register

Revision 6 - 06/06/2024

|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]  | RISK DRIVERS<br>existing and potential causes/triggers   | Risk owner | INHERENT RISK |          |        | CONTROLS / RISK RESPONSES   | RESIDUAL RISK |          |        |
|----|--|--|------------|---------------|----------|--------|---|---------------|----------|--------|
|    |  |  |            | Likelihood    | Impact   | Risk   |   | Likelihood    | Impact   | Risk   |
| 48 | <u>CIP management</u><br><b>If</b> construction progress does not meet the agreed CIP milestone completion dates, and CIP is not informed of delays to milestone dates, and if an extension of time is not notified by HCC,<br><br><b>Then</b> the milestone funding release to HCC will be delayed, and the CIP contract may be at jeopardy.      | - Construction delays impacting programme<br>- Site resourcing issues<br>- Inclement weather implications<br>- Force majeure events  | HCC        | Likely        | Major    | High   | <b>Current controls/risk treatments:</b><br>- All project team members informed of CIP dates<br>- Construction contractor to provide accurate reporting of programme, identifying critical path items, and impacts on CIP milestones. CIP milestones included in programme.<br>- Construction programme is monitored weekly and monthly.<br>- Construction progress discussed and monitored during fortnightly site meetings and monthly PCG meetings<br><br><b>Planned mitigation actions:</b><br>- Design stages to proceed concurrent with client approval<br>- Staged consenting<br>- Construction strategy to enable early procurement of long lead time items and to enable early works packages to proceed ahead of design completion  | Unlikely      | Moderate | Medium |
| 96 | <u>Bond</u><br><b>If</b> Apollo enters financial difficulty and the performance bond is called in,<br><br><b>Then</b> there would be delays to the opening of the facility and increased costs for HCC through obtaining a new main contractor or adopting the construction management directly. Additionally, HCC could face reputational damage. | - Apollo encounter financial issues on other projects<br>- Subcontractor costs above budget allowances<br>- Material costs above budget allowances<br>- Subcontractors pull out at short notice due to other commitments<br>- Subcontractors stop trading due to financial constraints   | HCC        | Possible      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- Regular discussions with Apollo on procurement progress and concerns<br>- Apollo engaging subcontractors early and using local market where possible<br>- Monitoring of local subcontractor market for financial liquidity<br>- Apollo monitoring subcontractor performance<br><br><b>Planned mitigation actions:</b>   | Unlikely      | Moderate | Medium |
| 95 | <u>Contingency Risk</u><br><b>If</b> Apollo is unable to procure contractors within their anticipated trade budget due to market conditions in Wellington<br><br><b>Then</b> Apollo would use up their available contingency and could seek to recover increased costs from HCC through variations.  | - Wellington market pricing higher than anticipated<br>- Tight subcontractor market with high demand<br>- Requirements of local/social procurement targets<br>- Design development process   | Apollo     | Possible      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- Regular discussions with Apollo on procurement progress and concerns<br>- Monitoring of variations and cost recovery with a focus on delivery within budget<br><br><b>Planned mitigation actions:</b><br>- Discussions on financial risk / position at PCG<br>- Limiting change to project scope  | Possible      | Moderate | Medium |
| 94 | <u>Programme Prolongation</u><br><b>If</b> Apollo is unable to complete the work according to the programme and is delayed by more than six weeks<br><br><b>Then</b> there will be delays to the opening of the facility and increased costs for HCC through ongoing consultant fees.  | - Materials delayed in arrival to site due to availability<br>- Materials delayed in arrival to site due to shipping delays<br>- Subcontractors unable to deliver to timeframes due to other commitments<br>- Subcontractors pull out at short notice due to other commitments<br>- Subcontractors stop trading due to financial constraints | HCC        | Likely        | Moderate | High   | <b>Current controls/risk treatments:</b><br>- Regular discussions with Apollo on subcontractor performance and concerns<br>- Monitoring of programme, monitoring of works on site and review of mitigations where programme deviates from agreed baseline.<br><br><b>Planned mitigation actions:</b><br>- Regular discussions with Apollo on material availability and shipping<br>- Apollo procuring materials early and storing onsite<br>- Apollo engaging subcontractors early and using local market where possible<br>- Management and monitoring of long lead time items<br>- Consideration of waether protection options to facilitate progress<br>- Regular discussions with Apollo on Sub-cntractor performance<br>- Inreased site resources / hours including weekend work<br>- Regular discussions with Apollo on sequencing options<br>- HCC early access for fit-out and transition to operations<br>- Regular CIP site inspections | Possible      | Moderate | Medium |



