



NOTICE OF MEETING

**Notice is hereby given of the Meeting of the
Risk and Assurance Committee
to be held in the Council Chamber,
First Floor, Te Hīnaki Civic Building,
101 Esk Street, Invercargill on
Tuesday 19 September 2023 at 8.30 am**

Mr B Robertson (Chair)
Mayor W S Clark
Cr R I D Bond
Cr T Campbell
Cr G M Dermody
Mr R Jackson
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper

MICHAEL DAY
CHIEF EXECUTIVE

Risk and Assurance Committee - Public

19 September 2023 08:30 AM

Agenda Topic	Page
1. Apologies	
2. Declaration of Interest	
a. Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.	
b. Elected members are reminded to update their register of interests as soon as practicable, including amending the register at this meeting if necessary.	
3. Public Forum	
4. Minutes of the Risk and Assurance Committee Held on 18 July 2023 (A4740843)	5
5. Internal Audit and Continuous Improvement Update (A4826957)	14
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8. Public Excluded Session	

Public Excluded Session

Moved , seconded that the public be excluded from the following parts of the proceedings of this meeting, namely:

- a) Confirmation of Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 18 July 2023
- b) Health, Safety and Wellbeing Update
- c) Council Litigation Update
- d) Financial Risk Update - Procurement Risk and Policy Compliance Report
- e) 2023 Draft Annual Report - Unaudited

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

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
a) Confirmation of Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 18 July 2023	Section 7(2)(i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
b) Health, Safety and Wellbeing Update	Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
c) Council Litigation Update	Section 7(2)(g) Maintain legal professional privilege	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
d) Financial Risk Update - Procurement Risk and Policy Compliance Report	Section 7(2)(b) (ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for

		supplied or who is the subject of the information	withholding would exist under Section 7
e)	2023 Draft Annual Report - Unaudited	Section 7(2)(h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

**MINUTES OF RISK AND ASSURANCE COMMITTEE, HELD IN THE COUNCIL CHAMBERS,
FIRST FLOOR, TE HĪNAKI CIVIC BUILDING, 101 ESK STREET, INVERCARGILL ON
TUESDAY 18 JULY 2023 AT 8.30 AM**

Present: Mr B Robertson (Chair)
Mayor W S Clark
Cr R I D Bond
Cr G M Dermody
Mr R Jackson
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper

In Attendance: Mr M Day – Chief Executive
Mr S Gibling – Group Manager – Leisure and Recreation
Mrs P Christie – Acting Group Manager – Finance and Assurance
Ms J Hutton – Interim Group Manager – Customer, Communications and People
Mr J Shaw – Interim Group Manager – Consents and Compliance
Mr A Cameron – Chief Risk Officer
Mr M Morris – Manager – Governance and Legal
Mr P Patton – Manager – Building, Planning and Quality
Ms R Suter – Manager – Strategy and Policy
Ms L Knight – Manager – Strategic Communications
Ms H Kennedy – Policy Analyst
Ms T Anderson – Risk and Audit Specialist
Mr G Caron – Digital and Communications Advisor
Ms M Cassiere – Executive Governance Officer
Mr C Genet – Director – Audit New Zealand

1. Apology

Cr T Campbell

Moved Mr Robertson, seconded Cr Pottinger and **RESOLVED** that the apology be accepted.

2. Declaration of Interest

Nil.

3. Public Forum

Nil.

4. Changes to Agenda

- 4.1 **Agenda item “Customer Complaint Policy” to be discussed after agenda items “2023 Audit Proposal and Fee Approval” and “Annual Update 2023 Update”.**
- 4.2 **Withdrawal of agenda item “Review of Performance and Effectiveness of the Audit and Risk Committee – Verbal Update”.**

Moved Mr Robertson, seconded Cr Soper and **RESOLVED** that the changes made to the agenda be accepted.

5. Minutes of the Meeting of Risk and Assurance Committee held on Tuesday 23 May 2023

A4572219

Moved Mr Robertson, seconded Cr Ludlow and **RESOLVED** that the Minutes of the Risk and Assurance Committee held on Tuesday 23 May 2023 be confirmed.

6. 2023 Audit Proposal and Fee Approval

A4702278

Mrs Patricia Christie spoke to the report. She noted that the audit fee proposal would usually have been for three years however, this proposal was unusual as the fee proposed was for the 2023 audit only, which allows Council staff to review the requirements to complete the audit of the Invercargill City Council group. She said that there had been a significant increase in the number of hours required to complete the audit and that the last two audits had had complexities along with a number of difficult issues which had been dealt with at that time. She said that the last two audits had also coincided with the Covid period which had seen the increase of off-site audits, and this had added complexities to the audit process.

Mrs Christie said that the proposed fee from Audit New Zealand (AuditNZ) was a significant increase and the breakdown of the fee indicated that a large portion was the increase in the hourly cost of the auditors. She noted that the proposed fee was almost in line with what was finally paid for the last audit, after the overruns. She stated that the proposal to re-baseline the fee after the audit had been completed was unusual and that it would allow staff to review the hours spent on audits and discuss with other councils of similar size and complexity.

Mr Chris Genet was invited to speak at the meeting. He said that the proposal was as outlined by Mrs Christie and that it was due to the level of uncertainty around the hours for audit. He said that the comparative information in the proposal indicated that in the previous three audits the number of hours spent had been between 2000 and 2700 hours. He noted that there was a significant increase in the proposed fee and said that audit fees were not keeping pace with the cost to complete audits, that complexity and scope and increased, increase in expectations of standard centres and regulators, cost pressures had not abated since pre-Covid times and since then there has been as high inflation environment.

Mr Genet noted that the paper outlined the complexity around accounting issues such as the Invercargill Central Limited (ICL) revaluations, matters concerning group consolidations and that new standards around auditing and reporting on quality review requirements would be brought in. He also noted that a significant proportion of the increase was in relation to charge-out rate movements and previous fee cap.

A brief discussion took place around Council's standard procurement process for services. It was noted that the audit service would not be a standard procurement process since according to the Public Audit Act, the Auditor General of New Zealand would be Council's auditor. It was further noted that the Auditor General would enable a provider to provide audit services, and that the fee would be set by the Auditor General and not by Audit New Zealand.

In response to a query about how Council would know if the hours proposed would be the correct number of hours required, it was noted that the hours were based on the number of hours spent on previous audits, the complexity of Council, a review of audit hours spent by other councils, and the moderation process and hours of similar audits.

Discussion took place around the substantial fee increase, whether the steps that form part of an audit should be reviewed, accounting challenges for ICL, commitment to an open-book exercise with a deadline for the exercise to be reviewed, and after adoption of the accounts, a review of the open-book analysis of the audit to be made available at a meeting of this Committee.

