



Meeting of the Corporate and Strategic Committee

Date: Wednesday 12 December 2018
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

ITEM	SUBJECT	PAGE
1.	Welcome/Notices/Apologies	
2.	Conflict of Interest Declarations	
3.	Confirmation of Minutes of the Corporate and Strategic Committee meeting held on 3 October 2018	
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HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

**SUBJECT: FOLLOW-UPS FROM PREVIOUS CORPORATE AND STRATEGIC
COMMITTEE MEETINGS**

Item 4

Reason for Report

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

Decision Making Process

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

Recommendation

That the Corporate and Strategic Committee receives and notes the "*Follow-ups from Previous Corporate and Strategic Committee Meetings*" report.

Authored by:

Leeanne Hooper
PRINCIPAL ADVISOR GOVERNANCE

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

- [!\[\]\(54a282d3ed55c9b1ac66d6fb81d5de2b_img.jpg\) 1](#) Follow-ups from Previous Corporate & Strategic Committee Meetings

Follow-ups from Previous Corporate and Strategic Committee Meetings

3 October 2018

	Agenda Item	Follow-up / Request	Responsible	Status Comment
1	Report and Recommendations from the Finance, Audit & Risk Sub-committee	Auditor to be invited to the Council meeting on 24 October	J Ellerm	Stephen Lucy attended 24 October 2018 Council meeting to speak to the qualified Audit opinion
2	Report and Recommendations from the Finance, Audit & Risk Sub-committee	Tangoio Soil Conservation Estate – provide information in relation to 'ownership' of the asset and future management of the reserve	M Collings / C Dolley	- Financial Treatment of the conservation estate report to go to C&S in 2019 - Management of the soil conservation estate report to go to E&S in 2019
3	Kahutia – Ngati Kahungunu Iwi Inc Carbon Credit Proposal	Seek written confirmation from independent consultant that the Kahutia Carbon Credit Proposal holds limited or low risk to Council	J Palmer	28 November Council approved proposal in principle with final lease agreement to go to 19 December Council meeting for approval
4	Ethical Investment Policy	Schedule Ethical Investment Policy Development workshop	M Collings	Councillors decided that the current policy is adequate and a workshop will be offered to interested councillors in 2019.
5	HB Tourism Update	Include update on Living Wage promotion to tourism sector in next report	T Skerman	12 December HB Tourism Report scheduled to cover alternative funding models. Living Wage promotion will be raised specifically in HBT's next report to the Committee.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: CALL FOR ITEMS OF BUSINESS NOT ON THE AGENDA

Item 5

Reason for Report

1. Standing order 9.12 states:

"A meeting may deal with an item of business that is not on the agenda where the meeting resolves to deal with that item and the Chairperson provides the following information during the public part of the meeting:

(a) the reason the item is not on the agenda; and

(b) the reason why the discussion of the item cannot be delayed until a subsequent meeting.

Items not on the agenda may be brought before the meeting through a report from either the Chief Executive or the Chairperson.

Please note that nothing in this standing order removes the requirement to meet the provisions of Part 6, LGA 2002 with regard to consultation and decision making."

2. In addition, standing order 9.13 allows "A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion."

Recommendations

1. That the Corporate and Strategic Committee accepts the following "Items of Business Not on the Agenda" for discussion as Item 17.

1.1. ***Urgent*** items of Business

	Item Name	Reason not on Agenda	Reason discussion cannot be delayed
1.			
2.			

1.2. ***Minor*** items for discussion

Item	Topic	Councillor / Staff
1.		
2.		
3.		

Leeanne Hooper
PRINCIPAL ADVISOR GOVERNANCE

James Palmer
CHIEF EXECUTIVE

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: BUS SERVICE UPDATE AND REVIEW OF FARES

Item 6

Reason for Report

1. To update the Committee on the performance of the goBay bus service, the introduction of the new ticketing system and to review fares

Background

2. HBRC contracts GoBus Transport Ltd. to provide the goBay bus service in and between Napier, Hastings and surrounding districts.
3. The current contract commenced on 1 August 2016 and will run until 31 July 2025.

goBay Passenger Survey Results

4. The 2018 goBay Passenger Survey was conducted between 1-24 August, with a total of 635 people taking part (78% paper based, 22% online):
 - 2.1 90% satisfaction with the overall trip
 - 2.2 88% satisfaction with the public transport system
 - 2.3 77% satisfied with service frequency
 - 2.4 80% considered the service good value for money
 - 2.5 90% satisfaction with personal safety
 - 2.6 91% satisfaction with the ease of getting on/off the bus
 - 2.7 90% satisfaction with the helpfulness and attitude of bus drivers
 - 2.8 the top two main reasons for travel were '*work*' and '*school*'.
5. Although these results are very good, there is still some room for improvement, particularly around service frequency and services running to time. The biggest decline in satisfaction since the 2016 survey related to information about service delays. HBRC is working to improve delays through some service and timetable adjustments, and information about service delays should be improved once the new goBay website goes live in early December.
6. Service features that mattered most to the community for them to recommend using goBay public transport were: '*The bus being on time and keeping to timetable*', '*How convenient it is to pay for public transport*' and '*The travel time*'.
7. Payment systems will be much improved once the new ticketing system is in place, and we are also working to improve travel times wherever possible, including with faster passenger loading once many passengers are using the tag-on, tag-off system.

Bus Ticketing System

8. The project to implement a new bus ticketing and smartcard system for nine regional councils across New Zealand is now well into the implementation phase. The provider is INIT, a company based in Germany but which has built such systems all over the world.
9. The system will allow all participating regional councils to continue with their own timetables and fares structures but the bus card will be able to be used in all nine regions. A clearing-house system will allocate fares to the correct region.
10. Passengers will be able to top up their cards online (currently this is only possible with cash on the bus), which will speed up bus loading times. However, cards can still be topped up with cash on the bus or at selected retail outlets by cash or EFTPOS.

11. Entry to the bus is via a tag-on system (the card is passed over an electronic reader) and passengers will be required to tag off when they leave the bus also. This will provide councils with detailed information (not currently available) about where people are getting on and off the bus and how far they travel.
12. People who travel with a concession fare will need to be registered with HBRC and the concession will then be pre-loaded onto their card. This will speed up loading times onto the buses considerably as there will be no need for drivers to verify concessions.
13. We will have special bulk upload processes for some of the concessions, which should make this registration process straightforward. However we are anticipating that some people will need assistance to apply for their concessions, and so we will have temporary staff placed in HBRC Reception and at Hastings Library to assist people with this.
14. One major change for SuperGold card bus users is that they will be required to have a bus card; currently users simply show their SuperGold card to board the bus. However, these will be provided free to all existing users. This is a national requirement and has already been implemented in Auckland.
15. All nine regions will have the new system in place by June 2019.

Bus Patronage and Cost

16. Diagram 1 shows the monthly passenger trips and the monthly average, July to October from 2012-13 to 2018-19.

Diagram 1 – Year to date monthly passenger trips, July to October.

	Jul	Aug	Sep	Oct	TOTAL	Mthly Ave
2012-13	59,275	74,493	61,847	60,530	256,145	64,036
2013-14	64,869	78,729	69,564	63,807	276,969	69,242
2014-15	64,349	73,204	68,927	62,049	268,529	67,132
2015-16	59,690	66,992	62,156	56,421	245,259	61,315
2016-17	52,029	67,817	58,564	53,703	232,113	58,028
2017-18	47,342	68,868	62,617	49,945	228,772	57,193
2018-19	52,904	66,538	55,612	52,414	227,468	56,867

17. During this period, patronage increased on most of the services between Napier and Hastings, while most of the suburban services declined, including Route 14 Napier-Maraenui and Route 20 Hastings-Flaxmere.
18. Although we can't be sure of the reasons for this, we think that the recent increases in petrol prices have had an influence on the longer services. As the HB unemployment figures are down to 4.5%, more people may have access to a private vehicle, explaining why numbers on the suburban services continue to decline.
19. While the overall YTD patronage is still slightly down on last year, the total passenger-kilometres travelled has increased by 8% This is a reflection of passenger increases on the longer services.
20. Diagram 2 shows the annual net cost (after fares and excluding GST) of operating the goBay bus service for the year to date from 2012-13 to 2018-19.

Diagram 2 – Year to date net cost, July to October.

Year	Jul	Aug	Sep	Oct	TOTAL
2012-13	\$ 224,406	\$ 224,406	\$ 224,406	\$ 224,406	\$ 897,624
2013-14	\$ 186,170	\$ 278,969	\$ 182,220	\$ 187,613	\$ 834,972
2014-15	\$ 168,720	\$ 157,262	\$ 264,227	\$ 174,153	\$ 764,362
2015-16	\$ 142,779	\$ 189,698	\$ 213,309	\$ 157,298	\$ 703,084
2016-17	\$ 154,602	\$ 138,772	\$ 157,040	\$ 176,475	\$ 626,890
2017-18	\$ 184,246	\$ 175,294	\$ 166,673	\$ 182,945	\$ 709,158
2018-19	\$ 176,123	\$ 210,652	\$ 180,434	\$ 180,547	\$ 747,756

51% of this cost is met by the New Zealand Transport Agency)

21. Recent cost increases are largely due to inflationary pressure, as our bus contract is adjusted by an NZTA index reflecting fuel, labour and infrastructure prices. However, lower fare revenues have also played a part.

Fare Review

22. NZ Transport Agency conditions of funding require regional councils to undertake a fare review annually.
23. The last fare increase, of 3.6%, was implemented in September 2014. The NZTA Cost Index for Public Transport (which is used to adjust contract prices to account for inflation) increased by 5.8% from September 2014 to June 2018. However, since June there has been a significant increase in the fuel price and we are expecting that the September index will increase.

Table 1 - Current Fares and Zones

Single Trip Cash Fares

	Adult	Tertiary Student/ Community Services Card	Child/High School Student/ Senior
1 Zone	\$3.60	\$2.40	\$1.80
2 Zone	\$4.20	\$3.60	\$3.00

Single Trip Smartcard Fares (approx. 20% cheaper than cash fares)

	Adult	Tertiary Student/ Community Services Card	Child/High School Student/ Senior
1 Zone	\$2.88	\$1.90	\$1.43
2 Zone	\$3.65	\$2.86	\$2.14

Zones

1 Zone Trip	2 Zone Trip
Clive, Bayview, Napier, Tamatea, Taradale, and EIT	Bayview, Napier, Tamatea and Taradale (before EIT/Clive) to Hastings/Flaxmere/Havelock North
Clive, Hastings, Havelock North, Flaxmere and EIT	Hastings, Havelock North, Flaxmere to Taradale, Tamatea Napier/Bayview (after EIT/Clive),

Table 2 - Passenger Category Percentages 2017-2018

2017-2018	TRIPS	%
Adult	105,830	16
Child	200,718	30
Community Services Cardholder	88,708	13
DHB Appointment Cardholder	5,707	1
DHB Staff	6,904	1
Promo/10-trips (sold directly by HBRC)	10,463	2
Senior	14,877	2
SuperGold Cardholder	119,089	18
Tertiary Student	78,493	12
Transfer	35,176	5
TOTAL	666,127	100%

24. Concessionary Fare Categories are:

- 24.1. **Children** under 5 travel free of charge
- 24.2. **Children over 5 and Students** in uniform or with school ID pay a concessionary fare
- 24.3. **EIT** students pay only a one zone fare as EIT is the zone boundary. A single smartcard trip to/from EIT is very good value at just \$1.90 (with EIT student ID).
- 24.4. **SuperGold** cardholders travel free between 9am and 3pm Monday to Friday and anytime on weekend/public holiday services. HBRC are reimbursed for these fares by the NZ Transport Agency. Before 9am and after 3pm SuperGold holders pay a 'senior' concessionary fare.
- 24.5. **DHB** patients travelling to/from Hawke's Bay Hospital or the Napier Health Centre, travel free of charge on production of a valid DHB appointment card/letter.
- 24.6. **DHB** staff pay a reduced, subsidised smartcard fare, with the subsidy reimbursed by the organisation. HBRC has this month introduced the same scheme on a trial basis.
- 24.7. **Community Services Cards** are available to all people on a low income, and on production of a valid Community Services card the passenger pays a concessionary fare.

Table 2 - Passenger Category Percentages 2017-2018:

2017-2018	TRIPS	%
Adult	105,830	16
Child	200,718	30
Community Services Cardholder	88,708	13
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SuperGold Cardholder	119,089	18
Tertiary Student	78,493	12
Transfer	35,176	5
TOTAL	666,127	100%

- 25. As seen in table 2, almost 82% of goBay fares are concessionary fares.
- 26. Table 3 shows fare recovery rates for other regions. Fare recovery is the portion of the total cost of the service that is covered by fares (including SuperGold payments from central government). It is not possible to directly compare fares across regions, due to differences in fare structures and zone sizes, but the fare recovery rate provides a suitable means of comparison.

27. Hawke's Bay, while not among the highest of fare recovery rates, is similar to other comparable regions. The fare recovery has improved considerably, from 32% in 2011-12 to 37% in 2017-18.

Table 3: A comparison with other regions, 2016-17

Region/city	Fare Recovery
Auckland	47%
Bay of Plenty	32%
Canterbury	41%
Wellington	53%
Hawke's Bay	39%
Horizons	34%
Southland	30%
Nelson	56%
Otago	49%
Taranaki	40%
Waikato	32%

Options Assessment

28. The following options are proposed for the committee's consideration.

Option 1 - No change to fares, with a further review in November 2019

28.1. Advantages:

28.1.1. The cost of bus fares will compare increasingly favourably with the cost of driving as fuel and other prices increase, helping to encourage more people onto the bus, especially for longer trips.

28.1.2. Minimises the degree of change to take place in April 2019, when the new ticketing system will be introduced.

28.2. Disadvantages:

28.2.1. the fare recovery rate of the bus service could decline further if operational costs continue to increase without an increase in patronage, placing a higher burden on ratepayers and taxpayers.

Option 2 – a 3% increase on all fares in April 2019, followed by a further 3% increase in April 2020

28.3. This would see a ten cent increase per year on all **cash** fares, due to the need to round all fares.

28.4. For card fares, the following would apply.

Card Fares

	Current	Proposed 2019	Proposed 2020
Adult 1-zone	\$2.88	\$2.96	\$3.05
2 zone	\$3.65	\$3.75	\$3.87
Tertiary/CSC			
1-zone	\$1.90	\$1.95	\$2.02
2-zone	\$2.86	\$2.94	\$3.03

	Current	Proposed 2019	Proposed 2020
Child/High School/Senior 1-zone	\$1.43	\$1.47	\$1.51
2-zone	\$2.14	\$2.20	\$2.27

28.5. Advantages:

28.5.1. A 3% increase for each of two years would equate to an increase in revenues of \$91,000 over the two years, assuming that there is no effect on patronage (based on a 3% increase on all fares, excluding the SuperGold allocation from central government, which is fixed).

28.6. Disadvantages:

28.6.1. Fare increases can result in a patronage decline. Public transport planners use a generally accepted figure of a 2% decline for a 10% increase in fares. For a 6% fare increase we could possibly expect a decline of just over 1%, which would then reduce the amount of revenue collected.

Option 3 – a 3% increase in cash fares in April 2019 and April 2020, all smartcard fares held at current rates.

28.7. Advantages:

28.7.1. Increasing cash fares while holding card fares could encourage more people to use smartcards. This has significant benefits for the bus service, in that loading times are quicker; this will improve further when the new tag-on tag-off system comes into operation.