Naenae Pool and Fitness Centre: Risk Register  
Prepared by AECOM

Print Date: 1/08/2024

|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]  | RISK DRIVERS<br>existing and potential causes/triggers  | Risk owner            | INHERENT RISK |          |        | CONTROLS / RISK RESPONSES  | RESIDUAL RISK |          |        |
|----|--|---|-----------------------|---------------|----------|--------|--|---------------|----------|--------|
|    |  |   |                       | Likelihood    | Impact   | Risk   |  | Likelihood    | Impact   | Risk   |
| 68 | <u>Earthquakes</u><br>If there was a damage causing earthquake,<br><br><b>Then</b> severe damage could be caused to the building structure, infrastructure or the surrounding area. There could also be damage to the contract works, on-site materials, area infrastructure, introduced collapse risks and/or reduced availability of materials and/or labour. This would result in programme delays and progress stoppage. | - Large damage causing earthquake   | HCC                   | Likely        | Moderate | High   | <b>Current controls/risk treatments:</b><br>- Review of structural stability post earthquake if during construction<br>- Temporary support structures designed to code<br>- Seismic design considerations and restraints incorporated<br>- Apollo Projects have contract works insurance in place<br><br><b>Planned mitigation actions:</b><br>- Project Team equipped to operate remotely<br>- Safety plans are in place and consider earthquake risk<br>- Review of structural stability post earthquake if during construction<br>- Apollo Projects have contract works insurance in place                      | Unlikely      | Moderate | Medium |
| 55 | <u>Site safety</u><br>If a serious incident occurs on site,<br><br><b>Then</b> there could be an serious injury or fatality. Work would be stopped and/or resulting in programme implications and impacts to staff morale and/or mental wellbeing. This can result in an internal investigation into incidents, and there is a potential for a WorkSafe investigation.   | - Health, Safety and Environment Procedures not implemented or followed<br>- Multiple work faces<br>- Multiple hazards  | Apollo Projects       | Possible      | Extreme  | High   | <b>Current controls/risk treatments:</b><br>- Setting safety responsibility within contracts<br>- Review of SSSP and contractor management plans and regular safety audits<br>- Tool box talks, safety inductions etc<br>- Engagement with HCC/Contractor Safety Managers<br>- Engagement with HCC safety manager<br>- WorkSafe notifications for high risk activities<br>- Development of work method statements as applicable<br><br><b>Planned mitigation actions:</b><br>- Monthly reporting, Apollo HSE audits  | Possible      | Moderate | Medium |
| 91 | <u>Bowls club</u><br>If there is noisy or dusty construction work during bowls tournaments that causes disruption,<br><br><b>Then</b> this will upset bowls community, cause reputational damage, and/or attract potential negative media (some events are broadcast live to a global audience).   | - Lack of communication with bowls club<br>- Failure to review and put in place mitigation tactics to minimise disruption<br>- Delays in programme  | HCC / Apollo Projects | Unlikely      | Minor    | Low    | <b>Current controls/risk treatments:</b><br>- Meetings held with bowls club to confirm dates and information about events<br>- Main contractor to put in place regular communications with bowling club<br>- Review of construction activities one month prior to events and review of mitigation including additional fencing, acoustic and minimising work adjacent to the boundary<br><br><b>Planned mitigation actions:</b><br>- Dust mitigation plans<br>- Minimising noise during bowls tournaments<br>- Moving noisy works to adjacent end of the site<br>- Rescheduling noisy works around Tournament days | Unlikely      | Minor    | Low    |
| 14 | <u>COVID impacts to project</u><br>If the global issue of the pandemic, such as further variants of Covid-19, impacts on global supply chain, staff contracting Covid-19, material supply constraints, and further lockdowns are required,<br><br><b>Then</b> there would be impact on delivery of project, including escalating costs, schedule and resourcing.   | - Escalation costs due to Covid-19<br>- Availability of personnel<br>- Government mandated restrictions<br>- Influx of infection within staff working on site<br>- Impact on works for site staff | HCC                   | Possible      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- Lessons learnt<br>- Project Team equipped to operate remotely<br>- Consideration of use of products/staff resources that are available locally<br>- Follow construction sector guidance for on site practices / requirements<br>- Greater personal hygiene on site<br>- Enforcing personnel staying at home when sick<br><br><b>Planned mitigation actions:</b><br>- Apollo Projects to procure materials and sub-trades early<br>- Early identification of long lead time items for timely procurement  | Unlikely      | Minor    | Low    |