Note: Mayor Clark left the meeting at 8.50 am.

In response to a query around who drafted the estimates on budgeted hours versus actual hours, it was noted that historically the estimates would be drafted by the Auditor General's team and moderated by the Auditor General.

Queries were raised whether the estimate of hours for this audit were accurate, and whether a fixed price contract could be provided if the estimated hours were accurate.

A query was raised around the audit approach taking place on-site instead of off-site. It was noted that in the previous two audits, a lot of work was conducted off-site. It was noted that it created an environment for miscommunication between the audit team and Council's finance team as the work was being done by email rather than a conversation. Council staff had requested an increase in the on-site presence of the audit team so that nuances would not be missed due to miscommunication.

Moved Cr Soper, seconded Cr Ludlow and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report '2023 Audit Proposal and Fee Approval'.

Recommend to Council that it:

2. Notes the proposal received from Audit New Zealand and that this fee has been provided for the 2023 Annual Report audit only. That the 2023 Annual Report audit will be part of a re-baselining exercise.
3. Approve the audit fee for the 2023 Council Group audit of \$279,204 and authorise the Mayor to sign the letter on Council's behalf.

Note: Cr Dermody voted against the motion.

7. Annual Report 2023 Update

A4732367

Mrs Patricia Christie spoke to the report and noted that a proforma Annual Report had been drafted. She advised that the planning for the 2023 Annual Report began in March 2023, and that the initial planning work included a full refresh of the plan for the financial year end close, annual report production and audit, and a rebuild of the key financial models that drive the annual report preparation. She noted that Audit New Zealand (AuditNZ) completed its interim audit field work in mid-June however, the information system testing and auditing was yet to be completed hence an interim audit report had not been prepared for this meeting.

Mrs Christie noted that during the interim audit some of the sample selection and testing that would normally have been done during the year end audit had been advanced and that these actions were expected to reduce some of the effort needed during the September and October audit phase. She noted that two audits were already underway and were close to completion.

Mrs Christie spoke about the key issues and said that valuation of property, plant and equipment would be an issue and that although roading had been valued in 2022, it would be revalued again this year due to the significant cost increases within the infrastructure sector. The other key issue was around the treatment of the investment in and loan to ICL and that there were some technical accounting issues which had to be worked through. Another key issue was around receiving finalised reports from all the subsidiaries in a timely manner. She said that since some of the subsidiaries worked with other audit firms, Council staff would be reliant on them to complete the audits on time as delays from their side would cause pressure on Council staff, and that would cause pressure on the Audit New Zealand team to receive the signed off reports.

Mrs Christie noted that the other key issue was around the drinking water standards assessment. She said that performance measures were dictated by the Department of Internal Affairs (DIA) and although the standards had changed, Invercargill City Council (ICC) was still required to have those performance measures. She said that last year Council required a third-party consultant to provide an opinion on Council's compliance with the standards and that ICC would be required to do the same this year. She noted that clear guidance around the parameters for the opinion had not been given to the sector and the opinion would be required within the next three weeks. She said that there may be a risk if central government or DIA changed the standards and that it was a risk faced by the entire sector.

Mr Chris Genet was invited to speak to the meeting. He said that the drinking water assessment issue was due to having two sets of rules for one year, and that performance measures were based on the first set of rules which was dictated by the DIA, and that the rules were yet to be updated.

In response to a query about the level of development of the proforma of the Annual Report, it was noted that it was very well developed.

In response to a query when the Committee would be able to read the proforma, it was noted that the Committee would receive the draft annual report for the next meeting on 19 September 2023.

In response to a query whether the issue faced last year around unaudited and audited entries from group subsidiaries would happen again this year, it was noted that based on the progress to date, the same issue as last year was not expected to happen again this year although, there were risks around Invercargill City Holdings Limited (ICHL) group as they were the more material subsidiaries.

In response to a query whether there were assurances that ICHL would deliver on time, it was noted in the affirmative.

Mr Genet was asked if AuditNZ was the auditor for ICHL and he replied in the affirmative that they were for ICHL and Invercargill Airport Limited (IAL).

In response to a query whether indexation approach would be quicker than full revaluation of roading, it was noted that indexation approach would be applied for roading as well as for one of the subsidiaries.

A brief discussion took place around whether an opportunity existed to have an external person contracted to complete the ICHL audit on time. It was noted that this could be considered after the open-book exercise was completed after the audit.

In response to a query whether the ICHL audit had begun, it was noted in the affirmative.

In response to a query whether the revaluation of roading would have a material impact on rates, it was noted in the affirmative. It was noted that an impact on depreciation would be created and that it would create pressure on rates as well.

The Chair said that he was encouraged by the discussion on this topic and that Council now had a robust relationship with the auditor which had not been the case in the previous year. He also said that combined support would be provided for Mrs Christie to deliver the plans in place and that he was encouraged by the approach adopted by Mr Genet to attend to the issues previously faced by Council staff.

Moved Mr Robertson, seconded Cr Dermody and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report 'Annual Report 2023 Update'.
2. Note:
 - a. The key milestone dates for completion of the 2023 Annual Report and the progress to date against these milestones.
 - b. The key issues for the preparation and audit of the 2023 Annual Report.
3. Request further updates from officers on progress against milestones, key issues and audit progress at the next meeting.

8. Customer Complaint Policy

A4574040

Ms Jo Hutton and Ms Hannah Kennedy spoke to the report. They noted that the policy would provide consistency within the organisation and would also provide opportunities to enhance customer experience through continuous enhancement. It was noted that a complaint liaison would be assigned to each complaint so that the customer would have only one point of contact to deal with and that both parties would have a mutual understanding around set time frames.

In response to a query whether the recent events at Splash Palace would have come through this process, it was noted that complaints would be dealt with based on circumstances. It was also noted that customers had the option of making a formal complaint in which case, such an event would have been entered into the system and treated as a formal complaint.

In response to a query around protocols for an elected member should they receive complaints, it was noted that complaints received by elected members could be forwarded to customer services who would then try to resolve the issue quickly.

In response to a query whether the process around receipt of complaints by elected members was clearly defined in the policy, it was noted that it had not been specified for elected members as the policy would be applied to everyone who was part of Council.

In response to a query whether the policy would fit into the risk management framework, it was noted in the affirmative.

In response to a query about what was meant by 'resolved immediately' as stated in the policy, it was noted that 'resolved immediately' referred to minor issues which could be resolved very quickly, and which had not been lodged as a complaint. If issues could not be sorted quickly and were repetitive then they would be lodged as a complaint and would then be resolved through the process.