28.7.2. There would be some benefit to revenues, although significantly less than for Option 2, as around 70% of our passengers use smartcards. We could expect an increase in revenue of approximately \$36,000 over two years assuming no loss of patronage and the same number of cash ticket purchases.

28.8. Disadvantages:

28.8.1. New users often pay cash before deciding that they will continue to use the service and then invest in a smartcard. The increase could discourage some passengers from trying the bus service.

28.8.2. The overall benefit of this option to fare revenues is just over 3% over two years, which will not have a major impact on our fare recovery rate.

Other Regions

29. Over the past four years, Horizons Regional Council introduced fare increases on two of its services, these fare increases resulted in an almost instant decline in passenger trips on both services. Due to that decline, the fare increase on one of the services was reversed and passenger trips have since recovered. This illustrates how fare increases can impact negatively on public transport patronage.
30. Taranaki Regional Council has not increased fares for five years, with patronage static or declining on some routes, the decision has been made each year to maintain current fares, as it was considered likely an increase would reduce patronage.
31. Greater Wellington Regional Council implemented a general 3% increase in July but also introduced a substantial range of concessions and fare products that were not previously available.

Discussion

32. The options outlined above are examples only – there are of course many other possible permutations.
33. Although the cost of running the bus service is increasing, recent fuel price increases have driven more people to use the longer services, and we are hopeful that this will continue. A fare increase could affect this positive trend.
34. Unfortunately, most people only take parking and fuel costs into consideration when calculating the cost of driving vs. using the bus. Feedback from potential adult fare-paying passengers (i.e. with no concessions) is that the 1-zone fare does not compare favourably with the cost of driving and parking, especially with the amount of available free or cheap parking in both cities. If we are to increase the number of people using the bus for commuting to work, an increase in this fare would not be beneficial.
35. The fare recovery rate on our services could also be improved by reducing costs or increasing patronage. Through the review of the Regional Public Transport Plan (to be brought to Council for consideration in early 2019), we are considering a range of ways in which we can increase patronage and improve the efficiency of the services. Although there are no guarantees of success, we believe that maintaining fares at current levels will make the service more attractive and that people do weigh up the fare vs. the cost of driving, when deciding whether to take the bus or not. The success of the HBDHB staff scheme is evidence of this, with 115 % growth in patronage as the DHB has successively increased the subsidy rate for its staff. We therefore support Option 1 of maintaining fares at current levels, and trying to improve fare recovery rates through other means.

Decision Making Process

36. Council is required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 36.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 36.2. The use of the special consultative procedure is not prescribed by legislation.
 - 36.3. The decision does not fall within the definition of Council's policy on significance.
 - 36.4. The persons affected by this decision are bus users in Napier-Hastings.
 - 36.5. The decision is not inconsistent with an existing policy or plan.
 - 36.6. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

1. That the Corporate and Strategic Committee receives and notes the ***"Annual Bus Fare Review"*** staff report.
2. The Corporate and Strategic Committee recommends that Council:
 - 2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community.
 - 2.2. Agrees to maintain bus fares at current levels, with a further review in November 2019.

Item 6

Authored by:

**Anne Redgrave
TRANSPORT MANAGER**

Approved by:

**Tom Skerman
GROUP MANAGER STRATEGIC
PLANNING**

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

**Subject: AMENDMENT TO THE TREASURY POLICY AND INVESTMENT FUNDS
STATEMENT OF INVESTMENT POLICY OBJECTIVES**

Item 7

Reason for Report

1. To provide the committee with an amendment to the Treasury Policy and the Statement of Investment Policy Objectives (SIPO) for approval and recommendation to Council.

Background

2. During the process of appointing Council's investment managers, suggestions have been made to incorporate minor amendments to the SIPO to allow for more practical implementation.
3. Amendments include making reference to having two investment fund managers, allowing some infrastructure assets in the growth asset mix and allowing some unhedged equities.
4. These changes do not impact the overall asset mix or risk profile and have been reviewed by our Treasury advisors who have provide a view that they are consistent with the previous SIPO and minor in nature.
5. Amendments to the SIPO are incorporated into Council's Treasury Policy which therefore also requires amendment.
6. The Local Government Act 2002 allows for the Liability Management Policy and Investment Policy which are contained in Council's Treasury Policy to be amended without consultation.
7. Amended versions of both the SIPO and Treasury Policy with tracked changes are attached.

Decision Making Process

8. Council is required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 8.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 8.2. The use of the special consultative procedure is not prescribed by legislation.
 - 8.3. The decision does not fall within the definition of Council's policy on significance.

Recommendations

1. That the Corporate and Strategic Committee receives and notes the "Amendment to the Treasury Policy and Statement of Investment Policy Objectives" staff report.
2. The Corporate and Strategic Committee recommends that Hawke's Bay Regional Council:
 - 2.1. Agrees that the decisions to be made are not significant and Council can exercise its discretion and make decisions on this issue without conferring directly with the community.
 - 2.2. Adopts the amended HBRC Statement of Investment Policy Objectives and Treasury Policy as proposed.

Authored by:

**Manton Collings
CHIEF FINANCIAL OFFICER**

Approved by:

**Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES**

Attachment/s

- [↓1](#) Statement of Investment Policy Objectives with Tracked Changes
- [↓2](#) Treasury Policy with Tracked Changes

Hawke's Bay Regional Council

Long Term Investment Fund

Statement of Investment

Policy and Objectives

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Introduction

Purpose

The purpose of this Statement of Investment Policy and Objectives ("SIPO") is to assist Hawke's Bay Regional Council ("Council"), the Corporate and Strategic Committee, the Finance, Audit and Risk Committee, Council executives and the Investment ~~Manager~~Managers in effectively supervising, monitoring and evaluating the management of the Investment Fund ("the Fund").

The SIPO defines the key responsibilities, and the operating parameters within which the investments and their ongoing management are to operate. The SIPO should at all times encourage the use of methodologies and processes that reflect industry best practice, encompass the principles of good governance, and reflect Council's vision and risk tolerances.

The investment activities are defined in various sections of the SIPO by:

- Stating in a written document Council's attitudes, expectations, objectives and guidelines for investment.
- Clearly defining an investment structure for managing the Fund. This structure includes various asset classes, investment management style(s), asset allocations and acceptable investment ranges that, in total, are expected to produce an appropriate level of diversification and total return over the investment time horizon.
- Establishing formal criteria to monitor, evaluate and review the performance of investments on a regular basis.
- Encouraging effective communication between the Council, the Corporate and Strategic Committee, the Finance, Audit and Risk Committee, Council executives and the Investment ~~Manager~~Managers.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilise, and with applicable laws, rules and regulations.
- Providing guidelines and criteria for the appointment of an Investment ~~Manager~~Managers.

Approach

As a responsible public authority, Council is a risk averse entity. Council's approach is that all investments must be prudent and the associated risks and returns balanced against the key aim of capital preservation. Council's investment framework is supportive of its inter-generational responsibilities to current and future ratepayers. The primary focus is capital protection, followed by an appropriate return and acceptable liquidity.

Strategic, long-term asset allocation is the key to maximising investment returns while minimising risk. Fund investments should be continually monitored and adjusted relative to benchmark asset allocations.

All investments must apply a responsible and ethical investment framework filter when considering investments as outlined in the SIPO.

Tax Policy

The Fund is exempt from taxation on both capital gains and income. Ongoing investment management of the Fund is to be carried out in a manner consistent with the Fund's tax-exempt status.

Capital Base

In terms of the assets of the Fund, the Capital Base is \$50,000,000 as at 5 June 2018.

Effective Date

This SIPO takes effect from 1 July 2018.

Review Date

The date of the next SIPO review is to be 1 July 2019 or sooner if market conditions warrant, Council requests a review or the investment structure is altered.

Objectives, Risk Tolerance and Strategic Asset Allocation

Investment Objectives

Council's overarching strategic goals for its investment activities are as follows:

- Council will maintain a long-term perspective to ensure assets are protected for future ratepayer generations and over the long run will consider the impact of inflation.
- Council will ensure that the overall portfolio of investments is sufficiently liquid to meet ongoing cash flow requirements and ensure Council is never a forced seller of its long-term investment assets.
- Council will ensure that investment returns are optimised within the risk management parameters specified in the SIPO.

Investment Performance Objectives

Council's Fund is targeted to earn a return at least equal to a real return (after inflation and fees) of 4.5% in Year 1 and 5.0%¹ per annum in Year 2 and beyond. This is further expanded upon within the 'Risk Tolerance' section below.

All returns are assessed in NZD.

Investment Time Horizon

The investment guidelines are based upon an investment time horizon of greater than fifteen years. Therefore, interim fluctuations should be viewed with appropriate perspective (i.e. aiming to build intergenerational equity).

Investment Risk

Council bears the investment risk, as fluctuations in investment performance over time directly affect the value of the Council's investments.

Policy Setting and Management

Council approve/amend the policy parameters set in relation to investment activities. These changes will be minuted and incorporated into the SIPO and the dates of the changes noted.

Risk Tolerance

Council recognises that some risk must be assumed in order to achieve the long-term investment objectives. Risk tolerance is affected by three factors:

- Capacity to accept risk,
- Willingness to accept risk, and
- Required rate of return

¹ These returns have been set as per the Financial Strategy within Council's 2018 Long Term Plan.

Capacity to Accept Risk

Council's capacity to accept risk is a function of its investment time horizon, prospective future contributions, current financial conditions and cash flow requirements.

Time horizon: This SIPO has been prepared on the basis that Council is expected to exist in perpetuity. The investment time horizon of Council is therefore long term. This increases the capacity to accept risk.

Financial capacity and cash flow requirements: Council's cash flow requirements imply low capacity to tolerate short to medium term volatility in the value of its Investment Fund. This reduces the capacity to accept risk.

Based on the combination of time horizon and financial circumstances, Council's implied capacity to accept risk is assessed as low to moderate.

Willingness to Accept Risk

Council is a risk averse entity. Where possible Council seeks to minimise volatility or risk. Notwithstanding this risk aversion, Council acknowledge that investing solely in capital stable investments exposes the Fund to the risk of inflation. This impacts the real value of investments. Council is willing to accept risk in order to increase expected returns in line with maintaining the real value of inter-generational equity. As such, Council's willingness to accept risk would characterised as moderate.

Required Rate of Return

Careful consideration of cash flow requirements is essential to determine the required rate of return. To achieve the desired level of contributions to cash flow and liquidity needs, an assumed starting fund size of \$50,000,000, and an average real return (after inflation and fees) of 5.0% from Year 2, may be sufficient to meet Council's financial strategy.

Council recognises that the target rate of return is a long-term goal and will not be achieved in every measurement period.

Risk Summary and Selection of Asset Allocation

The table below summarises Council's level of risk tolerance as measured by the three risk factors:

Risk measure	Level of risk
Capacity to accept risk	Low to moderate
Willingness to accept risk	Moderate
Required rate of return	Moderate

Based on Council's return requirements and capacity and willingness to accept risk, a balanced fund is adopted which is suitable for a low to medium level of risk.

The balanced Benchmark Fund that the Fund's returns will be monitored against over the long term is as follows:

Asset Class	Benchmark
Growth assets	50%
Income assets	50%

In the table above, growth assets relate to equities (domestic and international)), **infrastructure** and property whilst income assets relate to cash, term deposits and fixed interest debt securities (domestic and international).

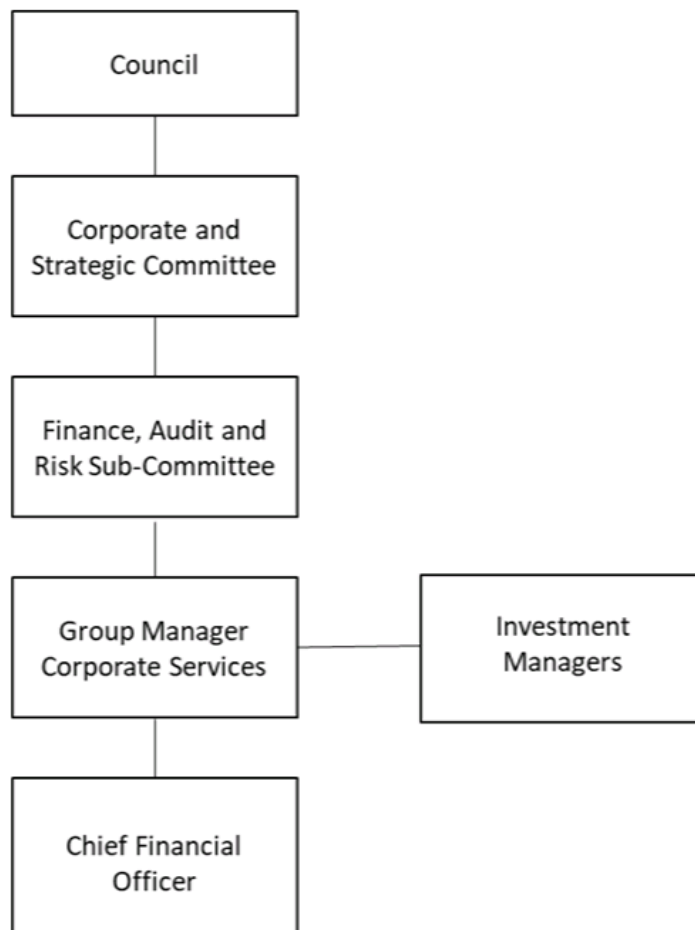
The appropriateness of this Benchmark Fund will be formally assessed at least once a year and kept under constant review to reflect any fundamental changes in the investment environment and changes to the Fund's investment policy.

A more detailed breakdown of the asset class allocation is contained in the 'Investment Parameters and Guidelines' section of this SIPO.

Structure

Investment Organisational Structure

Council's investment management organisational chart is displayed below. Under this structure, the Finance, Audit and Risk Committee are responsible for the oversight and monitoring of Council's investment policies and Fund.



Duties and Responsibilities

Council/Corporate and Strategic Committee

Council/Corporate and Strategic Committee will be responsible for recommending to Council the following:

- Setting the Fund's investment strategy, including the level of risk and investment objectives, and investment policies.
- Selecting and changing the Investment ~~Manager~~Managers as appropriate.
- Reviewing the SIPO annually, including the investment strategy, policies and ~~manager~~Managers configuration, and instructions to the Investment ~~Manager~~Managers.
- Formally reviewing the SIPO every three years. This involves mandating an independent third party to review the SIPO including the investment strategy, return objective, policies and ~~manager~~Managers configuration, and instructions to the Investment ~~Manager~~Managers.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objective to maintain equity, in terms of amounts available for distribution, between present and future rate payer generations.
- Providing cash flow information to the Investment ~~Manager~~Managers with respect to future deposits and redemptions.
- Set out the duties and responsibilities of all parties involved with respect to decision-making, planning, investment management, reporting and review.

Finance, Audit and Risk Committee

The responsibility for the monitoring and reviewing of Council's investment policies is that of the Finance, Audit and Risk Committee, assisted by the Group Manager Corporate Services, Chief Financial Officer and the Investment ~~Manager~~Managers.

The Committee will:

- Provide guidance and leadership on the appointment, management, monitoring and review of the appropriate Investment ~~Manager~~Managers.
- Recommend the SIPO to Council.
- Liaise with Council's, Investment ~~Manager~~Managers.
- Ensure that the Fund has its own Investment Policy Statement ("IPS"), which is a document, between an investor (Council) and an investment ~~manager~~Managers, recording how the investor's money is to be managed. Specific information on matters such as asset allocation, risk tolerance, investment securities and liquidity requirements are included in an IPS.
- Review all matters concerning the SIPO and IPS, considering any changes or amendments to the SIPO and IPS and making appropriate recommendations.
- Ensure that the practices and policies set out in the SIPO and IPS are adhered to.
- Regularly review Investment Manager reports, and reporting exceptions.
- Ensure that all parties overseeing, advising and managing Council's investments disclose any potential conflicts of interest. In the event that conflicts of interest arise, the policies and procedures for managing these are to be clearly defined, although, in principle, such conflicts should be avoided.
- Advise Council of changes or issues regarding the Fund.