Naenae Pool and Fitness Centre: Risk Register  
Prepared by AECOM

Print Date: 1/08/2024

|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]  | RISK DRIVERS<br>existing and potential causes/triggers   | Risk owner            | INHERENT RISK |               |        | CONTROLS / RISK RESPONSES  | RESIDUAL RISK |               |      |
|----|--|--|-----------------------|---------------|---------------|--------|--|---------------|---------------|------|
|    |  |  |                       | Likelihood    | Impact        | Risk   |  | Likelihood    | Impact        | Risk |
| 25 | <u>Availability of materials</u><br>If there is not enough of the required materials available during any stage of the construction phase due to supply constraints,<br><br><b>Then</b> there would impacts to programme and cost implications due to procurement of alternative products that may be higher in cost, or are at less than the desired standard of quality. | - Local shortage of supply due to high demand<br>- Internationally sourced products and delays in delivery to New Zealand  | Apollo Projects       | Possible      | Minor         | Medium | <b>Current controls/risk treatments:</b><br>- Source alternative products of greater or equal quality<br>- Early sourcing by contractor and storage off-site<br>- Review of Apollo's construction programme and scheduled timelines of off-site fabrication and materials<br><br><b>Planned mitigation actions:</b><br>- Apollo have identified long lead time items and regular monitoring of delivery status<br>- Early procurement of key items<br>- Early identification of lead in time for procurement<br>- Consideration of available materials during design<br>- Consideration of locally available materials during design   | Unlikely      | Minor         | Low  |
| 29 | <u>Cost impact of Greenstar and other sustainability initiatives</u><br>If the contractor is unable to meet HCC sustainability ambitions and certification,<br><br><b>Then</b> there will be damage to the Clients reputation and contribution to carbon zero commitments for Council cannot be met.   | - Sustainability initiatives may result in higher capex  | BBD                   | Possible      | Insignificant | Low    | <b>Current controls/risk treatments:</b><br>- Identification from project team to budget from Day 1<br>- Project team aware of requirements<br>- Design to be able to meet green star certification requirements<br>- Independent Commissioning Agent (ICA) initiatives<br><br><b>Planned mitigation actions:</b><br>- Monthly reporting   | Unlikely      | Insignificant | Low  |
| 83 | <u>Construction works adjacent to the residential houses and businesses</u><br>If construction noise or traffic cause disruption to neighbouring residential houses and businesses,<br><br><b>Then</b> there is a potential for reputational damage or an increase in complaints from the public.  | - Increased noise levels, dust and nuisance emitted from site<br>- Disruption to the surrounding road network and community  | HCC / Apollo Projects | Possible      | Minor         | Medium | <b>Current controls/risk treatments:</b><br>- Keeping the community informed with site works through the HCC communication channels<br>- Letter box drops every 2 months<br>- Clear lines of communication, being open and honest<br>- Review of contractor methodology and mitigations<br><br><b>Planned mitigation actions:</b><br>- Keeping the community informed with site works through the HCC communication channels, including letter box drops.<br>- Contractor communications<br>- Attendance at CAG meetings<br>- Keeping HCC councillors informed   | Unlikely      | Insignificant | Low  |
| 2  | <u>Aquatic Community Expectations</u><br>If the completed project fails to meet the requirements and expectations of the aquatic community,<br><br><b>Then</b> there may be a decrease in aquatic user groups utilising the new facility as it may not meet their requirements.  | - Insufficient engagement with aquatic users throughout the design process<br>- Competing interests between aquatic sports and local community users<br>- Cost pressures result in reduced scope | HCC                   | Unlikely      | Minor         | Low    | <b>Current controls/risk treatments:</b><br>- Development of communication and stakeholder management plans at project commencement<br>- Engaging with the aquatic community in a structured and planned way<br>- Decision from Board where there is a competing interest between local users, sports groups and community groups<br>- Formation of the Aquatic Users Group to represent various aquatic stakeholders<br>- Regular engagement with the Aquatic Users Group throughout design development<br>- Aquatic Users Group to have a representative on the Community Advisory Group<br><br><b>Planned mitigation actions:</b><br>- Future involvement with community and sports groups<br>- Update community and sports groups at each design phase | Unlikely      | Minor         | Low  |