The Chair suggested that the term 'resolved immediately' be clearly defined in the policy.

In response to a query what was meant by 'formal complaint', it was noted that staff had tried to provide a definition for the word 'complaint' in the policy as the word had colloquial meanings. It was noted that any complaint brought to Council would either be resolved immediately or result in a request for service or result in a complaint which would be entered into this system.

In response to a query around identification of vexatious or recidivist complainants, it was noted that the customer service team dealt with complaints on a daily basis and they would be able to identify vexatious or recidivist complainants. It was also noted a shorter review period had been deliberately built-in for this policy so that it could be fully reviewed within the first year to ensure that these types of things were being captured. It was further noted that while there were members of the public who frequently complained, it was only when the complainants became abusive that the liaison would step in.

Moved Cr Ludlow, seconded Cr Soper and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Customer Complaint Policy".
2. Notes the Customer Complaint Policy 2023 (A4409435).

9. Strategic Risks

A4734406

Mr Andrew Cameron spoke to the report. It was noted that this was about the second stage of Council's risk maturity where Council could assess whether the measures and controls put in place were effective.

Note: Cr Bond left the meeting at 9.35 am.

Mr Cameron noted that another aspect of risk consideration was around Council's relationship with other parties to ensure that expected outcomes for the community were achieved.

A brief discussion took place around the importance of the Long-term Plan (LTP) as a controlled form of process to consult with the public, that meeting the objectives of the LTP would negate the necessity of annual plans, and the importance of having an appropriate risk framework to achieve those objectives.

Note: Cr Bond re-joined the meeting at 9.39 am.

In response to queries whether an analysis of the risks noted in the report would now take place, that risk weighting would take place, and that risks which were extreme or residual would be monitored, it was noted in the affirmative. It was also noted that assumptions considered during an LTP process would be provided with a risk rating and reviewed through the risk management framework.

In response to a query around who owned the risks, it was noted that Council ultimately owned the risks however, it would be staff who would do the work on the risks.

In response to a query about why only extreme risks and not high risks were escalated to the Risk and Assurance Committee, it was noted if the risks were high then strategies would be put in place to manage them and that should it become an extreme risk it would be escalated to the Committee. It was also noted that escalation steps were currently being worked on and guidance from the Committee would be appreciated.

It was suggested that high risks considered relevant be escalated to the Risk and Assurance Committee and the decision on escalation of high risks be made by the Executive Leadership Team.

Moved Cr Soper, seconded Cr Ludlow and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Strategic Risks".
2. Notes the appropriateness of the current Risk Management Framework for the management of risks generally.

3. Notes the increased use of the Risk Management Framework in the development of Health and Safety Risk management and the uplift in risk maturity that this work is achieving across the organisation.
4. Recommends that the changes to the current Appendix B: *Sources of risk and their consequence*, to the Risk Management Framework as set out in this report.
5. Notes the traditional under-management of strategic risks by organisations as identified in the Deloitte Elected Member Risk Workshop Presentation.
6. Requests a further report on the strategic risks consistent with the newly defined sources of risk and taking into consideration the risks identified during the Deloitte workshop be presented to the next Risk and Assurance Committee meeting.

10. Review of Performance and Effectiveness of the Audit and Risk Committee – Verbal Update

This report was withdrawn.

11. Public Excluded Session

Moved Mr Robertson, seconded Cr Soper and **RESOLVED** that the public be excluded from the following parts of the proceedings of this meeting, namely:

- a. *Confirmation of the Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 23 May 2023*
- b. *Health, Safety and Wellbeing Update*
- c. *Internal Audit and Continuous Improvement Update*
- d. *Financial Risk Update - Procurement Risk and Policy Compliance*
- e. *2023 Annual Report Fraud Questionnaire*
- f. *People and Wellbeing – Verbal 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:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
a. Confirmation of the Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 23 May 2023	Section 7(2)(i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

b.	Health, Safety and Wellbeing Update	Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Sections 6 and 7
c.	Internal Audit and Continuous Improvement Update	Section 7(2)(h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
d.	Financial Risk Update - Procurement Risk and Policy Compliance	Section 72(b)(ii) Would be likely to be unreasonably likely to prejudice the commercial position of the person who supplied or who is the subject of the information	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
e.	2023 Annual Report Fraud Questionnaire	Section 7(2)(i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
f.	People and Wellbeing – Verbal Update	Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Sections 6 and 7

There being no further business, the meeting finished at 11.30 am.

INTERNAL AUDIT AND CONTINUOUS IMPROVEMENT UPDATE

To: Risk and Assurance Committee

Meeting Date: Tuesday 19 September 2023

From: Peter Patton, Manager – Quality Assurance

Approved: Patricia Christie - Acting Group Manager - Finance and Assurance

Approved Date: Tuesday 5 September 2023

Open Agenda: Yes

Public Excluded Agenda: No

Purpose and Summary

The purpose of this report is to provide an update on the internal audits conducted as part of the Council's approved Internal Audit Programme, additional audits conducted in-house and an update on the recommended actions including the current state of the continuous improvement system.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "Internal Audit and Continuous Improvement Update".

Background

Council have engaged an internal audit (IA) partner since 1 March 2020. This engagement ended 30 June 2023 and work has commenced to engage a new internal audit partner.

Issues

The internal audit function continues to be delivered by Council staff and continues as scheduled. The short term focus for July – August 2023 has been Building Control Authority and Environmental Health regulatory audits, regular Payroll access and Masterfile data audits for council pay cycles. From August 2023 onwards an additional long-term focus is the Annual Plan Quarterly KPI data audits for Strategy, Policy and Engagement. These audits will include a review of data collation, integrity, documentation and compliance with the 'Annual Report KPI and Content 2023-24' for the reporting of quarterly data spreadsheet developed by

Strategy, Policy and Engagement. This review will systematically audit all areas of council that report KPI's from the Long Term and Annual plans.

Summary of audits / reviews conducted:

- Environmental Health (Food Regulations 110(2), (g, h, k, l) – 3
- Building Control Authority (Building Regulations 7(2) g, h, 15, 17(2) j) – 3
- Governance – Proactive Release Process
- Payroll Audits – 6

Continuous Improvement Programme


The QA team has completed a number of facilitation workshops with the Information Management and Solid Waste teams who have been proactively working through the recommendations from their respective audits/reviews. The Information Management team has taken the lead on the completion of recommendations from the LGOIMA and Proactive Release reviews. There are no issues to report in this update. Table 1 below provides a summary of the continuous improvement requests currently under action. The continuous improvement risk rating scale is at table 3.