- Report to Council on the performance of the Fund on a basis agreed with the Council.
- Confirm the management of investments complies with all applicable laws, Council's policies, risk tolerance and other supporting documents.
- Ensure that contracts for the investment ~~manager~~Managers and custodial services are reviewed annually.
- Ensure appropriate risk management standards and procedures are developed and maintained.
- Ensure the overall Fund is prudently diversified to meet the agreed risk/return profile.
- Recommends rebalancing of the Fund.
- Follow formal criteria to monitor, evaluate and compare the investment performance results achieved against relevant benchmarks and objectives on a regular basis.
- Ensure that all service agreements and contracts are in writing and are consistent with fiduciary standards of care.

Investment ~~Manager~~Managers

~~An external~~External Investment ~~Manager~~Managers may be appointed to manage part of or all of the Fund at the direction of CE.

The Investment ~~Manager~~Managers will be appointed by Council on the advice of management. The Council may change the Investment ~~Manager~~Managers from time to time as it sees fit at its sole discretion.

The Investment ~~Manager~~Managers will:

- Use the care, skill, prudence and due diligence that an experienced investment professional, acting in a like capacity, would use and comply with all applicable laws, rules and regulations.
- Manage the Fund's investments in accordance with the guidelines and objectives as outlined in the SIPO and IPS.
- Ensure investment assets are appropriately diversified and conform within the time horizon and agreed risk/return profile. Outline expected returns and risk, or volatility, within the selected strategies.
- Manage the Fund on a day-to-day basis. Administer and attend to the day-to-day financial matters associated with the management of the Fund. The primary ~~day-to-day~~ point of contact for the Investment ~~Manager~~Managers is the CFO.
- Ensure that "expected" and "modelled" returns for asset classes are based on sound return and risk premium assumptions.
- Provide advice on, and implementation of, the asset allocation.
- Specify, and advise on, asset and sub-asset class allocation strategies.
- Recommend a Custodian to hold and report on investment assets. Periodically review custodial arrangements and make recommendations.
- Confirm on an annual basis that best practice with respect to execution, brokerage, money sweep facilities, foreign currency spreads, transaction costs and management fees is being applied.
- Provide instructions to other Fund Managers to lodge or withdraw funds.
- Rebalance individual investments and asset class groups to within agreed benchmarks as described in the rebalancing policy contained in the SIPO and IPS documents.
- To effect all transactions for the Fund at the best price.

- Compile and account for all investment, record keeping and administrative expenses associated with the management of the Fund.
- Deliver quarterly reports including:
 - Fund valuation,
 - Fund duration,
 - Compliance reporting (including approved exceptions),
 - Performance summary for the Fund and by asset class,
 - Performance against benchmarks,
 - Fund income,
 - Asset transactions summary,
 - Cash transactions,
 - Investment management fees,
 - Custodial fees,
 - Individual fund management fees, and
 - Brokerage and other transaction costs.
- Make available appropriate personnel to attend meetings, as agreed.
- Disclose any potential conflicts of interest and steps taken to mitigate such conflicts.
- To report at least annually the 'Total cost of Delivery' being the sum of:
 - Investment Manager fees,
 - Custodial fees,
 - Administration fees, and
 - Total Fund fees – made up of; annual management fees (including annual management fees of underlying investments) and any other fees and costs.
- Provide financial information, including income and/or returns projections, as required for forecast budgeting purposes.
- Communicate all significant changes in ownership, organisational structure, financial condition, professional staff and reputation are examples of changes to the firm that are material.

Fund ~~Manager~~Managers

To manage an allocated part of the Fund on terms and conditions consistent with their mandate. The fund ~~manager~~Manager(s) is chosen by the Investment ~~Manager~~Managers and has no direct contact with Council.

Custodian

The Custodian holds investments as bare trustee on behalf of Council and is responsible for the safekeeping of those investments. The specific duties and responsibilities of the Custodian are:

- Maintaining separate accounts.
- Valuation of all investment assets.
- Collection of income.

- Settlement of transactions (buy/sell orders) initiated by the Investment ~~Manager~~Managers.
- Provision of regular reports detailing transactions, cash flows, securities held and their current values, changes in value and returns.

Investment Parameters and Guidelines

General

Specific investment policies are outlined in Council's Investment Policy. In general terms, when making decisions on investments the Investment ~~Manager~~Managers will consider the overall circumstances of the Fund and will comply with all applicable legislative requirements.

The Fund will be managed with a view to ensuring sufficient liquidity to meet expected cash flow and distribution requirements.

Investment risk will be limited by appropriate diversification both within and between asset classes as determined by the following asset allocations.

Asset Class Guidelines

The Fund will consist of a mixture of growth and income assets.

Council are empowered to make investments in the following asset classes and assets:

- Cash – term deposits, cash on call, commercial paper, bank bills.
- NZ fixed interest – NZ Government, Local Authority, NZ registered bank, State Owned Enterprise, Supra-national and Corporate bonds/securities, collective investment vehicles and fixed interest funds.
- International fixed interest –via managed funds, collective investment vehicles, that are fully hedged back into NZ Dollars.
- NZ and international Equities - via managed funds indirectly² or directly. International equities are ~~fully~~to be hedged ~~between 50% to 100%~~, back into NZ Dollars.
- NZ property via managed funds indirectly or directly.
- International property via managed funds indirectly or directly, that are fully hedged back into NZ Dollars.
- Infrastructure via managed funds indirectly or directly that are fully hedged back into NZ Dollars.

Asset Allocation

The strategic asset allocation and tactical ranges are provided below and form the basis on which adherence to the SIPO is measured.

Sector	Benchmark %	Ranges %
NZ-equities	15%	13% – 18%
International-equities (fully hedged)	29%	25% – 34%
NZ-property	3%	1% – 4%
International-property (fully hedged)	3%	1% – 4%

2 Indirect investments are those in which an investment is made in a managed fund, collective investment vehicle or index. Direct investments relate to specifically purchasing a particular organisation's securities.

Attachment 1

Total growth assets	50%	40% - 60%
Cash and short term securities	5%	2% - 8%
NZ fixed interest securities	20%	15% - 24%
International fixed interest (fully hedged)	25%	23% - 28%
Total income assets	50%	40% - 60%

Included in Appendix 2 is the specific approved asset class allocation for each Investment Manager.

Item 7

Ethical Investment

Where practical, investments will be made taking into account the ethical practices of the investment entity. Council's intention for the Fund is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes:

- Alcohol,
- Tobacco,
- Fossil fuels, and
- Military/weapons.

Investment Structure

The selection of assets within an asset class is typically delegated to the Investment ~~Manager~~Managers. This is subject to investment guidelines that control risk, and otherwise determine the nature of potential investments for each mandate.

The Investment ~~Manager is~~Managers are appointed by Council, after assessing the universe of appropriately skilled ~~managers~~Managers available for the ~~asset class in question~~investment portfolio. Council, at its sole discretion, may change Investment Managers from time to time as it sees fit.

Rebalancing

The exposures to the various asset classes will be monitored and can be rebalanced quarterly by the Investment Managers, taking into account the underlying exposures in any collective investment vehicles, direct investments and the impact of derivatives (e.g. futures and options) on an effective exposure basis, by the Investment Manager.

If any asset class allocation exceeds the benchmark asset class ranges ~~set out above~~, (see Appendix 2 for each Investment Manager's asset class allocation), then sufficient assets will be transferred, on Council's authority, to bring the weights within the asset class allocation range.

In considering rebalancing, Council can take into account recent volatility and the likelihood that market movements may result in asset classes moving back to within the specified ranges, along with transactions costs likely to be incurred in any transition.

The regular cash flow requirements of the Council provide an opportunity to assist in rebalancing the Fund towards benchmark weights, by directing the outflows to the overweight asset class(es) and any inflows to underweight asset class(es). Rebalancing can also be undertaken by selling overweight asset classes to fund underweight asset classes.

From time to time, the Council may deviate from the long-term benchmark asset allocation strategy in order to preserve capital in extreme market conditions. Such positions are to be taken after consideration of advice from the Investment ~~Manager~~Managers in the appropriate ~~investment~~asset class sector.

Liquidity Policy

Council requires liquidity to meet payment obligations in relation to its rates subsidy. As such, Council requires a high degree of confidence that during any periods of extreme market volatility, liquidity demands can be met. The Fund's primary source of liquidity is its cash investments. Cash investments also play a role in the Fund's investment strategy, providing a stable return with low volatility. The Fund's investment strategy supports its liquidity requirements by predominantly investing in listed securities and allowable fixed interest securities.

Foreign Exchange

Through its investments in international markets, the Fund will have foreign exchange exposure. Accordingly, HBRC has determined that the following foreign currency exposure ranges are allowable for each international asset class.

<u>Asset Class</u>	<u>Range</u>
<u>Property</u>	<u>Minimum 100%</u>
<u>Equities</u>	<u>530% - 100%</u>
<u>Infrastructure</u>	<u>Minimum 100%</u>
<u>Fixed Interest</u>	<u>100%</u>

Both spot and forward foreign exchange contracts are able to be used to manage foreign currency exposure. Forward foreign exchange contracts must have a maximum term of three months.

Risk Management

The Finance, Audit and Risk Committee and Council executives have the responsibility to develop appropriate internal controls, policies and risk management strategies. These internal controls, policies and risk management strategies are described in this SIPO.

Risks

Market Risk

Market risk is the risk of adverse movements in investment markets (including asset prices, liquidity, volatility, changes in yield curves or other market related variables) that affect the value or income of the Fund. The volatility of investment markets means that returns are uncertain.

Investment ~~Manager~~Managers Risk

Council's returns may vary from expected levels.

Credit Risk

Credit (or counterparty) risk is the risk of default by a counterparty to a particular transaction or an issuer of a security held in the Fund.

Liquidity Risk

Liquidity risk is the risk that a security cannot be sold when required or that the price achieved is significantly different from the quoted price. Liquidity also relates to the "accessibility" of Council's cash and fixed interest investments.

Operational Risk

Operational risk is the risk of financial loss due to mismanagement, error, fraud or unauthorised transactions.

Currency Risk

Currency risk is the risk that foreign currency denominated assets will lose value due to the effect of an adverse exchange rate movement.

Procedures

Market Risk

Managed by:

- Diversifying Fund investments,
- Seeking professional advice, through the Investment ~~Manager~~Managers and
- Requiring the Investment ~~Manager~~Managers to manage the Fund within prescribed mandates.

Investment ~~Manager~~Managers Risk

Managed by:

- Robust selection process for the Investment ~~Manager~~Managers,
- Appointing the Investment ~~Manager~~Managers with mandates that prescribe acceptable risk limits, and
- Regular assessment and review of performance against benchmark and peers.

Credit Risk

Managed by:

- Measuring and maintaining the credit quality of the Fund within prescribed guidelines,
- Limiting exposure to individual issuers,
- Diversification across investment type and instrument,
- Maintaining appropriate policies and procedures relating to counterparties, and
- Appointing the Investment ~~Manager~~Managers with mandates consistent with prescribed risk limits.

Liquidity Risk

Managed by:

- Requiring the Investment ~~Manager~~Managers to invest ~~only~~predominantly in liquid securities,
- Requiring the Investment ~~Manager~~Managers to hold diversified a Fund,
- Requiring the Investment ~~Manager~~Managers to consider the jurisdiction in which they are investing, and
- Limiting the credit rating of the fixed interest and cash investments to approved minimum credit ratings.

Operational Risk

Managed by:

- Having in place a robust system of internal controls and regularly monitoring the Fund,
- Requiring an independent custodian to hold assets as bare trustee, record transactions and report on performance,

- Having a specific mandate for each Investment ~~Manager~~Managers, and
- Having clear separation of investment management, custodial and overall supervisory and monitoring functions.

Currency Risk

Managed by:

- Maintaining a foreign exchange hedging policy for the Fund and individual asset classes.

Investment Performance Monitoring

The goals of performance monitoring are to:

- Assess the extent to which the Fund's investment objectives are being achieved;
- Compare the performance of the Fund's appointed Investment ~~Manager~~Managers against the agreed performance benchmarks, performance of other relevant professional ~~managers~~Managers and market indices;
- Understand the existence of any particular weakness in the Investment ~~Manager~~Managers or the investment product(s) utilised.
- Allow the Finance, Audit and Risk Committee to continually assess the ability of both the Council and the Investment ~~Manager~~Managers to meet the treasury objectives.

Benchmarks

Benchmarks are a tool against which to measure the effectiveness of the investment strategy either at a whole of Fund level, an asset class level or at the ~~manager~~Manager level. The general principle of benchmarks at an asset class or ~~manager~~Manager level is they should be replicable – that is, it should be possible to create a fund of securities_ which mirrors (or at least very closely resembles) that used within the benchmark.

At the asset class level, benchmarks provide an effective way of measuring the skill with which the ~~manager~~Manager selects securities within the Fund being managed.

The risk and return characteristics of the benchmarks used for the Fund as a whole and for individual asset classes must be broadly consistent with those considered in the analysis used to construct the Fund's asset allocation.

Performance (before tax and fees) for individual asset classes will be measured against suitable indices ~~such as those indicated in the following table:~~. The benchmarks to be adopted by each Investment Manager are outlined in Appendix 2.

Asset-class	Index
NZ-equities	NZX50-Gross-Index (without imputation credits)
International-equities (fully hedged)	MSCI-world-index (fully hedged)
NZ-property	S&P/NZX-all real estate-index
International-property (fully hedged)	S&P-developed-REIT-index (fully hedged)
Cash-and-short-term-securities	ANZ-90-day-bank-bill-index
NZ-fixed-interest-securities	S&P/NZX-Investment Grade Corporate A-Bond-Index
International-fixed-interest (fully hedged)	Barclays-global-aggregate-index (fully hedged into NZD)

Fund Performance

Returns on the Fund will be monitored by the Finance, Audit and Risk Committee in relation to the Benchmark fund nominated in this SIPO. The Benchmark Fund is a performance-monitoring tool intended to reflect the Council's adopted investment policy objective.

ManagerManagers Performance

- Returns achieved by the appointed Investment ~~Manager~~Managers will be assessed by the Council in relation to their stated objectives and the objectives of the Fund. Returns will also be compared with returns earned by a suitable peer group, such as a group of other professional Investment Managers.
- The Investment ~~Manager~~Managers will report at least quarterly in accordance with a format agreed.
- Investment ~~Manager~~Managers performance will be monitored quarterly with a view to an annual evaluation of rolling three-year results.
- The Investment Manager's role will be reviewed by Council on an annual basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the Investment ~~Managers'~~Managers continuing ability to meet the applicable investment objectives.

Distributions and Reserves

Volatility of Returns

Council notes that the investment objective is a long-term goal, but that its investment strategy contemplates an asset allocation which is likely to generate returns that demonstrate some volatility over the short term. Council recognises that asset values over shorter time-periods may fall due to negative returns and that the total Fund value may fall below the Real Capital Value in the shorter term. The Council acknowledges that exposing the Fund to this volatility is necessary to pursue higher long-term returns and thereby maximise the level of annual distributions from the Fund.