Naenae Pool and Fitness Centre: Risk Register  
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|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]   | RISK DRIVERS<br>existing and potential causes/triggers  | Risk owner      | INHERENT RISK |          |        | CONTROLS / RISK RESPONSES   | RESIDUAL RISK |        |      |
|----|---|---|-----------------|---------------|----------|--------|---|---------------|--------|------|
|    |   |   |                 | Likelihood    | Impact   | Risk   |   | Likelihood    | Impact | Risk |
| 34 | <u>Insufficient QA practices to deliver fit for purpose facility</u><br>If the quality review processes and quality inspections during construction are insufficient,<br><br><b>Then</b> there will be poor deliverables and/or an impact on programme delays and increased costs.  | - Poor planning/time<br>- Insufficient tasks completed during QA inspections  | Apollo Projects | Unlikely      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- Quality Management Plan (QMP)<br>- Review Contractor QMP<br>- ICA controls and control measures within principal's requirements<br><b>Planned mitigation actions:</b><br>- Engineer to Contract to manage contractor performance using the contract terms.<br>- QA updates / inspection reports provided monthly by Apollo  | Unlikely      | Minor  | Low  |
| 3  | <u>Stakeholders - Communication and reporting is not clear and results in misinformation</u><br>If there are not enough communication and accurate reporting with the stakeholders,<br><br><b>Then</b> there will be misinformation within the project team and being issued to the public through engagement or media. As well as community pressure in elected officials and/or loss of community confidence  | - Clear lines of communication not identified<br>- Reporting timeframes not followed<br>- Expectations around reporting and communication contents not aligned  | AECOM / HCC     | Unlikely      | Minor    | Low    | <b>Current controls/risk treatments:</b><br>- Communication protocols will be set out and defined in the Project Management Plan, Communication Plan and Stakeholder Management Plan will be prepared at project initiation to provide clarity<br>- Review of communication protocols<br><b>Planned mitigation actions:</b><br>- CAG engagement during project execution  | Unlikely      | Minor  | Low  |
| 4  | <u>Project Team - Communication and reporting is not clear and results in misinformation</u><br>If there is unclear and insufficient communication within members of the project team,<br><br><b>Then</b> there will be misinformation within the project team and misinformation may be issued to the public through engagement or media. As well as community pressure in elected officials and a loss of community confidence.   | - Clear lines of communication not identified<br>- Reporting timeframes not followed<br>- Expectations around reporting and communication contents not executed   | AECOM / HCC     | Unlikely      | Minor    | Low    | <b>Current controls/risk treatments:</b><br>- Communication protocols are be set out and defined in the Project Management Plan, Communication Plan and Stakeholder Management Plan will be prepared at project initiation to provide clarity<br>- Review of communication protocols<br>- Updated org charts to establish lines of communication<br><b>Planned mitigation actions:</b><br>- Regular reporting through weekly, monthly and quarterly reports | Unlikely      | Minor  | Low  |