Table 1 – Continuous Improvement Requests

Continuous Improvement Request	Continuous Improvement Requests		
	Made	Closed	Open
Audit NZ – Annual Report 2022	15	4	11 (11 moderate)
Building Services (including IANZ)	18	15	3 (moderate)
Building Administration	7	2	5 (2 moderate, 3 minor)
Building Compliance	1	0	1 (moderate)
Environmental Compliance	1	0	1 (moderate)
Environmental Health Services (including IANZ)	8	5	3 (moderate)
Information Management	30	5	25 (moderate)
Information management – Maturity Framework	1	0	1 (moderate)
Invercargill Transfer Station Review	8	6	2 (moderate)
Quality Assurance	6	2	4 (moderate)
Invercargill Transfer Station	11	4	7 (moderate)

Table 2 provides an update on the recommended actions from the IA partner reviews.

Table 2 – Internal Audit Partner Reviews – Recommended Actions

Review	Recommendations		
	Made	Closed	Open
Rates Process Review	7	5	2 (1 mod, 1 process)
Infrastructure Contract Compliance	22	6	16 (16 moderate)
Total	29	11	18 ( 7)

ICC Continuous Improvement Risk Rating Scale

The findings from each internal audit / review will include a risk rating based on the perceived risk Council may be exposed to.

Table 3 – ICC Continuous Improvement Risk Scale

Rating	Description
Catastrophic	Issue represents a severe control weakness.
	This could cause or is causing severe disruption to process/service, or severe adverse effect on the ability to achieve objectives.
Major	Issue represents a significant control weakness.
	This could cause or is causing significant disruption to process/service, or significant adverse effect on the ability to achieve objectives.
Moderate	Issue represents a moderate control weakness.
	This could cause or is causing some disruption to process/service.
	There may be a level of short-term tolerance due to compensating controls or remedial plans underway.
Minor	Issue represents a minor control weakness.
	This could cause or is causing inefficiencies in process, or is a lack of formality in documentation or process.
Process Improvement	Observation represents an identified opportunity to improve process/service efficiency.

Next Steps

The recommendations and actions from audits / reviews will continue to be monitored and reported using the Promapp Improvements module.

REVIEW OF RISK AND ASSURANCE COMMITTEE EFFECTIVENESS

To: Risk and Assurance Committee

Meeting Date: Tuesday 19 September 2023

From: Bruce Robertson – Chair of Risk and Assurance

Approved: Bruce Robertson – Chair of Risk and Assurance

Approved Date: Thursday 14 September 2023

Open Agenda: Yes

Public Excluded Agenda: No

Purpose and Summary

This report contains the attachment to support a verbal discussion on the performance and effectiveness of the Risk and Assurance Committee.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "Review of the Risk and Assurance Committee Effectiveness".

Background

Nil.

Next Steps

Nil.

Attachments

Appendix 1 - Risk and Assurance Committee Annual Review Prompt (A4863523)



Chair's notes for verbal discussion on performance and effectiveness of the Risk and Assurance Committee

Invercargill City Council

19 September 2023



Purpose

These notes are prepared to support the verbal discussion the Committee's annual review which will be formalised in a report to full Council, prepared by the Chair.

The notes outline the following matters:

- A changed emphasis on the committee's agenda for the 2022/23 year
- The 2022/23 year's focus
- Direction setting for 2023/24



A changed emphasis

The prior (2021/22) was dominated by risk matters centred around:

- The Working on Working Together programme (including attendance at committee meetings by the two external appointees)

- Progress and risk management consideration of the ICL "block" development
- Resolution of Sir Tim's legal claim against Council
- A problematic annual reporting and auditing round for the 2021/22 financial year

The 2022/23 work programme and focus

- The Committee had a good attendance record by the Mayor and senior councillors
- It was pleasing that a number of non-Committee members also elected to attend meetings. They were generally afforded speaking and voting rights
- Similarly there was good attendance by the CE and the ELT members
- Generally papers were presented by the report writers
- An additional regular omnibus paper has been included of the “Financial Risk Update”

The 2022/23 work programme and focus

- The Committee followed an annual work programme
 - It did not complete all matters intended in the programme (refer “Direction setting for 2023/24”)
- Given the Committee general length (approximately 3 hours) the core basics – short of strategic risk governance – were covered
 - As in 2021/22 the annual report and auditing cycle tended to dominate the agenda and some of its meeting timings

Direction setting for 2023/24



It is suggested there are three things that the Committee should progress in the 2023/24:

- The centre piece is completing the work begun on identifying our strategic risks, monitoring their profile including their residual risk against our risk appetite to govern prioritisation and resource allocation
- Development of a comprehensive assurance plan which provides a programme of assurance (a mix of internal and external audit and other reviews) which provide assurance that risk controls are effective
- Ongoing communication with full Council to improve their awareness of our work

Other possible points of focus



Extending the length of the meeting to complete our full intended Committee work programme; this would include:

- A regular slot for the Chief Executive
- Committee-only time with the external and internal auditor
- Once identified, cyclic in-depth review of individual strategic risks and associated appetite with the risk owner

LTP 2024 – 2034 RISKS AND ASSUMPTIONS

To:	Risk and Assurance Committee
Meeting Date:	Tuesday 19 September 2023
From:	Rhiannon Suter, Manager – Strategy, Policy and Engagement
Approved:	Patricia Christie - Acting Group Manager - Finance and Assurance
Approved Date:	Tuesday 12 September 2023
Open Agenda:	Yes

Purpose and Summary

This report provides the Committee with an update on progress in delivering the 2024 – 2034 Long-term Plan (LTP) for adoption, likely risks for delivery of the 2024 – 2034 LTP programme and the draft assumptions.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report "LTP 2024 – 2034 Risks and Assumptions".
2. Notes progress towards delivering the 2024 – 2034 LTP for adoption.
3. Notes and provides feedback on the draft assumptions for the LTP (A4848736).

Background

Council is on schedule to deliver the 2024 – 2034 LTP. It has:

- Confirmed the vision, mission and community outcomes.
- Completed its strategic direction setting workshops, including giving consideration to the Financial Strategy and the Infrastructure Strategy.
- Completed pre-engagement.
- Completed the activity and asset planning workshops.

The remaining steps for the rest of the process are outlined below.