In order to account for investment risk or volatility, the assets of the Fund are to be invested in such a manner as to achieve a level of return in order to meet the following requirements:

1. The amount required to meet the Council's rates subsidy needs (currently c. \$2.5 million p.a.).
2. An amount equal to the New Zealand Consumer Price Index ("CPI") for the year will be credited to the Inflation Fluctuation Reserve.
3. Any remaining amount will be credited to the Distribution Reserve.

Capital Base

In terms of the assets of the Fund, the Capital Base is \$50,000,000 as at 5 June 2018.

Real Capital Value

For the purposes of this SIPO, the Real Capital Value is the Capital Value expressed in the current market value in New Zealand dollars – i.e. the Capital Value as calculated above as at June 2018 adjusted for movements in the CPI since that time.

The value of the Fund may fall below the Capital Base.

Distribution Policy

The Fund's annual returns in any year will be distributed as follows:

1. The amount required to meet the Council's rates subsidy needs (currently c. \$2.5 million p.a.).
2. An amount equal to the New Zealand CPI for the year will be credited to the Inflation Fluctuation Reserve.
3. Any remaining amount will be credited to the Distribution Reserve

In the event of an insufficient annual return to meet inflation proofing and/or distribution requirements, the amounts required for inflation proofing and/or distribution will be funded from the Distribution Reserve.

Reserving Policy

Council will establish the following Reserves to facilitate the achievement of its Distribution Policy:

Inflation Fluctuation Reserve

Each quarter the Inflation Fluctuation Reserve shall be adjusted by the increase in the Real Capital Value based on the quarterly change in the New Zealand CPI. This ensures that the Fund will retain its purchasing power over time. If there are insufficient returns available to make this adjustment, the Distribution Reserve should be adjusted accordingly.

Distribution Reserve

Each year any excess income after the adjustment to the Inflation Fluctuation Reserve and annual distributions to Council shall be credited to the Distribution Reserve. This Reserve will help offset income fluctuations in future periods. In particular, this Reserve can be used to meet distribution requirements during years with low or negative investment returns without recourse to the Capital Base.

A consistently significant positive balance (equal to 4 year's distribution sustained for one year or more) in this Reserve is a signal to Council that it may be appropriate (but it is not necessary) to review the investment objectives or the priorities (or both).

Investment Manager Selection

The Finance, Audit and Risk Committee will be responsible for recommending the appointment of the Investment ~~Manager~~Managers to assist with the management of Council's investment Fund. The Finance, Audit and Risk Committee is responsible for applying the following due diligence criteria in selecting the Investment ~~Manager~~Managers.

Request for Proposal Process

Investment ~~Manager~~Managers roles should be tendered through a Request for Proposal (RFP) process. The Finance, Audit and Risk Committee should seek tenders. Relevant considerations for tenderers include:

- Track record: Each Investment Management firm should have a minimum track record of at least five years. Firms should have at least New Zealand Dollar 250 million under management.
- Reputation, experience and credentials in the local government sector are important criteria.
- People: Each Investment Management firm should provide an overview of the experience level and depth of their Firm.
- Performance across asset classes: Each Investment Management firm should provide their past results and performance against benchmarks.

- Service: Each Investment Management firm must confirm that it will report quarterly and make relevant staff available to attend meetings. Firms should also state the level of regular reporting (oral, written and face-to-face) Council would receive.
- Compliance: Investment Management firms who are, or have been within the last five years, the subject of adverse regulatory or professional association findings will be excluded from consideration.
- Governance: Investment Management firms must submit and manage to an IPS that conforms with the SIPO.
- Fee only: Investment Management firms should offer a fee only service.
- Conflicts of Interest: Must be adequately disclosed and avoided where possible.
- Investment Philosophy and Process: Each Investment Management firm should have an investment philosophy which it can articulate to Council and the Finance, Audit and Risk Committee (if required). Each Investment Management firm should follow modern portfolio theory.
- Stability of the organisation: There should be no perceived organisational problems, the majority of the management team should have been in place for more than three years.
- Ethical investments: The Investment Management firm must be able to articulate its approach and reputation with respect to ethical investment requirements.

Fund Expenses

Total Fund expenses should be fair and reasonable. The Investment ~~Manager~~Managers must offer a fee only service with all commissions returned to the Fund and reported to the Finance, Audit and Risk Committee.

The Investment Manager is to report to the Finance, Audit and Risk Committee quarterly the breakdown of the total cost of delivery including:

- Investment Management fees,
- Custodial fees,
- Individual and weighted average Funds Management fees, and
- Brokerage and other transaction costs.

The Finance, Audit and Risk Committee acknowledge that cost reductions can be achieved through scale. Council's objective is to minimise total cost of delivery.

Appendix 1 – Investment Guidelines and Constraints

The guidelines and constraints required by the Council to be observed by each Investment Manager, as applicable are set out below. For the purposes of these constraints, “Fund” shall relate to the portion of the Fund’s assets under the management of the Investment ~~Manager~~Managers.

Where the Council has an Investment Management agreement with the Investment ~~Manager~~Managers, these guidelines and constraints should, so far as relevant, be incorporated into that agreement. Where the Fund is invested into a pooled or collective investment vehicle or product Council recognises that the strict application of these guidelines and constraints may not be possible. The Investment Managers will inform Council of its pooled or collective investment product guidelines. Council expect the Investment ~~Manager~~Managers to inform them of any investment or management practice that materially falls outside the guidelines and constraints so that the Council can continually reassess the overall suitability of such an investment approach.

Investment of the Fund shall be made in compliance with all laws and regulations governing investments and Local Authority bodies.

Each Investment Manager is entitled to make use of derivative contracts within the Fund for the following purposes:

- Strategies relating to yield curve and modified duration for cash and fixed interest funds within the given exposure ranges.
- To alter the Fund’s asset allocation (including country and/or currency allocations) within the given exposure ranges.
- As a hedge to manage exposure to foreign currency or other investment risks.
- To reduce transaction costs and improve liquidity by using derivative contracts to take a position, which would otherwise have been taken by buying or selling physical stock.

The Investment ~~Manager~~Managers must not use derivatives, physical securities or any combination of the two to produce financial exposures that would result in the leverage³ of the Fund. That is, the Fund’s net exposure to investment markets exceeding the value of the Fund’s physical assets. Derivatives should only be used to produce financial exposures that would be otherwise obtained through the use of physical securities in the absence of leverage. The Investment ~~Manager~~Managers must also not use leveraged derivative strategies or sell derivatives outright.

Not more than 10% of the Fund’s assets may be invested in any one investment without specific consideration and approval by the Council.

The Fund’s interest in any externally managed pooled fund/collective investment vehicle domiciled offshore shall not exceed 10% of the assets of that pool, unless a larger investment is specifically authorised by the Council.

All mandates should be actively managed (except for passive currency hedging where required).

Investment in assets other than those contemplated by this policy statement (including antiques, art, stamps, gold, silver, hedge funds, commodities, private equity or venture capital investments) are not permitted without the prior approval of the Council.

³ Leverage relates to an investment strategy of using borrowed money, specifically, the use of financial instruments or borrowed capital to increase the potential return on an investment.

New Zealand Fixed Interest

Investment in a fixed interest instrument (debt/bond) should have a minimum rating of BBB+ as measured by Standard & Poors, or equivalent agency.

No investments in direct mortgages⁴, subordinated debt, structured debt, high yield/junk bonds and leveraged loans should be made.

All investments made must be made in accordance with the counterparty credit limits articulated within Council's Investment Policy.

International Fixed Interest

No more than 5% of the market value of the assets held by the fixed interest Investment **ManagerManagers** should be invested in non-benchmark markets (i.e. markets not in the Barclays Global Aggregate Index).

No more than 5% of the assets held by the fixed interest Investment **ManagerManagers** is to be held in any one security or with one single issuer, other than a fund or a security representing a collective investment of other securities, unless the security represents an OECD sovereign borrower, issuer, or agency of an OECD government and supranational borrowers.

Investment in a fixed interest instrument (debt/bond) should have a minimum rating of BBB+ as measured by Standard & Poors, or equivalent.

No investments in direct mortgages, subordinated debt, structured debt, high yield/junk bonds, and leveraged loans should be made.

All investments made must be made in accordance with the counterparty credit limits articulated within Council's Investment Policy.

Cash

Council may invest cash on call or deposit. Where it does so it may invest in the following:

- New Zealand Government Treasury Bills and short term (no more than 12 months to maturity) New Zealand Government Bonds.
- Call, term deposits and registered bank bills with New Zealand Registered Banks with a Standard and Poor's or equivalent agency, short term credit rating of 'A-1' or stronger. To be classified as a cash investment, term deposits must have a maturity date of 30 days or less. Registered bank bills must have a maturity date of no more than 12 months.
- Commercial Paper issued by a corporate borrower, with a Standard and Poor's or equivalent agency, short term credit rating of 'A-1' or stronger. The maturity date can be no more than 12 months.

All investments made must be made in accordance with the counterparty credit limits articulated within Council's Investment Policy.

⁴ Direct mortgage investment relates to mortgage funds and individual mortgage loans. Subordinated debt relates to debt investments that rank below senior ranking, loans or securities. Structured debt relates to complex debt securities and collateralised arrangements. A junk bond relates to bonds with a sub-investment grade credit rating (i.e. below BBB- credit rating). Leveraged loans relate to sub-investment grade debt securities.

Equity

Investments must be confined to publicly listed widely held securities trading in recognised markets. Unlisted shares and shares in companies about to be listed may be held provided Council has given its prior approval.

The Fund should not hold more than 5% of the equity of any one company.

Investment Managers are delegated full discretion to exercise all voting rights, including but not limited to voting proxies. Investment Managers must exercise these voting rights in the best interests of, and consistent with, the investment objectives of the Fund.

No investments are to be made in preference shares.

New Zealand Property Investments

Council may invest in direct New Zealand property investments. Where it does so, the following rules shall apply:

- Investment in property entities that are listed on the New Zealand Stock Exchange.
- Investments in partly paid shares in respect of shares of the type referred to above.
- Exposure limits for New Zealand property investments (based on the market value of the assets held by the Property Investment ~~Manager~~Managers) and benchmarks are set out in the following table:

Security Type	Minimum percentage of NZ property	Maximum percentage of NZ property
Companies not represented in the appropriate Benchmark	0%	25%
Individual entity in the appropriate Benchmark	0%	25%

International Property Investments

Council may invest in International property investments. Where it does so, the following rules shall apply:

- Investment in international property will be through one or more Collective Investment Vehicle.
- International property investments must be fully hedged from foreign exchange risk.
- CIVs in international property must hold a broadly diversified portfolio of property securities, be benchmark aware, have appropriate policies and procedures and impose reasonable exposure limits.
- Ensure that any investment is sufficiently liquid to enable exit from the investment at any time.

Infrastructure Investments

Council may invest in Infrastructure investments. Where it does so, the following rules shall apply.

- Consideration must be given to existing equity and property investments that have similar infrastructure characteristics.
- Investments must have a degree of liquidity allowing the Fund to exit the investment within a 6 month time frame.
- International infrastructure investments must be fully hedged from foreign exchange risk.

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- Any investment in domestic unlisted infrastructure must be approved by Council.
- Infrastructure investments must be diversified.
- Infrastructure investments may only take place in markets in which the Sovereign Government has a credit rating of BBB+ or higher as measured by Standard & Poor's, or equivalent agency.

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Appendix 2 – Investment Managers – Strategic Asset Allocations

Mercer HBRC Portfolio – Asset Allocation and Rebalancing

The Council's investment in the Mercer HBRC Portfolio will be invested in the asset classes listed below. Mercer will implement a dynamic asset allocation model, altering the Portfolio's target exposure to each asset class from time to time to reflect Mercer's investment market outlook. Mercer will monitor the asset class allocations on a daily basis and rebalance the Fund as required. If any asset class allocation exceeds the ranges set out below, Mercer will notify Council for approval and take immediate approved corrective action.

<u>Asset Class</u>	<u>Mercer Portfolio (Benchmark)</u>	<u>Portfolio Weight (%)</u>	<u>Portfolio Ranges (%)</u>
<u>Socially Responsible Trans-Tasman Shares</u>	<u>Socially Responsible Trans-Tasman Shares</u>	<u>8%</u>	<u>0% – 18%</u>
<u>Socially Responsible Overseas Shares</u>	<u>Socially Responsible Overseas Shares</u>	<u>27%</u>	<u>17% – 37%</u>
<u>Listed Property - Global</u>	<u>Mercer Listed Property</u>	<u>3%</u>	<u>0% – 10%</u>
<u>Unlisted Property</u>	<u>Mercer Unlisted Property*</u>	<u>4.5%</u>	<u>0% – 10%</u>
<u>Listed Infrastructure - Global</u>	<u>Mercer Listed Infrastructure</u>	<u>3%</u>	<u>0% – 10%</u>
<u>Unlisted Infrastructure</u>	<u>Mercer Unlisted Infrastructure*</u>	<u>4.5%</u>	<u>0% – 10%</u>
<u>Growth</u>	<u>-</u>	<u>50%</u>	<u>40% – 60%</u>
<u>NZ Sovereign Bonds</u>	<u>Mercer NZ Sovereign Bonds</u>	<u>15%</u>	<u>5% – 25%</u>
<u>Overseas Sovereign Bonds</u>	<u>Mercer Overseas Sovereign Bonds</u>	<u>15%</u>	<u>5% – 25%</u>
<u>Global Credit</u>	<u>Mercer Global Credit</u>	<u>10%</u>	<u>5% – 25%</u>
<u>Other Fixed Interest</u>	<u>Mercer Global Absolute Return</u>	<u>5%</u>	<u>0% – 10%</u>
<u>Cash</u>	<u>Mercer Cash</u>	<u>5%</u>	<u>0% – 20%</u>
<u>Income</u>		<u>50%</u>	<u>40% – 60%</u>
<u>Total</u>		<u>100%</u>	

*The nature of the Unlisted Portfolios may result in allocations taking time to build up. During any build-up phase, Mercer Listed Property will be used as a proxy for Mercer Unlisted Property, and Mercer Listed Infrastructure as a proxy Mercer Unlisted Infrastructure. The benchmark will also be adjusted accordingly.

Mercer - HBRC Portfolio – Benchmarks

The benchmarks with which Mercer's Investment Management performance will be compared against are described below.

<u>Asset Class</u>	<u>Benchmark</u>
<u>Socially Responsible Trans-Tasman Shares</u>	<u>S&P / NZX 50 Index without imputation credits</u>
<u>Socially Responsible Overseas Shares</u>	<u>MSCI World ex Australia Net, 50% hedged</u>
<u>Listed Property - Global</u>	<u>FTSE EPRA/NAREIT Developed Index Net, hedged</u>
<u>Unlisted Property</u>	<u>70% Mercer/IPD Australia Monthly Property Fund Index Core Wholesale (100% hedged to NZD on an after tax basis), 30% Property Council / IPD New Zealand Property Index</u>
<u>Listed Infrastructure - Global</u>	<u>FTSE Global Core Infrastructure 50-50 Index Net (NZD hedged)</u>
<u>Unlisted Infrastructure</u>	<u>MSCI Australia Quarterly Unlisted Infrastructure Index (100% hedged to NZD on an after tax basis)</u>
<u>NZ Sovereign Bonds</u>	<u>S&P/NZX NZ Government Bond Index</u>
<u>Overseas Sovereign Bonds</u>	<u>JP Morgan Government Bond Index Global (NZD Hedged)</u>
<u>Global Credit</u>	<u>60% Bloomberg Global Aggregate Corporate Index (NZD hedged), 40% Bloomberg Global Aggregate ex-Treasury ex-Government Related Index (NZD hedged)</u>
<u>Other Fixed Interest</u>	<u>S&P Bank Bill 90 Day Index</u>
<u>Cash</u>	<u>S&P Bank Bill 90 Day Index</u>

First NZ Capital - HBRC Portfolio – Asset Allocation and Rebalancing

The Council's investment in the First NZ Capital HBRC Portfolio will be invested in the asset classes listed below. First NZ Capital will monitor the asset class allocations and rebalance as required. If any asset class allocation exceeds the ranges set out below, First NZ Capital will notify Council for approval and take immediate approved corrective action.