| 5  | <u>Not being able to achieve expectations within budget</u><br>If the budget is unachievable within expectations, or the budget is not sufficient for the desired facility,<br><br><b>Then</b> there will be damage to the clients, consultants, and/or contractors reputation. Thhis may cause a delay in the completion of the project and additional funding may have to be sourced and a need for VM or scope reduction and the benefits of the project will not be achieved. | - Changes in design that are not aligned with original brief (including Scope creep)<br>- Unexpected additional costs due to insufficient information from third parties<br>- Omissions in the designs<br>- Unavailability of specified products with alternatives being more costly<br>- Artwork not provided within timeframe creating extra cost<br>- Incorrect cost estimation<br>- Variable founding conditions (foundations)<br>- Costs not within their provisional sums   | HCC             | Possible      | Minor    | Medium | <b>Current controls/risk treatments:</b><br>- Procurement of subcontractors and acceptance of fixed pricing<br>- Cost estimates and QRA at each stage for early cost overruns detection<br>- Direction from board to keep to budget (decisions)<br><b>Planned mitigation actions:</b><br>- Early identification of at risk items/materials for pricing fluctuations<br>- Early identification of long-lead items  | Unlikely      | Minor  | Low  |
| 97 | <u>Not being able to achieve artist expectations within allocated budget</u><br>If the budget is unachievable within expectations (client and community), or the budget is not sufficient for the desired outcome,<br><br><b>Then</b> there could be damage to the Clients reputation.  | - Changes in design that are not aligned with original brief (including Scope creep)<br>- Unexpected additional costs due to insufficient information from third parties<br>- Omissions in design, non-compliant designs, insufficient / incorrect information on equipment space requirements<br>- Unavailability of specified products with alternatives being more costly<br>- International price fluctuations<br>- Incorrect cost estimation<br>- Delays in cost estimation<br>- Costs not within their provisional sums<br>- Insufficient management of artist inputs to programme and budget | HCC             | Possible      | Minor    | Medium | <b>Current controls/risk treatments:</b><br>- Staged design process<br>- Cost estimates and QRA at each stage for early cost overruns detection<br>- Direction from board to keep to budget (decisions)<br>- Early identification of at risk materials for pricing fluctuations<br>- D&B fixed price contract in place with Apollo<br><b>Planned mitigation actions:</b><br>- Monitoring monthly financial reports  | Unlikely      | Minor  | Low  |