ACTION	WORKSHOP	COMMITTEE	COUNCIL
Strategic projects consultation options and prioritisation	20 September	17 October F&P	24 October
Draft Assumptions		18 September R&A 17 October F&P 10 October IC	28 November
Draft Financial Strategy	13 June	17 October F&P	28 November
Draft Infrastructure Strategy	13 June	10 October IC	28 November
Asset and Activity Plans - Roading/ 3W/Passenger Transport/Property/ Housing		7 November IC	28 November
Asset and Activity Plans - L&R/ Regulatory		14 November IC	28 November
Asset and Activity Plans - Democratic Process/ Corporate Services/ Investments			28 November
Policies			28 November
Draft External Grants list	10 October		24 October
Draft FIS	October TBC		28 November
Final list of issues for consultation			
Audit Planning week (Adie)			
Draft Consultation Document			Emailed to Councillors pre- Christmas
Last budget workshops as required	Jan/Feb 2024		
Consultation Document Audit Engagement			
Consultation Document and supplementary materials adoption			27 February
Consultation			28 February – 28 March
Hearings			16/17/18 April
Deliberations			30 April
Update to submitters			
Final LTP Audit (1-2 weeks)			
LTP Adoption			25 June
Grants confirmation letters			

The next major stage is budgeting. The first round of all potential capital and operational budget increases are logged. These have been reviewed against Council's adopted strategic decision making framework, which provides a score based on compliance requirements and/or service improvements and alignment with Council's vision and community outcomes.

There will be significant decisions for Council to make in determining which of these priorities to include within the draft Long-term Plan budgets and which elements to consult on. There are significant potential rates increases which are being driven both by the requirement to return to a balanced budget after two unbalanced years and low rate increases and new Council priorities.

Issues

Council has recently considered changes to its risk framework to reflect strategic risks. The assumptions underpinning the Long-Term Plan are some of the key strategic risks accepted, or undertaken by Council.

Draft Assumptions

The draft assumptions have been developed utilising the following sources:

- Infometrics report "Economic update for Long Term Planning for Invercargill City Council", April 2022.
- Infometrics report "Southland Region forecasting scenarios for Beyond 2025 Southland", June 2023.
- Beyond 2025 Southland Regional Long Term Plan.
- NZIER report "Invercargill CBD regeneration", May 2023.
- Southland CBD Rejuvenation Community and Business Survey Report, March 2023.
- Rationale report "Murihiku Southland Housing Needs Assessment", May 2023.
- RBNZ "Household inflation expectations (H1)", August 2023.

While Covid is no longer a factor, the after effects of the pandemic remain a considerable factor in the current economic volatility and the continued higher levels of uncertainty.

There are some significant improvements since the time of setting the assumptions for the previous LTP:

- The expected recession has not eventuated – employment has remained stronger than anticipated.
- International migration numbers have bounced back quickly and tourism numbers are expected to return to pre-Covid levels more quickly.
- The future for Tiwai, while still not settled, appears more likely to result in a renegotiated power deal and the plant remaining for the immediate future.
- City Block has been found to have delivered significant social and economic benefits for the city and retailers and resident feedback is positive.

There are however a number of headwinds which are worth considering:

- Inflation is higher than expected and there is a significant cost of living challenge which is likely to affect some ratepayers' ability to pay. Economic uncertainty around inflation forecasts remains higher than usual.
- The cost of borrowing has increased and again uncertainty around forecast rates is higher than usual.
- Global commodity prices, after initially buffering the Southland economy for the past couple of years, are now weakening and along with expected increased environmental regulation have the potential to significantly impact the primary sector which remains the backbone of the Southland economy.

- Economic diversification options such as southern green hydrogen, forestry (carbon forestry) and aquaculture¹, while they are likely to have significant benefits for GDP, are less likely to bring significant employment growth and commensurate population growth benefits at a level to have a significant impact on rates growth.
- Housing remains a constraint for the city, with the most significant challenge being availability of housing which meets current needs (over-supply of older housing stock, mid-range family homes). There are positive developments on the horizon but still a lack of certainty of delivery dates.

There remain significant unknowns which it is hoped will become clearer over the next months prior to finalisation of the assumptions for the LTP:

- Implications for Council operations as a result of potential policy change following the election. It is unknown what changes there may be to Affordable Water Reform, Resource Management Reform and Local Government Reform, among other significant policy packages in the environmental space, all of which have the potential to have major impact on the structure and operation of Council. The risk profile changes significantly with different potential structuring of Council involvement in three waters, including in the area of capital deliverability in the early years of the LTP prior to transfer, discharge consent processes and funding impact for delivering major enhancements of the network including alternative water supply and extension to Bluff.
- There are new potential industries which have expressed an interest in locating in the District. Some of these are anticipated to require further infrastructure connections – water, roading etc. However, as the locations are not yet finalised forecasting future required investment is challenging. This has potential implications on the Infrastructure Strategy and the capital growth modelling.
- Finalisation of the financial restructure of ICL and ICHL, with consequent impact on Council's potential debt ceiling and certainty around future dividend forecasts.
- The LTP advice from the Office of the Auditor General has not yet been received and this could impact Council's approach on matters of strategy and presentation of the key documentation in unexpected ways.
- Advice from Environment Southland (including EMS) is expected shortly around assumptions on forecast implications of natural disaster and environmental regulatory and policy change.

Risk

Assumptions

In order to assist discussion and assessment of the assumptions using the Council risk framework the likelihood and consequence tables discussed for strategic risks are set out below.

¹ Note the forecast for aquaculture in Beyond 2025 noted the limitations around the forecast based on limited industry information and stretch forecast for industry growth.

LIKELIHOOD RATING	CONSEQUENCE
Almost certain	<ul style="list-style-type: none"> Legislation before parliament; and/or Court decisions on a relevant issue.
Likely	<ul style="list-style-type: none"> Currently the issue is being discussed on an almost daily basis in the mainstream media (national and/or international); and/or Currently it is a policy issue that is being discussed by one or both sides of national politics and has become an election issue; and/or One major review is currently in progress (national or international); and/or External environmental scans are showing significant evidence of the emergence of the issue.
Moderate	<ul style="list-style-type: none"> Multiple smaller reviews are currently in progress (national or international); and/or External environmental scans undertaken are showing some changes to the current environment that warrant closer observation or some preliminary planning.
Possible	<ul style="list-style-type: none"> Currently the issue is being discussed in the mainstream media (national or international), but not on a regular basis; and/or May be some fringe media or policy advocacy groups discussing the issue, and their influence is significant; and/or Currently it is a policy issue that is being discussed by either or both sides of national politics, however, it has yet to be announced as a policy; and/or
Unlikely	<ul style="list-style-type: none"> Currently it is not being discussed as an issue in the mainstream media national or international; and/or May be some fringe media or policy advocacy groups discussing the issue, but their influence is low; and/or Currently it is not a policy issue that is being discussed by either side of national politics; and/or No reviews are currently in progress (national or international); and/or External environmental scans undertaken by the university are showing no changes to the current environment.