<u>Sector</u>	<u>Benchmark %</u>	<u>Ranges %</u>
<u>NZ equities</u>	<u>15%</u>	<u>13% - 18%</u>
<u>International equities</u>	<u>29%</u>	<u>25% - 34%</u>
<u>NZ property</u>	<u>3%</u>	<u>1% - 4%</u>
<u>International property</u>	<u>3%</u>	<u>1% - 4%</u>
<u>Total growth assets</u>	<u>50%</u>	<u>40% - 60%</u>
<u>Cash and short term securities</u>	<u>5%</u>	<u>2% - 8%</u>
<u>NZ fixed interest securities</u>	<u>20%</u>	<u>15% - 24%</u>
<u>International fixed interest</u>	<u>25%</u>	<u>23% - 28%</u>
<u>Total income assets</u>	<u>50%</u>	<u>40% - 60%</u>

First NZ Capital - HBRC Portfolio – Benchmarks

The benchmarks with which First NZ Capital's Investment Management performance will be compared against are described below.

<u>Asset class</u>	<u>Index</u>
<u>NZ equities</u>	<u>NZX50 Gross Index (without imputation credits)</u>
<u>International equities (fully hedged)</u>	<u>MSCI world index (fully hedged)</u>
<u>NZ property</u>	<u>S&P/NZX all real estate index</u>
<u>International property (fully hedged)</u>	<u>S&P developed REIT index (fully hedged)</u>
<u>Cash and short term securities</u>	<u>ANZ 90 day bank bill index</u>
<u>NZ fixed interest securities</u>	<u>S&P/NZX Investment Grade Corporate A Bond Index</u>
<u>International fixed interest (fully hedged)</u>	<u>Barclays global aggregate index (fully hedged)</u>

Treasury Policy

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1. General Policy Context

- HBRC’s Treasury Policy is consistent with its objectives, Long Term Plan (LTP) and Annual Plans. All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate risk management instruments) will meet the requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy. The policy is established in accordance with the following relevant legislation:
- Local Government Act 2002, in particular sections 101, 102, 104, 112, 113 and 105. The policy covers Council’s management of all borrowing, as defined in section 112 of the Act, as well as management of other liabilities. Section 113 of the Act prohibits Councils’ from borrowing or entering into incidental arrangements denominated in other than New Zealand currency.
- In accordance with the Local Government Act, and by resolution, Council may borrow on such terms and conditions that they consider appropriate. HBRC uses short-term and long-term funding to achieve an effective borrowing mix and to balance the requirements of liquidity and funding risk management.
- Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.

2. General Objectives

The objective of this Policy is to control and manage borrowing costs and investment returns that can influence operational budgets, public equity and the setting of debt levels. Specific objectives are as follows:

- to manage investments to optimise returns in the long term whilst balance risk and return considerations
- to balance the mix of financial investments and blended investments

- obtain an acceptable ongoing annual cash income from the investment portfolio as a whole
- ensure sufficient cash is available (liquidity) as needed to assist with the funding of HBRC’s ongoing operations and to meet known and reasonably unforeseen funding requirements
- protect and maintain long term gains in capital value of its investments for the benefit of future as well as current generations of ratepayers
- ensure externally managed investment funds protect the real capital value, and amounts available for distribution, between present and future ratepayer generations. Real capital value is the value that has been adjusted for the effect of inflation
- hold certain investments for strategic benefits as well as for the financial benefits to the region
- to minimise liquidity risks and exposure to credit risk by investing and dealing with credit worthy counterparties
- develop and maintain relationships with financial institutions, credit agencies, LGFA, investment managers, investors and investment counterparties
- minimise HBRC’s costs and risks in the management of its borrowings
- invest and borrow funds and transact risk management instruments within an environment of control and compliance under the Policy to protect HBRC’s costs, returns and assets
- arrange and structure appropriate funding for HBRC at the lowest achievable credit margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this Policy
- monitor and report on financing/borrowing covenants and limits under the obligations of the HBRC’s lending/security arrangements
- monitor, evaluate and report on treasury performance
- ensure that all statutory requirements of a financial nature are adhered to
- to ensure adequate internal controls exist to protect HBRC’s financial assets and to prevent unauthorised transactions.

Treasury Policy

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3. Investment Policy - Purpose

The purpose of the Investment Policy is to present HBRCs policies in respect to investments including:

- The mix of investments
- The acquisition of new investments
- An outline of the procedures by which investments are managed and reported to Council
- An outline of how risks associated with investments are assessed and managed.

4. Investment Policy - Scope

HBRC has a significant portfolio of investments comprising of:

- Equity investments
- Property investments
- Forestry investments
- Treasury investments
- Externally managed investment funds

Investments bound by this Policy are all of HBRC's financial assets and reserves, which are held to produce a financial return within accepted risk parameters, and help achieve its strategic economic objectives, while collectively retaining their real capital value over the period of their ownership. The real capital value is the current market value in New Zealand dollars (based on market or independent valuation) adjusted for movements in the CPI.

There are two investment categories that HBRC may invest in:

- **Financial Investments** – the purpose of financial investments is to provide annual cash income at budgeted amounts and protect the real capital value of financial investments over time.
- **Blended Investments** – the purpose of blended investments ~~are~~^{is} to invest in projects that may have a combined objective of providing environmental or regional economic growth benefits as well as financial benefit. Blended investments are only to be invested in if the total investment portfolio can provide the annual cash income requirements of HBRC.

5. Investment Policy - Responsible Investment

Investments will be made with judgment and care, under circumstances prevailing at the time which people of prudence, discretion and intelligence exercise in the professional management of financial assets.

HBRC does not make speculative investments (such as contracts for difference in prices over time of any commodity or asset and other financial derivatives) or any other investments not detailed within this Policy or Council's SIPO document. Council has adopted an ethical based investment strategy. This will involve companies and industries being reviewed for sustainability, socially responsible and ethical practices. Investments will be periodically reviewed against these principles; any contraventions discovered will lead to the prudent and timely divestment.

Its economic and financial objectives should be achieved by balancing potential risks. Prudent investment management requires managing investment risk and return by consideration of the mix of investments by investment type, and location.

In its financial investment activity, HBRC's primary objective is to protect the value of its assets. Accordingly investment may only be made in creditworthy counterparties having acceptable standing and credit ratings. Where investments are externally managed these activities are approved under a separate policy.

6. Investment Policy - Ethical Investment

Where practical, investments will consider the ethical practices of the investment entity. HBRC's intention for its investment portfolio is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes but is not limited to:

- Alcohol
- Tobacco
- Fossil fuels
- Military/weapons.

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7. Investment Policy - Externally Managed Funds

Where Council funds are to be managed externally by a suitably qualified Investment ~~Manager~~Managers, investment funds (Funds) are managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. ~~Any~~Any external Investment Manager will be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

Council will be responsible for the following:

- Setting the Fund’s Investment Strategy, including the level of risk and investment performance objectives, and investment policies.
- Formally reviewing the SIPO annually, including the investment strategy, policies and manager configuration, and instructions to the Investment ~~Manager~~Managers.
- Formally reviewing the SIPO every three years. The review includes the investment strategy, return objectives, policies and manager configuration, and instructions to the Investment ~~Manager~~Managers.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund’s objectives to maintain its real capital value, and amounts available for distribution, between present and future generations.
- Providing cash flow information to the Investment ~~Manager~~Managers with respect to future deposits to, and redemptions from the Fund.

The strategic asset allocation and tactical ranges provided ~~below~~in the following table are included within HBRC’s SIPO document:

Sector	Benchmark %	Ranges %
NZ equities	15%	13%–18%
International equities (fully hedged)	29%	25%–34%
NZ property	3%	1%–4%
International property (fully hedged)	3%	1%–4%
Total growth assets	50%	40% - 60%
Cash and short term securities	5%	2%–8%
NZ fixed interest securities	20%	15%–24%
International fixed interest (fully hedged)	25%	23%–28%
Total income assets	50%	40% - 60%

8. Investment Policy - Mix of Investments

Equity Investments

HBRIC Ltd

Since its establishment on 1 February 2012, HBRC beneficially owns 100% of the shares in HBRIC Ltd, a company established to manage HBRC’s corporate investments.

HBRIC Ltd is classified as a strategic asset in terms of Section 97 of the Local Government Act 2002.

A key requirement of HBRC is that HBRIC adopt an investment policy for the management of the investments that is consistent with, and reflects the purpose, objectives and requirements of this investment policy, which will remain the overriding policy document for all HBRC’s investments, including any investment company and its assets.

Treasury Policy

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HBRC sets a series of performance and strategic targets for HBRIC Ltd in an annual Statement of Objectives, which in turn is reflected in the company's annual Statement of Intent (SOI). The 2017-18 performance targets as set out in HBRC's Statement of Objectives for HBRIC Ltd are outlined in the following tables.

Hawke's Bay Regional Investment Company Initial Performance Targets (subject to annual SOI review) HBRIC Ltd Parent 2017-18	
Performance Indicator	Target
Net debt to net debt plus Equity	<10%
Interest cover (EBIT/Interest paid)	>3x
EBITDA/Total Assets	3%
Return on Shareholder's Funds	3%
Hawke's Bay Regional Investment Company Initial Performance Targets (subject to annual SOI review) Consolidated 2017-18	
Performance Indicator	Target
Net debt to net debt plus Equity	<40%
Interest cover (EBIT/Interest paid)	>3x
EBITDA/Total Assets	9%
Return on Shareholder's Funds	5%

Notes: *EBIT = Earnings Before Interest and Tax*
EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

These performance targets may change from year to year as a result of HBRC's annual review of its Statement of Objectives and the company's Statement of Intent and changing economic, market and financial circumstances.

As controlling shareholder HBRC appoints the directors of HBRIC Ltd and, as controlling shareholder, HBRC will have an expectation that the company's policies will support its strategic objectives.

In its role as a CCO, HBRIC is responsible for approving new investments or divestments, including any made by its current and any future subsidiary companies, joint ventures or other investment vehicles, except where the new investment or divestment:

- Is inconsistent with delivery of HBRC's strategic objectives
- Significantly varies performance targets agreed through respective Statements of Intent
- Requires HBRC to assist funding these investments by increasing its equity in its subsidiary, associate, joint venture or other investment vehicle, or provide loans or other financial assistance to them
- Involves divestment of a strategic asset as defined under Section 97 of the Local Government Act 2002.

Port of Napier Limited

As at 30 June 2017, HBRC beneficially owned 100% of the shares in PONL through HBRIC. HBRC's strategic objective is to continue to beneficially hold a majority of the shares of PONL as a key means of assisting economic development of the region. The investment is expected to be a significant source of non-rate revenue and has long term prospects for growth and development.

As controlling shareholder HBRC approves the appointment of the directors of PONL recommended by HBRIC Ltd.

Property Investments

Napier leasehold property

HBRC owns leasehold endowment property within and around Napier City. The portfolio was acquired in 1989 during the reformation of Local Government, and under the terms of each lease, the properties can only be sold to lessees. This means HBRC will retain ownership of each lease unless the lessor is willing to buy the freehold interest in the property at a value acceptable to both lessee and lessor.

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HBRC intends to continue to sell freehold interests to lessors wherever an acceptable sale price can be achieved, and reserves the right to sell the annual cash flows arising from ongoing rents paid by lessors from time to time. With effect from 1 July 2013, HBRC sold the annual rentals due from this portfolio over the next 50 years (i.e. until July 2063) to ACC for a lump sum of \$37.8 million. The underlying properties continue to be owned by HBRC and sales to lessors have continued, and may continue in the future, in the same way as they have done in the past.

Ground rents paid by lessors have been predominantly set at 5% or “fair annual ground rental” and reviewed every 21 years.

Wellington leasehold property

HBRC owns 12 leasehold properties in the suburbs of Kelburn and Thorndon in Wellington, which are not subject to endowment restrictions. These leases provide an annual return with leases renewed every 14 years. HBRC reserves the right to sell some or all of these properties and reinvest the proceeds in appropriate investment types specified in this policy.

Other Property Investments

HBRC may invest in other property if they meet section 1 to 6 of this investment policy and the correct delegations are engaged.

Forestry Investments

HBRC has an existing forestry portfolio consisting of:

Site Name	Area (ha)	Assumptions
CHB	168	No material investment, maintenance only, no harvesting in LTP period
Mahia	36	No material investment, maintenance only, no harvesting in LTP period
Waihapua	213	No material investment, maintenance only, no harvesting in LTP period
Tutira	114	Harvesting proposed over the period from 2018/19 to 2022/23. Replanting after harvest
Tutira Manuka Honey	130	Maintenance continues with yearly honey income of \$46,000 assumed
Tangoio	150	Harvesting proposed over the period from 2020/21 to 2021/22. Replanting after harvest

Return on the forestry investments are determined by the harvest revenue received. Tangoio forestry is treated differently from all the other forestry investments as HBRC does not own the land but does have responsibility for the management and control of the forest. Any income received from harvest is kept on reserve to fund the continuing maintenance programme and is not available for general ratepayer funding.

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NZ LGFA Limited Investments

The Council may invest in shares and financial instruments issued by the New Zealand Local Government Funding Agency Limited, and may borrow to fund that investment.

The Council's objective in making any such investment will be to:

- obtain a return on the investment, and
- ensure that the LGFA has sufficient capital to become and remain viable as a source of debt funding for the Council.

Because of this dual objective, Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA.

Treasury investments

Council maintains Treasury Investments for:

- investing money allocated to accumulated surpluses, Council-created special, and restricted reserves, and general reserves,
- investing funds allocated for approved future expenditure in strategic initiatives or support inter-generational allocations,
- investing funds arising from pre-funding upcoming maturing debt amounts,
- investing surplus cash, to be used for operational and capital expenditure requirements and
- investing proceeds from asset sales.

Treasury Investments, that are not externally managed, will be managed within Council by the CFO and will be prudently invested as follows:-

- Investments which have the intention of supporting liquidity should be matched to meet future cash flow and capital expenditure projections.
- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest income may be credited to the particular fund.

- The CFO executes Council’s investment strategy within approved policy limits by regularly reviewing cash flow forecasts (incorporating plans for approved expenditure and strategic initiatives).
- Council adopts a conservative risk position for these funds and only accepts investments that have a minimum risk of loss. Accepting that a low-risk portfolio may result in lower returns.
- Treasury Investments must be compliant with the Investment Parameters, Approved Financial Instruments and Counterparty Credit sections of this Policy.

Term deposits

HBRC currently holds both investment and reserve funds on term deposits with approved banking institutions.

9. Investment Policy - Investment Parameters

The following percentages are calculated on the total current investment portfolio managed internally by Council. These Policy limits concurrently apply to both the maturity term and the interest rate re-pricing profile of the investment portfolio (and should be reported separately where they differ):

Maturity Term	Minimum limit	Maximum limit
0 to 1 year	50%	100%
1 to 3 years	0%	50%

When cash flow projections are changed, the maturity profile may have to be adjusted to comply with the policy limits.