Naenae Pool and Fitness Centre: Risk Register  
Prepared by AECOM

Print Date: 1/08/2024

|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]   | RISK DRIVERS<br>existing and potential causes/triggers  | Risk owner            | INHERENT RISK |          |        | CONTROLS / RISK RESPONSES  | RESIDUAL RISK |        |      |
|----|---|---|-----------------------|---------------|----------|--------|--|---------------|--------|------|
|    |   |   |                       | Likelihood    | Impact   | Risk   |  | Likelihood    | Impact | Risk |
| 20 | <u>Safety-in-Design not adequate</u><br>If safety is not considered enough in design with the final design not meeting safety requirements,<br><br>Then the facility will not operate as intended, potentially resulting in H&S incidents during occupation. This will require cost and time to rectify problems.                                     | - Safety-in-design process not implemented<br>- Lack of consultation with HCC, contractors, facility operator   | Apollo Projects / HCC | Unlikely      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- SID at all stages (includes whole of life risks and residual risk)<br>- Thoroughly planned handover at completion of construction to HCC<br>- Monthly review of the LIVE document, to be closed out towards end of project<br><br><b>Planned mitigation actions:</b><br>- Adequate SID planned and undertaken at each design stage<br>- Inclusion of wide representation including HCC operators as design progresses  | Unlikely      | Minor  | Low  |
| 24 | <u>Site security breaches</u><br>If the site is breached during construction,<br><br>Then there will be a higher safety risk or injury and potential death  | - Ineffective perimeter fencing and signage<br>- Higher risk areas associated with criminal activities  | Apollo Projects       | Possible      | Extreme  | High   | <b>Current controls/risk treatments:</b><br>- Site left in safe condition<br>- Active management of site by Contractor<br>- Contractor has installed a high-tech site security system. Security Patrol is called out upon system activation.<br>- Storage within secure warehouse<br>- Identifying attractive items and removing from line of sight<br>- As items are being installed within the building, less are stored out in public view/harder to steal<br><br><b>Planned mitigation actions:</b><br>- Review ongoing security requirements for the site as construction progresses and adjust as necessary<br>- Review of contractor's SSSP | Unlikely      | Minor  | Low  |
| 35 | <u>Change in project team personnel</u><br>If the project team take personnel leave or change roles,<br><br>Then there could be a loss of historical knowledge, time loss in handover, a change in team dynamic and/or a gap in project team (if no new resource identified).   | - Resignation<br>- Health<br>- Leave<br>- Retirement<br>- Workload  | HCC                   | Possible      | Minor    | Medium | <b>Current controls/risk treatments:</b><br>- Balanced view of resourcing across project team<br>- D&B fixed price contract in place<br><br><b>Planned mitigation actions:</b><br>- Contingency resources identified and utilised as necessary<br>- Request early identification of changes<br>- Knowledge sharing on project background through project team  | Unlikely      | Minor  | Low  |
| 44 | <u>Weather impacts to programme</u><br>If adverse weather results in on-site construction delays to occur,<br><br>Then there will be delays in progress or increased project costs (if substantial delay).  | - Adverse weather   | Apollo Projects       | Possible      | Minor    | Medium | <b>Current controls/risk treatments:</b><br>- Schedule weather sensitive activities to occur when weather is typically preferable for the activity<br>- Programme allows for 20WD float for inclement weather<br>- Continuous review of programme and progress<br><br><b>Planned mitigation actions:</b><br>- Continued focus of achieving weathertightness of building envelope   | Unlikely      | Minor  | Low  |
| 93 | <u>Roading changes require further changes following public consultation and TSC approvals</u><br>If following public consultation or for transport subcommittee approvals changes are requested to the roading or carpark layout<br><br>Then there may be a requirement to undertake further design and submit a further resource consent amendment. | - Public consultation to on-street parking changes<br>- Transport Subcommittee approvals<br>- HCC roading reviews<br>- Integration with other planned works in the area | HCC                   | Unlikely      | Moderate | Medium | <b>Current controls/risk treatments:</b><br>- Engagement with community leaders as design progresses<br>- HCC roading reviews as design progresses<br>- Consent amendment prepared in parallel to public consultation<br>- HCC roading provide comment prior to consent lodgement<br><br><b>Planned mitigation actions:</b><br>- Ongoing co-ordination discussions with the roading team on status of other works in the area  | Unlikely      | Minor  | Low  |