SOURCE OF RISK	CONSEQUENCE RATING				
	LOW	MINOR	MODERATE	MAJOR	CATASTROPHIC
Strategy	Individual significance or concern that can be managed as part of business as usual.	<ul style="list-style-type: none"> No amendment to the strategic plan but adjustment to extent and/or timing of current strategies; and/or No restructuring required; and/or May result in a minor reduction of staff levels; and/or No impact on discretionary services being offered currently but may. 	<ul style="list-style-type: none"> Amendments to the current strategic plan for Council but not reissue; and/or May involve consideration of some restructuring of Council; and/or May result in a moderate reduction of staff levels; and/or May result in some discretionary services (less than 5) not being offered. 	<ul style="list-style-type: none"> May involve consideration of significant restructuring of Council; and/or May result in a significant reduction of staff levels; and/or May result in several discretionary services (more than 5) not being offered by the Council. 	<ul style="list-style-type: none"> Complete change to strategic plan for the Council – full reissue; and/or Loss of social licence; and/or Legal penalty.

LTP Delivery

The primary risk to delivery are challenges to Council decision making around prioritisation of level of service changes and new projects. In part this risk is being driven by continued uncertainty linked to the Affordable Water Reform and decisions about what infrastructure improvements to include in the early years of the Long-term Plan. There is a potential impact on timelines and/or on the ability of Council to reach consensus in adopting the consultation document.

This budget round is expected to require a fairly intensive iterative process to arrive at the final draft FIS and options for consultation. Any impact for example, as a result of sickness or requirement of key resource for other projects has potential to have a significant impact on delivery.

Any impact on timelines will impact the agreed dates with Audit for consultation. Availability of Audit resource has been signalled as a potentially significant risk as a result of Affordable Water Reform, limited availability of auditors and other factors.

This Committee will also consider a comparison on the current assumptions used in this document and those suggested by other parties for information.

Next Steps

The assumptions will continue to be refined and will be brought back to Risk and Assurance at the next meeting.

Attachments

Appendix 1 - Draft Assumptions for LTP – A4848736

A4848736

ASSUMPTIONS FOR INVERCARGILL CITY COUNCIL LONG-TERM PLAN 2024-2034

POPULATION¹	Likelihood	Consequence	Council Response
Population growth As at 30 June 2023, the estimated population of Invercargill is approximately 57,100. The population is projected to increase over the next ten years but growth will depend significantly on whether the Tiwai Point smelter closes or remains open, and whether or not various industries are developed as envisaged in the Beyond 2025 Regional Long Term Plan.	Likely	Moderate	Although population growth in excess of the assumptions will have a moderate to significant impact on the Council finances this will have significant lead time. Council will be able to monitor the applications for resource consents and use this as guidance for the population growth into the future. A population decline would be a more significant impact but is not expected.
Population growth - Tiwai remains open If Tiwai Point remains open, it is projected that the population of Invercargill will increase by a little over 5,000 people over the course of the Long-term Plan.		Minor	Tiwai remaining open may result in further investment in power to support new industries. Council will continue to advocate for this to Central Government.
Population growth - Tiwai closes With the closure of Tiwai Point growth in population of just over 4,000 people is expected.		Moderate	Council has participated in the Just Transitions programme to support transition in the case of Tiwai closure and will continue to liaise with the Enduring Oversight Committee to support the community.

¹ Infometrics report "Southland Region forecasting scenarios for Beyond 2025 Southland", June 2023

Diversity The population will continue to become more diverse. The Māori population will grow from 19% to 25%. The Asian population will grow from 8% to 13%.	Likely	Minor	Council will increase engagement opportunities for different parts of the community to help support all voices being heard. Changes to Council services are expected to be able to be accommodated from within existing operational budgets through adjustment of focus.
Ageing population Those aged 65 and older will form 24% of the population in 2034, which is higher than the current aged population in 2023 (estimated as 10,790 of 57,088 (19%)).	Likely/ Almost Certain	Moderate	Demographic changes are clear and while future migration patterns may offset aging to some extent this is not expected to be of a high enough level to counter the known level of aging. Council is considering how to respond to changing housing needs for older people through provision of elderly housing, adjustment to the District Plan and potential partnership projects. Impacts on other services including public transport, libraries and pools (e.g. hydrotherapy pool) are being planned for.
Households Households will increase from 23,256 in 2022 to 26,087 in 2034. The number of households stagnated over 2020-2021, but is projected to show positive growth over the course of this LTP, with growth peaking at 1.1% in 2032. The average size of households is expected to reduce from 2.39 to 2.34 by the end of this LTP.	Moderate/ Likely	Moderate/ Major	The number of households underpins the rating base and Council revenue for activities. A decline or slower growth in households would require Council to review services and/or financial strategy.
SOCIAL	Likelihood	Consequence	Council response

Socio-economic Inflation will continue to squeeze household budgets and impact abilities to pay rates. Inflation is expected to stay above 3% until 2025/2026. ^{2 3}	Moderate/ Likely	Major	Economic volatility remains high with economists urging caution on reliability of forecasting. Significant increases in inflation will impact not only Council's planned expenditure but the community's ability to pay. Higher than expected inflation may require review of services, capital investment and/or financial strategy. Lower inflation will improve Council's position and ability to deliver.
Community resilience Tiwai Point Aluminium Smelter is expected to continue operating for the time of the Long-term Plan. Should Tiwai close this is expected to have an impact on community resilience.		Moderate	Council has plans in place, including community support for the Just Transitions Connected Murihiku programme and support for Great South to deliver economic diversification options. Additional investment may be required on any announcement of closure.
Community resilience Although the Zero Fees scheme has been extended through 2024 for Southern Institute of Technology Te Pūkenga, it is unlikely to continue throughout the life of the Long-term Plan. This will have an uncertain level of negative impact on Invercargill's population and economy.	Likely	Minor	The Zero Fees Scheme has been an important tool in lifting the skill base of the local community as well as attracting new people live in the city. Loss of Zero Fees will remove a competitive edge for the city which has potential unknown longer term impacts.