The Council must only invest in acceptable financial instruments and counterparties, as covered in the Approved Financial Instruments and Counterparty Credit sections of this Policy.

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10. Investment Policy - Acquisition of Investments

New investments will be acquired from time to time within the investment types specified in accordance with the policies and objectives recorded in this policy.

New investments will be made by HBRC, HBRIC and its officers in accordance with the management authorities and delegations summarised below.

Acquisition of new investments will be made after assessment of their benefits, alignment with strategic objectives, costs and risks in accordance with the assessment procedures approved by HBRC from time to time.

11. Investment Policy - Disposal of Investments

Sale or liquidation of investments held for special purpose reserves may only occur when the funds are required for the particular purpose each reserve was established for by HBRC. Any disposal of unrestricted assets requires the approval of Council, other than those made within delegated authority granted by HBRC.

HBRC regards Napier Port as a strategic asset and will retain beneficial control either directly, indirectly, or through its wholly owned investment company. In the event it contemplates reducing its interest in Napier Port from its present 100% shareholding to not less than 51% (i.e. still retaining control) by selling shares to a third party (or parties) or by changing how the Napier Port is managed and operated, it will comply with the provisions of Section 97(1)(b) of the Local Government Act 2002 where "a decision to transfer ownership or control of a strategic asset" is to be considered.

HBRC will use either the Annual [Plan](#) or LTP process, or a separate Special Consultative Process, it deems appropriate at the time, to obtain the views of ratepayers and stakeholders on its proposed sale of shares before committing to it.

HBRC wishes to retain the right to use a limited amount of funds from the proceeds of the disposals of leasehold property for purposes other than reinvestment in the investment types of this policy, where appropriate. Such purposes will be restricted to capital related projects, loans (including interest free loans), and servicing the costs of borrowings by HBRC used for these purposes and may be initiated by HBRC or other organisations in the region.

When proposing such a course of action, HBRC will, subject to the exceptions stated below, adopt a special consultative [processprocedure](#) under the Act which will ensure a fully inclusive decision making process with the Hawke’s Bay regional community. This process is intended to extensively canvass the community’s views and seek their input into any such proposals.

There will be no requirement to carry out a special consultative [processprocedure](#) when:

- no more than \$300,000 of sale proceeds will be used for any one project, or
- HBRC uses the sales proceeds to acquire land or enters into partnership for the development of further open space areas, particularly those that are in environments that are of high ecological or landscape value or extensively used by the public.

HBRC’s objective will be to indicate in either the LTP or relevant Annual Plan any proposals not covered by the above exceptions. There may be some occasions when the special consultative process for such initiatives may not always coincide with these HBRC planning processes and so may occur as standalone consultations.

12. Disposition of Income

Investment income other than that to be applied to reserve funds and in compliance with the provisions of Section 3(b) of the Endowment Act, will be included in the revenue account and used for the general purposes of HBRC.

13. Risk Assessment and Management

The risk profile of the investment portfolio is continuously assessed to ensure adherence to the following risk management rules:

- HBRC will not invest where there is a significant known risk of decreased asset value, except where it has identified potential advantages to the Hawke’s Bay economy in pursuit of its economic development objectives that may arise from making particular investments and has assessed whether potential economic gains could more than offset any potential decreases in asset value.

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- For prudent management, while retaining a flexible approach to future investment opportunities, no more than 33% of HBRC's total investment portfolio will be invested in any one investment, or institution or groups of institutions in the same investment type, other than in institutions which are Government guaranteed (in which instance up to 100% of the portfolio may be invested). This rule does not apply to existing investments in Napier Port and Napier endowment property and the investment company established by HBRC.
- HBRC may use financial derivatives to "hedge" against fluctuations in interest rates, foreign currency and equity indexes. In some instances HBRC matches foreign currency denominated purchases with forward exchange contracts to reduce the risk of exchange rates increasing the cost of its purchases.
- HBRIC and Napier Port (and subsidiary Council Controlled Organisations (CCTO's) yet to be formed) will from time to time use interest-rate swaps and forward exchange contracts to manage interest rate and currency risk, consistent with prudent treasury and risk management practices.

14. Investment Policy - Investment Types

HBRC can invest in the following investment types.

14.1 Investment Instruments

Investment instruments include bonds, debt securities, cash, bills, commercial paper and term deposits. International investments are managed within the external Investment Fund.

14.2 Investment Property

Investment property includes Napier endowment property and other unrestricted investment property assets. New Zealand and international property investments are managed within the external Investment Fund.

14.3 Forestry

This includes physical assets including trees and land for forestry and forest development.

14.4 Equities

This excludes the Port of Napier, but includes shares in publicly listed New Zealand and International Companies. Equities are managed through the external Investment Fund by ~~an~~-appointed Investment ~~Manager~~Managers.

New Zealand carbon units (or emission units) are purchased for the satisfaction of Council generated carbon liabilities.

14.5 Related Equity Investments

Equity investments in HBRIC, PONL, CCTOs, and other subsidiary companies established in accordance with this policy, including those established by HBRIC.

14.6 Equity Investments: Joint Ventures

Equity investments in joint ventures with external partners.

14.7 Loans and Mortgages

This includes mortgages to buyers of the freehold of Napier endowment property.

14.8 Investment Portfolios

Both professionally managed (external to HBRC) and internally managed investment portfolios of assets classes itemised in this Section, either by direct investment or indirect investments through unit trusts, pooled structures, collective investment vehicles or other structures.

14.9 Internal loans

Internal Loans for the development of infrastructure and property, plant and equipment assets.

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15. Counterparty Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. External borrowing, [internal treasury](#) investment and interest/foreign exchange risk management related transactions would only be entered into with organisations specifically approved by the Council. [Risks within the external investment fund are managed within the SIPO.](#)

Counterparties and limits can only be approved based on long-term credit ratings (Standard & Poor's or Moody's or Fitch). For liquidity and borrowing purposes all banks must be registered with the Reserve Bank of NZ and have a minimum long-term credit rating of A. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Internal ~~and external cash and~~ treasury investments are only made in alignment with the following parameters:

Issuer / counterparty	Instruments	Minimum short term credit rating	Minimum long term credit rating	Maximum exposure per counterparty (% of rates revenue ¹)	Maximum exposure per counterparty Category (% of rates revenue ¹)
New Zealand Government	Treasury bills, NZ government bonds, debt issued by entities explicitly guaranteed by the NZ Government	n/a	n/a	unlimited	100%
RBNZ registered banks	Term deposits	A-1	A+	50%	100%
	Bank bills	A-1	A+	30%	
	Bonds	A-1	A+	20%	
	Interest rate risk management contracts	A-1	A+	15%	
LGFA	Borrower notes, bonds, CP	A-1	AA-	40%	40%
Local authorities –rated	Local authority bonds, CP	A-1	AA-	20%	50%
Local authorities – non rated	Local authority bonds, CP	n/a	n/a	5%	20%
Supranational	Bonds	n/a	AA+	40%	40%
Other issuers including state owned enterprises, listed companies	Commercial paper	A-1+	AA-	15%	25%
	Corporate bonds	A-2	BBB+	10%	

- Investments (such as bank deposits) – Transaction Notional × Weighting 100% (unless a legal right of set-off over corresponding borrowings exists whereupon a 0% weighting may apply)
- Interest Rate Risk Management (such as swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange Risk Management (such as FECs) – Transactional Notional × the square root of the Maturity (years) × 15%.

¹ Rates revenue is defined as general rates, targeted rates and uniform annual general charges and in the 2017 Annual Report was \$17.66 million.

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Individual counterparty limits are kept on a register and updated on a day to day basis with specific approvals made by the GMCS. Credit ratings should be reviewed by the FA on an ongoing basis and in the event of material credit downgrades; this should be immediately reported to the GMCS and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

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15.2 External Investment PortfoliosPortfolio (excluding the Disaster Damage Reserve)

Investment portfolios may invest in any of the investment types indicated in this policy. The portfolio must earn at least 4.5% cash real return (after fees) on the funds for the first year of the LTP and then a 5% cash real return (after fees) for the rest of the LTP in line with the financial strategy.

Fund managersInvestment Managers have the responsibility to obtain these returns while taking into account the following considerations and requirements of this policy.

- Cash Return
- Liquidity
- Real Capital GainsValue
- Risk Balance – Location, Industry risk
- Diversification of investments
- Responsible Investment
- Ethical Investment

15.3 Disaster Damage Reserve

As a specific part of its Disaster Damage Reserve HBRC holds New Zealand Shares and quasi equity instruments (such as convertible notes) listed on the New Zealand Stock Exchange, as well international shares (held in diversified global funds which may be investment trusts, investment companies or unitised funds).

These investments are held to generate long term capital appreciation for the Reserve, while providing ready liquidity in order to meet any call on the Disaster Damage Reserve funds.

Investments in equities for the reserve are limited to an overall maximum of 45% of the Disaster Damage Reserve, and further limited to:

- New Zealand shares - up to 20% of the Reserve
- International shares - up to 35% of the Reserve (fully hedged)

15.4 Other Reserves

HBRC holds a number of reserves for which is holds investments for. These include asset replacement provisions, disaster damage management and land drainage and flood control schemes. These funds need to be readily realisable to meet their particular purposes. All of the returns for these reserves are retained within the individual reserves.

15.5 HBRC Cash Reserves

HBRC also needs to maintain a working capital balance to ensure it can meet its obligations as and when they fall due. It is therefore important to maintain a continuing “cash reserve” in this form at a level no less than \$3 million.

16. Liability Management Policy – Purpose

HBRC has large infrastructure assets with long economic lives yielding long term benefits for the community. The use of debt as a funding option is seen as an appropriate and efficient mechanism for promoting inter-generational equity between current and future community members in relation to such assets. In addition, debt may allow scheme or other projects to progress at an earlier stage than might otherwise be possible as it reduces the cash flow burden on beneficiaries and therefore increases affordability.

Council may borrow for any of the following primary purposes:

- Funds for the acquisition of any assets expected to have a useful economic life of more than 2 years
- Funds for specific one-off projects
- The acquisition of low risk investments
- Short term debt to manage timing differences between cash inflows and outflows and to maintain Council's liquidity position and, if necessary, to fund emergency expenditure.

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In approving new borrowing, Hawke's Bay Regional Council (HBRC) will apply the following principles:

- Borrowings will be repaid over the economic life of the assets being funded, or such shorter period as determined, at its discretion
- Interest costs and principal repayments will be funded by the beneficiaries of the borrowings
- The extent of borrowings will be determined by the beneficiaries' ability and willingness to pay, as determined by consultation
- HBRC considers the impact on borrowing limits, and its consistency with the LTP.

In evaluating strategy for new borrowing (in relation to source, term, size and pricing), HBRC considers:

- available terms from banks, domestic capital markets and LGFA,
- the overall debt maturity profile to ensure concentration of debt is avoided at re-issue/rollover time,
- prevailing interest rates and credit margins relative to domestic capital markets, LGFA and bank borrowing,
- liquidity, funding and interest rate risk-management parameters as detailed in this Policy,
- legal documents and financial covenants, together with credit rating considerations, and
- the market and HBRC's outlook on future credit margin and interest rate movements.

17. Local Government Funding Agency

HBRC has proposed, as part of the public consultation for this LTP, HBRC has decided to join the LGFA Scheme, including borrowing from the LGFA and entering into the transactions relating to that borrowing.

In connection with LGFA borrowings, HBRC may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

18.- Debt Repayment

HBRC will repay borrowings from rates, surplus operating funds, proceeds from the sale of assets or investments, re-financing with new debt or from specific sinking funds.

Guarantees/contingent liabilities and other financial arrangements

HBRC may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Units, when the purposes of the loan are in line with HBRC's strategic objectives.

HBRC is not allowed to guarantee loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

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19.- Specific Borrowing Limits

The following table summarises the specific borrowing limits that HBRC adheres to, in conjunction with the LGFA’s lending covenants.

	HBRC	LGFA
Net external debt as a percentage of total revenue	<150%	<175%
Net interest on external debt as a percentage of annual rates income	<20%	<25%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	n/a

The first two borrowing limits are used by HBRC as the quantified limits on borrowing for the debt affordability benchmarks.

- Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.
- Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets)
- Net debt is defined as total external debt less liquid funds.
- Liquid funds are cash and cash equivalents defined as being:
 - Overnight bank cash deposits
 - Wholesale/retail bank term deposits no greater than 30 days
 - Bank issued registered deposits no greater than 181 days
 - Allowable fixed interest bonds as per approved investment instruments
 - Bank term deposits linked to pre-funding of upcoming maturing term debt exposures

Debt will be repaid as it falls due in accordance with the applicable agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Borrowing limits are measured on Council only, not the consolidated group.

Disaster recovery requirements will be met through the liquidity ratio and contingency reserves (e.g. Disaster Damage Reserve).

20. Liquidity and Funding limits

Liquidity risk management focuses on the ability to access committed funding at the that future time to fund the gaps. Council will maintain liquidity by:

- Matching average expenditure closely to revenue streams and managing cash flow timing differences to its favour
- Avoiding concentrations of debt maturity dates
- Maintaining operating cash balances (being less than 1-year investment timeframes) of not less than \$3,000,000 and complying with the liquidity amount policy.

Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing facilities.

HBRC has the ability to pre-fund up to 12 months of forecast debt requirements including re-financings. Debt re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.

The debt maturity profile of the total committed funding in respect to all external debt and committed debt facilities, is to be controlled by the following risk control limits:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%*	60%

*Should HBRC’s external debt exceed \$30 million, this minimum will increase to 15%.

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A funding maturity profile that is outside the above limits, but self corrects within 90 days is not in breach of this Policy. However, a maturity profile outside these limits for greater than 90 days will require specific Council approval.

Notwithstanding the \$25 million external core debt threshold, at all times, the LGFA require that no more than the greater of NZD 100 million or 33% of HBRC’s borrowings from the LGFA mature within an immediate 12-month period.

21. Security

HBRC’s external borrowings and interest rate risk management instruments are secured by way of a charge over rates and rates revenue offered through the Debenture Trust Deed. Under the Debenture Trust Deed, HBRC’s borrowing is secured by a floating charge over all HBRC rates levied under the Rating Act. The security offered by HBRC ranks equally or pari passu with other lenders to Council.

Other borrowing structures are possible, but HBRC does not normally offer assets, other than rates, as security. Under special circumstances, and if considered more appropriate, security may be offered over specific assets, but only with HBRC’s prior approval.

22. Internal Debt Management

When considered appropriate, HBRC uses cash operating and reserve balances as internal borrowing sources, thereby reducing the level of external borrowings. The following guidelines apply to the use of internal borrowings:

- Interest will normally be charged on the average of opening and closing loan balances in each financial year
- The interest rate charged is the average rate of return achieved from short term investments during the financial year.

The reserves established to cover the funding of replacement operating property, plant and equipment and renewal of flood and drainage scheme infrastructure are treated as one reserve balance for the purposes of providing funds for the purchase of new assets. Therefore for the most part loans are only raised from external funding sources when the total reserve balance is low.

23. Interest Rate Risk Management

Interest rate risk refers to the impact that adverse movements in interest rates may have on Council's cash flows and interest expense.