Naenae Pool and Fitness Centre: Risk Register  
Prepared by AECOM

Print Date: 1/08/2024

|    | THE RISK<br>IF [event or condition i.e. what can happen]<br>THEN [consequence. Why is it a concern / impact if we don't get it right]  | RISK DRIVERS<br>existing and potential causes/triggers  | Risk owner      | INHERENT RISK |          |        | CONTROLS / RISK RESPONSES  | RESIDUAL RISK |          |        |
|----|--|---|-----------------|---------------|----------|--------|--|---------------|----------|--------|
|    |  |   |                 | Likelihood    | Impact   | Risk   |  | Likelihood    | Impact   | Risk   |
| 1  | <p><u>Failure of the completed project to meet the requirements and expectations of the Local Community</u></p> <p><b>IF</b> the community needs and expectations are not incorporated into the design,</p> <p><b>Then</b> there will be a reduction in use of facilities by local users as there is a reduced desire to utilise.</p>  | <ul style="list-style-type: none"> <li>- Insufficient engagement with local community</li> <li>- Competing interests of aquatic sports and local community</li> <li>- Cost pressures result in reduced scope</li> </ul>   | HCC             | Possible      | Major    | High   | <p><b>Current controls/risk treatments:</b></p> <ul style="list-style-type: none"> <li>- Ongoing coordination with local community through CAG</li> </ul> <p><b>Planned mitigation actions:</b></p> <ul style="list-style-type: none"> <li>- Development of stakeholder management plan at project commencement</li> <li>- Engaging with the project stakeholders in a structured and planned way</li> <li>- Availability of support including stakeholder management, iwi specialist, programme review, risk management, global best practice, value management, to get stakeholder and community buy in</li> <li>- Consideration and integration of community context through the involvement of the town planning specialist</li> <li>- Formal stakeholder process for design approval gates are defined agreed with HCC with final approval confirmation to be sent to AECOM via a single point of contact</li> <li>- Decision from Board where there is a competing interest between local users, sports groups and community groups</li> </ul> | Unlikely      | Moderate | Medium |
| 22 | <p><u>Inadequate soft handover and training of staff for operation prior to full operation</u></p> <p><b>IF</b> sufficient operational training is not provided for staff during handover and staff cannot properly operate the facility,</p> <p><b>THEN</b> there will be poor performance, poor safety, poor operation and financial impact and well as a loss of confidence from the community.</p> | <ul style="list-style-type: none"> <li>- Lack of time</li> <li>- Poor management</li> <li>- Pressure to open</li> <li>- Failure to identify appropriate staff / recruit</li> <li>- Availability to participate</li> </ul> | HCC             | Possible      | Major    | High   | <p><b>Current controls/risk treatments:</b></p> <ul style="list-style-type: none"> <li>- Involvement in commissioning</li> <li>- Early identification of team and need to recruit</li> <li>- Training of operations staff</li> <li>- Capabilities of employed ICA</li> <li>- Transitions to Operations (T2O) planning underway with relevant HCC departments</li> </ul> <p><b>Planned mitigation actions:</b></p> <ul style="list-style-type: none"> <li>- Regular engagement with operational team regarding the design</li> <li>- Staff involved during design stage</li> <li>- HCC to agree on operation model</li> </ul>   | Unlikely      | Minor    | Low    |
| 37 | <p><u>Delay due to code compliance certificate</u></p> <p><b>If</b> the code compliance is not filed or granted on time,</p> <p><b>Then</b> there will be delays to pool opening</p>   | <ul style="list-style-type: none"> <li>- Contractor planning/performance</li> </ul>   | Apollo Projects | Unlikely      | Moderate | Medium | <p><b>Current controls/risk treatments:</b></p> <ul style="list-style-type: none"> <li>- Early engagement with HCC regulatory team and contractor planning</li> <li>- Contingency in programme</li> <li>- Identification of all requirements and tracking of completion</li> </ul> <p><b>Planned mitigation actions:</b></p> <ul style="list-style-type: none"> <li>- Temporary Certificate of Public Use (CPU)</li> </ul>   | Unlikely      | Minor    | Low    |





**TO:** Chair and Members  
Audit and Risk Subcommittee

**FROM:** Jack Kilty

**DATE:** 06 August 2024

**SUBJECT:** AUDIT AND RISK SUBCOMMITTEE FORWARD  
PROGRAMME 2024

### Purpose of Memorandum

1. To provide the Audit and Risk Subcommittee (the subcommittee) with a Forward Programme of work planned for the subcommittee for 2024.

### Recommendation

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

### Background

2. The Terms of Reference for the subcommittee require the subcommittee to have a monitoring and advisory role in reviewing the effectiveness of the way Council discharges its responsibilities with respect to governance, risk management and internal control.
3. The Forward Programme for 2024 provides a planning tool for both members and officers to co-ordinate programmes of work for the year. The forward programme is attached as Appendix 1 to the memorandum.