² Infometrics report "Economic update for Long Term Planning for Invercargill City Council", April 2022, p11

³ RBNZ "Household inflation expectations (H1)", August 2023

Housing Urban Invercargill's housing supply rate will increase slightly from 0.5% a year to 0.7% a year based on Council's intended District Plan changes, known future developments and proposed partnership projects. ⁴	Possible/Moderate	Moderate	Housing has been identified as a constraint to growth. Failure of responses to increase the supply could limit future population growth. Council would need to consider alternative responses.
ECONOMIC	Likelihood	Consequence	Council Response
Economy Inflation will peak in June 2023 and stay above 3% until 2025/2026. ⁵ Employment is expected to weather any recessionary conditions fairly well but unemployment is expected to increase nationally. ⁶ A short term dip is forecast for the early years of the plan with stronger growth in professional and highly skilled occupations. ⁷	Moderate/Likely	Moderate	Inflation increases would have significant impact on budgets. Council would need to consider changes to services and/or the financial strategy.
Community funding Despite recent economic challenges, Community Trust South and the Invercargill Licensing Trust Group have managed to return their funding levels to pre Covid-19 levels. This is anticipated to take some pressure off Council's funding pool.	Likely	Minor	Council will continue to liaise with other funding partners, including to monitor forecast security of investment, to assist control of this risk.

⁴ Rationale report "Murihiku Southland Housing Needs Assessment", May 2023, p26

⁵ Infometrics report "Economic update for Long Term Planning for Invercargill City Council", April 2022, p11

⁶ Infometrics report "Southland Region forecasting scenarios for Beyond 2025 Southland", June 2023, p15

⁷ *Id.* p15-18

Economic diversification Volatility in the global economy may affect one or more of Invercargill's key export industries. This will drive diversification but will slow growth. GDP and employment growth in new industries such as aquaculture and green hydrogen is not expected to offset any declines in agriculture. There may be a delayed effect through the risk of impacted industries abandoning properties. Growth in the forestry industry as a result of carbon farming has the potential to negatively impact Invercargill's economy.	Possible	Moderate	Council will continue to work closely with the Regional Council, Great South, the Chamber of Commerce and other stakeholders to support economic diversification for the region. In the case of significant industry decline a targeted response may need to be developed.
Central Business District The City Block development has been successfully completed and has attracted new development, including two new hotels in the city centre. Council will continue to support initiatives to drive the success of a thriving CBD. GDP will increase by \$14m annually as a result of the investment until 2030. ⁸	Likely	Moderate	Council remains strongly committed to its vision "Our City with Heart – He Ngakau Aroha." Any divergence from this vision could impact the financial viability of ICL but is not expected. Further investment may be required either in the City Block or associated city streets improvements.
Tourism Tourism in the Visit Southland area is expected to increase to between 160% - 165% of pre-Covid levels by 2029. ⁹ Invercargill is expected to proportionally benefit from this increase and demand for accommodation to increase and to be met from within existing stock.	Moderate/Likely	Minor	Tourism, while important, is not currently a major driver of the Invercargill economy, although it has great potential to grow. Council may need to invest in further infrastructure if tourism grows faster than expected and manage any flow on impact on housing availability given housing constraints.

⁸ NZIER report "Invercargill CBD regeneration", May 2023, p17

⁹ Beyond 2025 Southland Regional Long Term Plan, p56

International education The numbers of international students studying at Southern Institute of Technology (SIT) Te Pūkenga are not expected to return to pre-Covid levels until 2028 at the earliest. The decline as a result of Covid is likely to be compounded as a result of a change in policy at Te Pūkenga with reduced focus on recruiting international students, and by reduced domestic competitiveness as a result of the likely end of the Zero Fees policy.	Moderate/Likely	Minor	International students and their families create significant demand for certain categories of housing, including city centre housing. Lower numbers of international students is likely be a factor in the trend of an increasingly aged population. Lower or higher than expected numbers of international students may require an adjustment in Council response to City centre strategy and/or other provisions/ partnerships impacting housing availability.
Climate change regulatory change Legislative change is expected to increase requirements, reflected in the Emissions Reduction Plan and the National Adaptation Plan, on businesses and Council with an impact on economic growth as yet unknown.	Likely	Moderate/ Major	Council is working with the regional Climate Change Working Group to set a strategy for the region and action plan for Council. Further investment will be required in activities to reduce emissions and to better understand climate change risk to Council assets.
ENVIRONMENTAL	Likelihood	Consequence	Council response
Mean annual and extreme temperature (days where temp. exceeds 25C) are expected to increase with time: By 2040: mean annual temperature increase of 0.5-1.0C with 0-10 more hot days per annum. By 2090: mean annual temperature increase of 0.7-3.0C, with 5-55 more hot days per annum	Moderate	Minor	Temperature increase while important has an indirect impact on Council operations, which are expected to be accommodated within Council plans.

<p>Annual rainfall is expected to increase By 2040: +0-10% B 2090: +5-20% Increased frequency of high rainfall days, i.e. Increase in intensity of rainfall</p>	<p>Moderate</p>	<p>Moderate/ Major</p>	<p>Increased intensity of rainfall is expected to result in increased flooding. Council has adjusted its stormwater asset profiles to plan for increased major flooding events but there remain significant areas of the network which have not yet been renewed. There are also impacts on efficiency of the Sewerage treatment system as a result of overflow from the stormwater system during high rainfall events. Dependent on the Affordable Water Reform and Council's ongoing areas of responsibility, adjustment may need to be made the renewal programme.</p>
<p>Mean sea level is expected to rise By 2040: 0.2-0.3m By 2090: 0.4-0.9m</p>	<p>Moderate/ Uncertain</p>	<p>Moderate/ Major</p>	<p>There remains significant modelling which must be completed at a regional level to attain an understanding of what sea level rise is likely and its potential impact. There are known risk areas including the Airport and Bluff which need further investigation. Council has invested in major infrastructure upgrades at Stead Street to increase protection for the city. Further work will be required on associated flood banks to maximise this investment. Environment Southland has responsibility for managing and maintaining the remainder of the city's floodbank network.</p>

Natural disaster Extreme weather events are happening more frequently and this trend is likely to continue due to climate change. There is a 75% probability of the Alpine Fault rupturing within the next 50 years.	Possible	Major/ Catastrophic	A major disaster which impacted Council's ability to operate at the same time that the community's need for disaster relief was required to be supported would require a major shift in strategy and operations. Council supports Emergency Management Southland to coordinate the response in such a situation. Council would fund response to a natural disaster primarily via debt.
Environmental renewal Council will invest to understand more about the levels of environmental damage at Ocean Beach and New River Estuary. It is possible that further investment in renewal will be required within the life of the infrastructure Strategy.	Likely	Moderate	There is potential significant investment required for contamination management. The scale of this work is as yet unknown.
CULTURAL	Likelihood	Consequence	Council response
Māori culture Māori culture has become more visible in the city since the time of the last Long-term Plan and will continue to become more visible.	Likely/ Almost certain	Low	Council is working closely in partnership with Mana whenua and would seek to manage impacts through this relationship.
Project 1225 Te Unua Museum of Southland will be built by December 2025, and open to the public in the second half of 2026.	Almost certain	Moderate	The programme is on schedule and remains a primary focus of Council. The impact of delay on service delivery is low, however the reputational risk of late delivery is significant. Council continues to actively manage this project through the PMO.