The following interest rate risk control limits apply to external core debt:

Debt interest rate policy parameters		
(calculated on a rolling monthly basis)		
Debt period ending	Minimum fixed	Maximum fixed
Current	50%	100%
Year 1	45%	95%
Year 2	40%	90%
Year 3	35%	85%
Year 4	30%	80%
Year 5	25%	75%
Year 6	0%	70%
Year 7	0%	65%
Year 8	0%	60%
Year 9	0%	55%
Year 10	0%	50%
Year 11	0%	45%
Year 12	0%	40%
Year 13	0%	35%
Year 14	0%	30%
Year 15	0%	25%

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- “Fixed Rate” is defined as all known interest rate obligations on core debt, including where hedging instruments have converted floating interest rate obligations into firm commitments.
- “Floating Rate” is defined as any interest rate obligation subject to movements in the applicable reset rate.
- The fixed rate percentages are calculated on the projected core debt level at month-end reporting dates.
- Core debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved debt forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.
- A fixed rate maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.
- Bank draw down advances may be for a maximum term of 12 months.
- Any interest rate hedge with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or an interest rate hedge is linked to floating rate LGFA debt that has a maturity date beyond 15 years.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- Purchased borrower swaptions must mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00 per cent above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- The forward start period on swap/collar strategies to be no more than 24 months, unless the forward start swap/collar starts on the expiry date of an existing

swap/collar/fixed rate debt instrument and has a notional amount, which is no more than that of the existing swap/collar/fixed rate debt instrument.

24. Foreign currency

HBRC has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

All individual commitments over NZ\$100,000 equivalent are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts are used.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Foreign currency management of the external Investment Fund is managed within the SIPO.

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25. Approved financial instruments

Category	Instrument
Cash management and external borrowings	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Bonds (Fixed Rate or Floating Rate) either through the LGFA or domestic capital markets Commercial paper (CP) –
Interest rate risk management (for borrowing activity only)	Forward rate agreements ('FRAs') on bank bills Interest rate swaps including: Forward start swaps (start date <24 months, unless linked to existing maturing swap/collar with notional amount amounts not exceeding maturing swap/collar) Amortising swaps (whereby notional principal amount reduces) Swap extensions and shortenings Interest rate options on: Bank bills (purchased caps and one for one collars) Interest rate swaptions (purchased swaptions and one for one collars with matching notionals only)
Foreign exchange risk management	Spot foreign exchange Forward exchange contracts (including par forwards)
Treasury Investments	Bank term deposits (senior) Treasury bills(senior) Commercial paper (CP) (senior) Bank certificates of deposit (RCDs) (senior) Local Authority bonds (secured) State Owned Enterprise (SOE) bonds (senior) Government and Supranational bonds (senior) Corporate bonds (senior) LGFA borrower notes <ul style="list-style-type: none"> Note: bonds are either fixed rate or floating rate.

26. Review of Policy

This policy will be reviewed no less than every three years and amendments can be made through Council resolution any time within the three year period.

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27. Management responsibilities

All of the Council’s treasury management activities are undertaken by the Treasury function. The following diagram illustrates those individuals and bodies who have treasury responsibilities.



Council

The Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect Council decides the level and nature of risks that are acceptable.

Council is responsible for approving these Liability Management and Investment Policies and any changes required from time to time. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of the Council through the 10-year LTP and the Annual Plan
- Approving HBRC’s SIPO document, including the investment strategy, return objective, policies, manager configuration, and instructions to the Investment Manager
- Approving new debt funding via resolution of the Annual Plan
- Approving the Liability Management and Investment Policies, incorporating the following delegated authorities:
 - borrowing, investing and dealing limits and the respective authority levels delegated to the Chief Executive (CE), General Manager Corporate Services (GMCS), Chief Financial Officer (CFO) and other managers
 - risk management control limits
 - guidelines for the use of financial instruments
- Delegating authority to the CE and other officers
- Reviewing and approving changes to the Liability Management and Investment Policies as well as the SIPO document every three years.

Council will also ensure that:

- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the Treasury function are resolved immediately
- Approval will be gained by the GMCS for any transactions falling outside Policy guidelines.

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Corporate and Strategic Committee

The Corporate and Strategic Committee will discuss investment matters on a quarterly basis. Responsibilities are ~~as follows~~:

- Approve investments (in the instances where funding is required from HBRC) in HBRC, PONL and any Council Controlled Trading Organisations (CCTOs), other subsidiary companies or trusts, including authorisations of use of investment funds and the terms and conditions of investment for these purposes~~-~~
- As controlling shareholder, vote for the appointment of directors in HBRC, PONL and any CCTOs or other subsidiary companies established to manage HBRC's investments in future~~-~~
- Approve new investments to facilitate community infrastructure asset creation, whether by way of direct property ownership or by making loans to non-HBRC entities for this purpose~~-~~
- Approve the investment strategy and distribution policy for the external Investment Fund. Review the SIPO and appoint the Investment Manager.

Finance Audit and Risk Sub-Committee (FARC)

The FARC will oversee the implementation of the Council's borrowing and investment strategies and monitor and review the effective management of the treasury function, borrowing and investment activities.

The FARC will ensure that the information presented to the Council is accurate, identifies the relevant issues and is represented in a clear and succinct manner.

The FARC will discuss treasury matters on a quarterly basis.

Responsibilities are ~~as follows~~:

- Recommending the Liability Management and Investment Policy and SIPO document (or changes to existing policy) to the Council
- Receiving recommendations from the GMCS and make submissions to the Council on all treasury matters requiring Council approval
- Recommending performance measurement criteria for externally managed funds
- Review all matters concerning the SIPO as well as providing guidance and leadership on the appointment, management, monitoring and review of the appropriate Investment Manager

- Monitoring quarterly performance of externally managed funds and borrowing activity against benchmarks
- Approving allowable financial instruments~~-~~
- Complete an annual review of all investments.

Chief Executive Officer (CE)

While the Council has final responsibility for policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The Council formally delegates to the CE the following responsibilities:

- Ensuring Council's policies comply with existing and new legislation
- Approving the bank signatories
- Exercise delegated authority to make and implement investment decisions in accordance with authority delegated by HBRC~~-~~
- Monitor investment conditions and performance and recommend initiatives and changes to HBRC as circumstances require~~-~~
- Grant delegated authority to implement investment decisions to senior staff as appropriate~~-~~
- Approving new counterparties and counterparty limits as defined within this policy and recommended by the GMCS
- Approving the opening and closing of bank accounts.

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Group Manager Corporate Services (GMCS)

The CE formally delegates the following responsibilities to the GMCS:

- Approving new borrowing undertaken in line with Council resolution and approved borrowing strategy
- Approving re-financing of existing debt
- Approving all treasury deal tickets (borrowing, investment and risk management instruments) within delegated authority
- Approving treasury transactions in accordance with policy parameters outside of the CFO’s delegated authority
- Authorising the use of approved risk management instruments within discretionary authority
- Approving all foreign currency hedging activity
- Receiving advice of breaches of Policy and significant treasury events from the CFO-
- Discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.

Chief Financial Officer (CFO)

The GMCS formally delegates the following responsibilities to the CFO:

- Recommending policy changes to the FARC for evaluation
- Ongoing risk assessment of borrowing and investment activity, including procedures and controls
- Receive quarterly reporting from the Investment Manager(s)
- Proposing any new funding requirements falling outside the Annual Plan and LTP to the FARC for consideration and submission to the Council
- Designing, analysing, evaluating, testing and implementing risk management strategies to position Council’s interest rate risk profile to be protected against adverse market movements within the approved Policy limits

- Investigating financing alternatives to minimise borrowing costs, credit margins and interest rates, making recommendations to FARC as appropriate-
- Reviewing and making recommendations on all aspects of the Liability Management and Investment Policy to the FARC including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments-
- Negotiating bank funding facilities-
- Managing bank, LGFA, Investment Manager, Trustee, Custodial and other financial institution relationships-
- Executing treasury transactions in accordance with approved limits. In the absence of the CFO, the GMCS will execute treasury transactions-
- Completing deal tickets for treasury transactions-
- Overseeing a triennial review of the Liability Management and Investment Policy, treasury procedures and all dealing and counterparty limits-
- Managing the long-term financial position of the Council in accordance with Council’s requirements-
- Ensuring that all borrowing and financing covenants/limits to lenders are adhered to-
- Ensuring management procedures and policies are implemented in accordance with this Policy-
- Monitoring and reviewing the performance of the Treasury function in terms of achieving its objectives-

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Accountant(s)

The CFO formally delegates the following responsibilities to the Accountant(s):

- On a continuing basis, monitoring and updating credit ratings of approved counterparties.
- Recommending changes to credit counterparties to the CFO.
- Monitoring treasury exposure on a regular basis, including current and forecast cash position, treasury investment portfolio, interest rate exposures and borrowings.
- Checking compliance against limits and preparing reports on an exceptions basis.
- Preparing treasury reports.
- Delivering weekly reports to the CFO covering cash/liquidity, investment portfolio, debt funding portfolio and interest rate risk position.
- Forecasting future cash requirements.
- Check the written evidence of executed deals on an agreed form.
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Managing the operation of all bank accounts.
- Handling all administrative aspects of bank, LGFA agreements and documentation.
- Completing, reviewing and approving treasury journals, bank, borrowing and investment spreadsheet reconciliations to the general ledger (ensuring segregation of completion, review and approval tasks amongst Accountant(s)).
- Undertaking a triennial review of the Liability Management and Investment Policy, treasury procedures and all dealing and counterparty limits.
- Updating treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Checking all treasury deal confirmations against internal deal documentation and reporting any irregularities immediately to the GMCS.
- Reconciling monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Review electronic batch payments to creditors and arranging for approval by authorised signatories.

28. Delegation of authority and authority limits

Treasury transactions entered into by Council without the proper authority are difficult to cancel given the legal doctrine of “apparent authority”. Insufficient authority for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). Therefore, the following procedures will apply:

- All delegated authorities and signatories will be reviewed at least every six months to ensure that they are still appropriate and current.
- A comprehensive letter will be sent to all bank and lender counterparties, at least every year, detailing all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.
- Whenever a person with delegated treasury authority leaves Council, all relevant banks and other counterparties will be advised in writing on the same day to ensure that no unauthorised instructions are to be accepted from such persons.

The Council has the following responsibilities, either directly, or via the following stated delegated authorities.

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Activity	Delegated Authority	Limited
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council CE (delegated by Council) GMCS (delegated by Council)	Unlimited (subject to legislative and regulatory limitations) Subject to Council resolution and policy
Acquiring and disposing of investments other than financial investments	The Council	Unlimited
Approving charging assets as security over borrowing	The Council	Subject to terms of the Debenture Trust Deed
Approving Council guarantees	The Council	Unlimited (subject to legislative limitations)
Overall day-to-day treasury management	GMCS (delegated by Council) CFO (delegated by Council)	Subject to policy
Re-financing existing debt	GMCS (delegated by Council)	Subject to policy
Approving transactions outside policy	The Council	Unlimited
Adjusting debt or investment interest rate risk profile	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Managing investments and funding maturities	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Maximum daily transaction amount (borrowing and interest rate risk management) excluding roll-overs under bank debt facilities	The Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited \$15 million \$10 million \$2.5 million
Maximum daily transaction amount (investing and cash management)*	The Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited \$15 million \$10 million \$5 million
Maximum daily transaction amount (foreign exchange risk management)	The Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited \$1 million \$0.5 million \$0.25 million
Approving bank signatories	CE	Unlimited
Approving the opening/closing bank accounts	CE	Unlimited
Reviewing the Liability Management and Investment Policies every three years	FARC	N/A
Ensuring compliance with Policy	GMCS	N/A

*Daily transaction amounts relate to internally managed Investment Funds only with external Investment Funds managed under Council's SIPO document.

Item 7

Attachment 2

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29. Treasury Procedures – Operational Risk

Operational risk is the risk of loss as a result of human errors including fraud, system failures, or inadequate procedures and controls. Operational risk is very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood
- Too much reliance is often placed on the specialised skills of one or two people
- Most treasury instruments are executed over the phone.

Operational risk is minimised by this policy.

Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by Council.

Segregation of Duties

There will be adequate segregation of duties among the borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. However, there are a small number of people involved in borrowing and investment activity. Accordingly, strict segregation of duties will not always be achievable.

The risk will be minimised by the following:

- ~~The~~the Accountant(s) will report directly to the CE to control the transactional activities of the GMCS and the CFO
- ~~There is a~~ Documented approval ~~process~~processes for borrowing and investment activity.

Procedures and controls

- The CFO will have responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity will be undertaken in accordance with approved delegations authorised by Council.

- All treasury products will be recorded and diarised within a treasury system/spreadsheet, with appropriate controls and checks over treasury journal entries into the general ledger. Deal capture and reporting will be done immediately following execution and confirmation. Details of procedures, including templates of deal tickets, will be included in a treasury procedures manual separate to this policy.

Procedures and controls will include:

- Regular management reporting
- Regular risk assessment, including review of procedures and controls
- Organisational systems, procedural and reconciliation controls to ensure:
 - All borrowing and investment activity is bona fide and properly authorised
 - Checks are in place to ensure Council's accounts and records are updated promptly, accurately and completely
 - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity
 - Cheque/electronic banking signatories will be approved by the CE. Dual signatures will be required for all cheques and electronic transfers.
- All treasury counterparties will be provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive deal confirmations
- The CFO will record all deals on properly formatted deal tickets. Deal summary records for borrowing, investments, risk management and cash management transactions (on spreadsheets) will be maintained and updated promptly following completion of transaction.
- All inward deal confirmations, including registry confirmations, will be received and checked by the Accountant(s) against completed deal tickets and summary spreadsheets records to ensure accuracy

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- Deals, once confirmed, will be filed (deal ticket and attached confirmation) in deal date/number order
- Any discrepancies arising during deal confirmation checks which require amendment to Council records will be signed off by the GMCS
- Where possible borrowing and investment payments will be settled by direct debit authority
- For electronic payments, batches will be set up electronically. These batches will be checked by the Accountant(s) to ensure settlement details are correct. Payment details will be authorised by two approved signatories as per Council register
- The Accountant(s) will perform bank reconciliations monthly. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records will be signed off by the GMCS
- A monthly reconciliation of the borrowing and investment spreadsheets to the general ledger will be completed, reviewed and approved by the Accountant(s), ensuring of completion, review and approval tasks.

Treasury Procedures – Cash Management

The Accountant(s) have the responsibility to carry out the day-to-day cash and short-term debt management activities. The Accountant(s) will:

- Calculate and maintain cash flow projections on a daily (two weeks forward), weekly (four weeks forward), monthly (12 months forward) basis
- Electronically download all Council bank account information daily
- Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters
- Undertake short-term borrowing functions as required, minimising overdraft costs
- Ensure efficient cash management, through improvement to accurate forecasting using spreadsheet modelling

- Minimise fees and bank charges by optimising bank account/facility structures
- Monitor Council's usage of committed cash advance facilities
- Match future cash flows to smooth over time
- Provide reports to CFO detailing actual cash flows during the month compared with those forecast.

Treasury Procedures – Financial Instrument Accounting Treatment

Council uses financial arrangements (derivatives or financial instruments) for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of financial instruments in a broad sense.

Under NZ IPSAS changes in the fair value of financial instruments go through the Income Statement unless financial instruments are designated in an effective hedge relationship.

Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of financial instruments can create potential volatility in Council's annual accounts.

The Accountant(s) responsible for advising the CFO of any changes to relevant NZ IPSAS, which may result in a change to the accounting treatment of any financial instruments.