### Forward Programme

4. The Forward Programme is a working document and is subject to change on a regular basis.

### Appendices

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**Author:** Jack Kilty  
Democracy Advisor

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**Approved By:** Kathryn Stannard  
Head of Democratic Services



### Audit and Risk Subcommittee - Forward Programme 2024

| Description   | Team                 | Author                                      | Cycle 1<br>27 Feb<br>2024 | Cycle 2<br>30 April<br>2024 | Cycle 3<br>25 June<br>2024 | Cycle 4<br>27 Aug<br>2024 | Annual<br>Report<br>24 Sep<br>2024 | Cycle 5<br>26 Nov<br>2024 | Pending |
|---|----------------------|---|---------------------------|-----------------------------|----------------------------|---------------------------|------------------------------------|---------------------------|---------|
| Subcommittee Forward Work Programme   | Democracy Advisor    | Democracy Advisor                           | ✓                         | ✓                           | ✓                          | ✓                         |                                    | ✓                         |         |
| Tupua Horo Nuku / Eastern Bays Shared Pathway Project Update (Quarterly report) | Transport            | N Garcia<br>J Kingsbury                     |                           | ✓                           |                            | ✓                         |                                    | ✓                         |         |
| RiverLink Project Update  | RiverLink Project    | E Anand<br>J Kingsbury                      |                           | ✓                           |                            | ✓                         |                                    | ✓                         |         |
| Naenae Projects Update  | Naenae Projects      | A Quinn<br>A Blackshaw                      | ✓                         | ✓                           | ✓                          | ✓                         |                                    | ✓                         |         |
| Water Services Reform Update  | Strategic Projects   | B Hodgins                                   |                           | ✓                           | ✓                          | ✓                         |                                    | ✓                         |         |
| HR and Payroll system   | Information Services | L Allott                                    | ✓                         |                             |                            | ✓                         |                                    |                           |         |
| Draft Procurement Strategy for endorsement to Council                           | Finance              | D Newth<br>N Reddy<br>D Nunnian             | ✓                         |                             |                            |                           |                                    |                           |         |
| Audit of LTP  | Finance              | D Newth<br>N Reddy<br>D Nunnian             | ✓                         |                             |                            |                           |                                    |                           |         |
| External Audit Update - Hutt City Council                                       | Finance              | D Newth<br>J Livschitz                      |                           |                             |                            |                           | ✓                                  | ✓                         |         |
| External Audit Update - Seaview Marina Limited                                  | Finance              | D Newth<br>J Livschitz                      |                           |                             |                            |                           | ✓                                  | ✓                         |         |
| External Audit Update - Urban Plus Limited                                      | Finance              | D Newth<br>J Livschitz                      |                           |                             |                            |                           | ✓                                  | ✓                         |         |
| Sensitive Expenditure Disclosures   | Finance              | D Newth<br>J Livschitz                      | ✓                         | ✓                           |                            | ✓                         |                                    | ✓                         |         |
| ComplyWith: Legal Compliance  | Legal Services       | L Siriwardena<br>B Cato                     |                           | ✓                           |                            |                           |                                    | ✓                         |         |
| Risk Management and Assurance Update  | Finance              | N Reddy<br>J Livschitz                      |                           | ✓                           |                            | ✓                         |                                    | ✓                         |         |
| Tax Risk Governance Framework (annual update)                                   | Finance              | D Newth<br>J Livschitz                      |                           |                             |                            |                           |                                    | ✓                         |         |
| Insurance renewal update  | Finance              | G Usodali-Philips<br>D Newth<br>J Livschitz |                           |                             |                            | ✓                         |                                    |                           |         |
| Holidays Act Remediation Project (report back every second Cycle meeting)       | Finance              | A Andrews<br>J Livschitz                    |                           |                             |                            |                           |                                    | ✓                         |         |
| Hutt City Council Group Annual Report   | Finance              | R Hardie<br>J Griffiths<br>J Livschitz      |                           |                             |                            | ✓                         | ✓                                  |                           |         |
| PIR upon completion of Naenae   |                      |   |                           |                             |                            |                           |                                    | ✓                         |         |
| Slips and the Wider city Works Programme  | Transport            | N Garcia<br>J Kingsbury                     |                           |                             |                            |                           |                                    |                           | ✓       |