Civic pride Resident pride in the city following the redevelopment has increased (in 2023 80% of people said they would speak more positively about the city) ¹⁰ and will continue to increase as new projects including Project 1225 are completed.	Likely/ Almost certain	Minor	Council sees both City Block and Project 1225 as major cornerstone projects to achieving of its vision – Our City with Heart – He Ngakau Aroha. The social and economic benefits are already being realised. Continued commitment to the strategy will be required for full delivery.
Cultural activation An increase in activities and events reflecting the diverse culture of Southland will take place following Council investment in activation and private uptake of new facilities available.	Likely	Minor/Moderate	Activation is essential to leverage Council's capital investment in the city centre. Council will continue to explore a range of mechanisms to support activation in the community.
COUNCIL OPERATIONS	Likelihood	Consequence	Council response
Water Reform As a result of the Central Government directed Waters Reform, it is assumed there will be a change in water reticulation and sewerage delivery services within the life of the plan. This will result in a structural change for Council in relation to the ownership of assets and associated debt capacity. The services will continue to be delivered, but these will be provided by another party. This will include increased regulatory requirements as required by the new regulatory authority.	Uncertain	Major	The impact to Council operations is major but moderate for the city, as services will be maintained in any scenario. The Long-term Plan includes two years of three waters activity. Any policy change would require inclusion of the remainder of the programme and likely rescheduling and forecasting, with potential associated impact on consent renewals.

¹⁰ Southland CBD Rejuvenation Community and Business Survey Report, March 2023, p9

Legislative changes There will be changes to legislation that have an impact on how Council will provide services. These changes may affect Council organisational structure but not change the level of service received by the customer/ratepayer in the first three years of the plan	Likely	Minor/ Moderate	Management will continue to engage with Central Government to ensure levels of service are maintained or improved and plan for changes in services in response to policy and regulation changes as they arise.
Consents Council will continue to carry out legislation-directed ordinary functions while factoring in an increase to required quality for consent conditions.	Likely	Minor/ Moderate	Consent processes at Bluff and Clifton Water Treatment Plants have commenced, although under an increased level of uncertainty as a result of the reform programme. Any impact on the consent process as a result of this uncertainty would be significant.
The Funding Assistance Rate (as advised from Waka Kotahi) NZTA will continue at 51% funding assistance until 2026/27. It is assumed that it will then remain at 51% for the life of the plan.	Likely	Moderate	Significant changes would have an impact on Council's ability to maintain levels of service and may require changes to budgets. Council continues to work closely in partnership with Waka Kotahi to manage this risk.
Asset life Assets will remain useful until the end of their average useful life, noting this requires underlying assumptions regarding asset condition to be correct. Infrastructure installed in the 1920s is nearing end of life and require renewal within the term of the Infrastructure Strategy.	Moderate/Likely	Moderate	Assets may need to be renewed earlier if this underlying assumption is incorrect. This may also change the renewal profile or may allow delayed renewal in other cases. Council will review the remaining asset life at each of the triennial asset revaluations and undertaken regular asset condition assessments.

Infrastructure network development It is anticipated that a 1% extension of the network (roading, three waters) will be required to service forecast growth needs of business and/or residential property. Locations are not yet known so more accurate forecasts are not possible.	Uncertain	Moderate	Invercargill has not operated under a growth assumption in the immediate past as the network was constructed to support a higher level of population. However, new potential industries are expected, if they eventuate, they are likely to create significant new demands on the network. As a result Council is planning for this uncertainty by allowing for growth.
Capital programme delivery 100% of roadmap and strategic projects are expected to be delivered. 80% of the core capital programme will be delivered in Year 1 and 2 and 90% thereafter, following implementation of the Affordable Water Reforms.	Possible	Moderate	Council continues to invest in enhanced project management capacity and supporting construction sector capacity through new ways of working. The financials will be reforecast to reflect the delivery expectations each year.
Investment Property Investment Property Assets are valued on a yearly basis. They are expected to increase in value in line with inflation. This is reflected in our Financial Strategy, and Accounting policies.	Likely	Low	Variations in valuations have no cash flow implications for Council. Council will continue to value Investment Property and forestry assets on an annual basis.

FINANCIAL	Likelihood	Consequence	Council Response
Inflation Operational forecasts and capital work programmes will increase by the accumulated Local Government Cost Index inflation forecast by BERL.	Likely	Moderate	Cost change factors are based on information developed for councils by BERL. Significant variations to inflation would have an impact on Council's financial management. The significant changes in recent years in relation to inflation mean that level of uncertainty has increased as to whether increased fluctuations in the BERL cost estimates can be expected. Council will continue on the planned pathway for the Capital Works programme and review operational revenue and expenditure each year.
Asset revaluation Asset values will increase by the accumulated Local Government Cost Index inflation forecast by BERL on the last valuation value. Revaluation occurs in 2024/25 and every third year thereafter.	Likely	Moderate/ Major	Changes in valuation (cost price) or life of Council assets have a significant impact on Council's financial management and capital programme. Council will continue on the planned pathway for the Capital Works programme and monitor after each revaluation cycle.
Interest rates - Borrowing Expected interest rates on borrowing will be 4.0%	Moderate/Likely	Moderate	A significant change in interest rates and the cost of borrowing would have a significant impact on Council budgets. Changes to services or the Financial Strategy would need to be considered.
Interest rates - Cash and Deposits Return on cash and term deposits are forecasted to be 1.5% lower than borrowing rates	Likely/ Almost Certain	Minor	Term deposit rates currently vary between providers but most providers have a discount on rates from their prime lending rates

Dividends from ICHL Dividends will be [TBC]	Possible	Minor/ Moderate	There would be a negative impact on Council's overall revenue and cash position if the dividend level was not maintained, which would increase the burden on ratepayers. Council will consider strategic reliance on dividend noting increased levels of economic uncertainty and impact of Council future direction to ICHL regarding holding of non-financial strategic assets.
External Funding It is assumed Council will achieve the level of external funding as estimated.	Possible/ Moderate	Minor/Moderate	Council is expecting external funding from Central Government, community and private investment into a number of strategic projects. While not all funding may be achieved, the estimates are based on expert analysis and are expected to be at least partially fulfilled. Council expects to be in a position to meet any shortfall.