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Treasury Procedures – Reporting

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	Accountant(s)	CFO
Treasury investments	Quarterly	Accountant(s)	CFO
Summary Treasury Report*	Quarterly	Accountant(s)	CFO, GMCS, CE, FARC, and Council
Counterparty Credit Limits Report	Daily for exceptions / Quarterly	Accountant(s)	CFO, GMCS, and FARC
Debt Maturity Profile	Quarterly Six-monthly	CFO	FARC and Council
Revaluation of financial instrument and review of guarantees	Quarterly	Accountant(s)	CFO

*The ‘Summary Treasury Report’ includes ~~the following~~:

- Treasury exceptions report
- Risk exposure positions
- Policy compliance
- Borrowing limit report
- Investment management report (see below)
- Cost of funds report
- Cash flow forecast report_u

Treasury Policy

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Investment Management Report

Investment mix and performance is reported to HBRC for all investments through the following means.

- 1. Reporting annually
 - For all equities, (including HBRIC, PONL, CCTOs and other subsidiary companies, and New Zealand and international shares):
 - Dividends and other payments received
 - Sales and acquisitions; gains and losses on disposal (if any)
 - Changes in capital values of the assets (based on market or independent valuation)
 - Financial and operating results
 - Economic impacts (if any) generated during year.
 - For property investments (including the Napier endowment property):
 - Movements in rental renewals
 - Sales and acquisitions of leases and property over the year
 - Any transfers of leasehold properties between lessees
 - Gains and losses on disposal (if any)
 - Net income and change in capital values of the underlying assets (based on market or independent valuation)
 - Economic impacts (if any) generated during the year.
- 2. Reporting quarterly
 - For all treasury investments:
 - Dividends, interest and other income received during the quarter
 - Sales and acquisitions; gains and losses on disposal (if any)
 - Changes in capital values of the assets (based on market or independent valuation)
 - Economic impacts (if any) generated during quarter.

Item 7

Attachment 2

Treasury Policy

- For all externally managed investment funds:-
 - Fund valuation
 - Fund duration
 - Compliance reporting (including approved exceptions)
 - Performance summary for the Fund and by asset class
 - Performance against benchmarks
 - Fund income
 - Asset transactions summary
 - Cash transactions
 - Investment management fees
 - Custodial fees
 - Individual fund management fees
 - Brokerage and other transaction costs.
- 3. Individual issue papers submitted to HBRC dealing with matters of relevance (including changes in investment policy) to the investment portfolio that may arise during the year.
- 4. Additional requirements on HBRIC, PONL, CCTOs and other subsidiary companies reporting through HBRIC, including:
 - Agreeing financial and other relevant strategic and performance targets for these businesses through an annual Statement of Intent
 - Confirm appointment of directors having appropriate expertise to their boards
 - Where requested, for HBRC’s strategic planning purposes, review businesses strategic plans, annual budgets and financial forecasts for their medium and long term future operations
 - Receiving 6 and 12 month reports on financial performance and position and operating results of these businesses
 - Being briefed by the Chairperson of Directors and Chief Executive Officer of the businesses as required by the HBRC, but no less than twice a year
 - Being consulted, and where necessary, making decisions as shareholders, at any time on new developments or significant departures from anticipated performance.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: REGIONAL THREE WATERS REVIEW

Item 8

Reason for Report

1. This report seeks Council approval to work with the region's four territorial authorities to develop a regional business case assessing options to improve the management of drinking water, stormwater and wastewater (Three Waters) in the Hawke's Bay region and in doing so, address Central Government concerns associated with these activities.
2. This review will develop recommendations for performance improvements to our Regional Three Waters systems with a view to guiding Central Government's Three Waters strategy.
3. It should be noted that this review is specifically looking at the service delivery function of Three Waters and does not seek to review the regulatory framework.

Staff Recommendation

4. Staff recommend that Council agrees its support for development of a regional business case on Three Waters management as proposed in Option 1 of this report.

Background Summary

5. The Government is investigating options on how to improve the management of drinking water, stormwater and wastewater (three waters) to better support New Zealand's prosperity, health, safety and environment. Local Government Minister Nanaia Mahuta has announced a reform programme to transform drinking, storm and wastewater. It is focused on the challenges facing the sector, including funding pressures, rising environmental standards, climate change, seasonal pressure from tourism, and the recommendations of the Havelock North Inquiry. The review is in its second stage.
 - 5.1. **Stage One** – This stage explored the issues and opportunities with three waters services by gathering and analysing information. This was completed at the end of 2017.
 - 5.2. **Stage Two** – This stage commenced in March 2018. It is looking at options for improving the three waters system, including the management, service delivery, funding, and regulatory arrangements.
6. Central government has advised that they will work closely with councils, Iwi and all stakeholders with an interest in three waters services in order to develop options and recommendations.
7. There is an opportunity to provide the Hawke's Bay's perspective into the Central Government review on developing options to address the key concerns on how we can improve the management of drinking water, storm water and wastewater ("Three Waters") to better support our community's prosperity, health, safety and environment.
8. The Minister has advised she is supportive of our region's proposal to complete this review and how it may be adopted as part of the wider government review.
9. The purpose of the Hawke's Bay review is to have developed recommendations for regional performance improvements to our Three Waters systems to help guide Central Governments thinking to deliver:
 - 9.1. Safe, NZDWS compliant and reliable drinking water
 - 9.2. Better environmental performance for our water services
 - 9.3. Efficient, sustainable, resilient, and accountable water services

- 9.4. Achieving these aims in ways that are efficient and effective for our communities.
10. This review will need to address the following challenges for our water systems and communities:
 - 10.1. Meeting community expectations for each of the Three Waters across quality, treatment and management
 - 10.2. Meeting regulatory requirements for the Three Waters for quality, treatment and management
 - 10.3. The ability to replace infrastructure as it ages, and or fund and manage new infrastructure to meet changing customer and regulatory requirements.
 - 10.4. Declining rating bases in some areas, high growth in others
 - 10.5. High seasonal demand in small tourism centres
 - 10.6. Adapting for climate change and adverse natural events.
11. The review will identify and develops options for structure and governance models that:
 - 11.1. Develops and confirms 'Key Principles' of approach that are shared and agreed by the respective council's
 - 11.2. Identifies service and delivery model opportunities through joint provision of all or some elements of the Three Waters services. In identifying a range of models these shall be compared to the status quo including clustering of sub-regional entities. The models must be flexible enough to future proof for the inclusion of private water suppliers.
 - 11.3. Develops strategic capacity and resilience across the water network
 - 11.4. Provides excellence in strategic and management capability to ensure safe, secure efficient drinking water, waste water and storm water service outcomes to our communities.
 - 11.5. Provide economic value and be able to demonstrate how well and why the identified models meet each of the objectives including benefits analysis, cost of service delivery, funding requirements, how fees and charges are levied and where the costs are distributed, and processes.
 - 11.6. Provides capital efficiency current and future Three Waters assets
 - 11.7. Delivers operational and maintenance excellence through the most effective service delivery model
 - 11.8. Improves customer service
 - 11.9. Provides greater environmental, community and cultural focus
 - 11.10. Recommend the next steps to enable the entire objectives to be met including a programme and cost/resource estimates to do this – this should also include transition plans/costs and timetables for such a transition.
12. Hawke's Bay Regional Council's service delivery functions of drainage and flood protection are not in scope of this review. However, the involvement of Hawke's Bay Regional Council will keep us informed into possible direction of Three Waters delivery in Hawkes Bay. This is important in managing the interface between territorial authority and Regional Council drainage and stormwater schemes. It is also valuable for the Regional Council to be involved given our interests as regulator of Three Waters and the natural resources this infrastructure interacts with.
13. In order to undertake the review it will be necessary to engage the services of an external agency to support its delivery. We will be seeking a fixed cost engagement via our procurement process. It is proposed that costs will be attributed on the following basis:
 - 13.1. NCC 35%
 - 13.2. HDC 35%

- 13.3. HBRC 15%
- 13.4. WDC 7.5%
- 13.5. CHBC 7.5%.

Risk

- 14. Undertaking the review is considered the lowest strategic risk option. This option would contribute the Hawkes Bay regional perspective into the Central Government review on how we can improve the management of drinking water, stormwater and wastewater (Three Waters).

Options

Option 1 – Council confirms its support for the project

- 15. Financial and Resourcing Implications
 - 15.1. Additional funding will not be required to complete the review. Re-allocation of funding from Drainage and River Control Consultancy Services budget will ensure no changes to overall budgets or LTP figures.
 - 15.2. The review will be outsourced to an external consultancy to deliver the report, however there will be a moderate resourcing impact on council staff to provide information to complete the analysis and participate in workshops throughout the review process.
- 16. Risk Analysis
 - 16.1. This option is considered the lowest strategic risk option. This option would contribute the Hawke's Bay regional perspective into the Central Government review on how we can improve the management of drinking water, storm water and wastewater (Three Waters).
- 17. Promotion or Achievement of Community Outcomes
 - 17.1. This review demonstrates our commitment to making sustainable investment in durable infrastructure that promotes smart growth and ensures we are environmentally responsible.
- 18. Statutory Responsibilities
 - 18.1. The review will contribute towards meeting our statutory responsibilities through better territorial authority asset management and performance, and ultimately compliance.
- 19. Consistency with Policies and Plans
 - 19.1. The project is not part of the latest LTP, and the budget available is from the existing budget provision.
- 20. Community Views and Preferences
 - 20.1. This option has been identified as requiring specific engagement Maori. Any significant changes to activity arising from the review will involve future public engagement and consultation.
- 21. Advantages and Disadvantages
 - 21.1. The advantages of this option are:
 - 21.1.1. provision of the Hawke's Bay's regional perspective into the Central Government review to shape their thinking
 - 21.1.2. working together as a region to develop the best regional model to deliver a strategic and sustainable approach to Three Waters.
 - 21.2. There are no perceived disadvantages of this option relative to option 2.

Option 2 – Council does not approve the project to complete the review and wait for Central Government outcome without considered Hawkes Bay regional input.

22. Financial and Resourcing Implications
 - 22.1. There are no financial or resourcing implications in choosing to do nothing in the short term.
23. Risk Analysis
 - 23.1. By doing nothing, the Government may mandate a new regime that does not consider the specific requirements and concerns of the Hawke's Bay region & our communities.
24. Promotion or Achievement of Community Outcomes
 - 24.1. The Council would continue progressing against its LTP plan whilst noting that the Government has a Three Waters review which is subject to change that plan.
25. Statutory Responsibilities
 - 25.1. Not applicable - other than where territorial authorities may be in breach of meeting standards and consent obligations
26. Consistency with Policies and Plans
 - 26.1. Not achieving our strategic plan objectives for improvements in water quality through poorer management of Three Waters infrastructure by territorial authorities.
27. Community Views and Preferences
 - 27.1. This is an opportunity for the Hawke's Bay to develop a regional approach and contribute to Central Government's review process. If we act independently then the region may need to adhere to an alternative Central Government imposed regime. This alternative regime may cost significantly more than this combined regional approach to the review.
28. Advantages and Disadvantages
 - 28.1. Disadvantages are potentially significant and preclude us from developing solutions for our region to deliver:
 - 28.1.1. Safe, NZDWS compliant and reliable drinking water
 - 28.1.2. Better environmental performance for our water services
 - 28.1.3. Efficient, sustainable, resilient, and accountable water services
 - 28.1.4. Achieving these aims in an affordable manner.

Next Steps

29. Should Option 1 be approved our next steps are as follows:
 - 29.1. Commence procurement process for a suitable consultant to lead the review across the respective Councils with the expectation that this is completed in late December
 - 29.2. Confirm scope and draft project & communications plan with a view to completing review by the end of June 2019.
 - 29.3. Development of Preferred Option.

Decision Making Process

30. Council is required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 30.1. The decision does not significantly alter the service provision or affect a strategic asset.
 - 30.2. The decision does not fall within the definition of Council's policy on significance.

30.3. The decision is not inconsistent with an existing policy or plan.

Recommendations

1. That the Corporate and Strategic Committee receives and notes the “Regional Three Waters Review” staff report.
2. The Corporate and Strategic Committee recommends that Council:
 - 2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council’s adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community.
 - 2.2. Having considered all matters raised in this report:
 - 2.2.1. Confirms its support for HBRC participating in the development of a regional business case on 3 Waters management.
 - 2.2.2. Notes the cost of the review is apportioned across the Hawke’s Bay councils as being 35% Napier City Council, 35% Hastings District Council, 15% Hawke’s Bay Regional Council, 7.5% Wairoa District Council, and 7.5% Central Hawke’s Bay District Council.
 - 2.2.3. Agrees that HBRC’s funding contribution come from the Drainage and River Control Consultancy Services budget.

Authored by:

Chris Dolley
GROUP MANAGER ASSET
MANAGEMENT

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Item 9

Subject: HB TOURISM UPDATE

Reason for Report

1. This joint HB Tourism (HBT) and HBRC item provides the Corporate and Strategic Committee with:
 - 1.1. The regular quarterly activities update (attached).
 - 1.2. An update on investigations of alternative funding options for the long-term funding of Hawke's Bay Tourism (HBT).
 - 1.3. An outline of initiatives HB Tourism would like to further explore.

Executive Summary

2. The objectives of the Funding Review are:
 - 2.1. To develop a long-term sustainable funding model for Hawke's Bay Tourism that ensures those who benefit commercially from tourism contribute to the promotion and marketing of the region.
 - 2.2. To lessen the burden on the Hawke's Bay ratepayer.
3. The issue of tourism funding, for both infrastructure and tourism promotion, is a national issue and one for which there are multiple national and regional initiatives under active consideration and review.
4. While the current funding model can be improved to ensure better linkages between HBT funding and the beneficiaries and/or users of tourism activities, the complexities, and transaction costs of more targeted funding models, particularly at a regional level, should not be underestimated and perhaps point to the need to retain a degree of core community funding via the economic development rate.
5. There is no one-size fits all approach. A review of international case studies of peer-to-peer accommodation and how some councils in New Zealand treat peer-to-peer accommodation by HBT and council staff has confirmed the complexity of the issues.
6. The introduction of a local bed tax/visitor levy would require legislation meaning change could be slow. Discussions with the region's Mayors and Chair indicated strong support for an all-of region approach to the development of a sustainable funding model and strategy that encompasses not only visitor attraction but also tourism infrastructure and event management.
7. Committee members are advised that the interim funding agreement between Hawke's Bay Regional Council (HBRC) and HBT has been further extended from 30 October 2018 to 30 June 2019. This extension will allow more time to revise HBT's KPI's to align with the 2018-28 Long Term Plan resolutions and the outcomes of the funding review.

Background of Hawke's Bay Tourism

8. HBT was formally established in July 2011 after Venture Hawke's Bay, the region's economic development agency was disestablished. The Hawke's Bay Tourism Industry Association led this change and developed a strategy which HBRC adopted. It was based on a contribution from the private sector while retaining the allocated tourism funds from the economic development rate collected by HBRC.
9. HBT's role is to grow the visitor economy by promoting Hawke's Bay nationally and internationally. HBT believes visitors don't just arrive here – they have been motivated by friends, seen ads, read magazine articles, found what they want online or they had a travel agent who knew about Hawke's Bay. HBT's role is to ensure that Hawke's Bay's

marketing hit all of those channels on behalf of its 386 contributing members and the wider region.

Hawke's Bay Tourism Funding from HBRC

10. HBRC is the sole local government funder of HBT. This is the result of agreement with the region's territorial authorities; Napier, Hastings, Central Hawke's Bay and Wairoa councils.
11. In 2014/15 HBT developed a regional strategy, in alignment with Tourism 2025 (the national tourism sector framework) to increase visitor expenditure by an average of 5% per year. To achieve this HBT developed a funding case to increase strategic marketing particularly around seasonal events. All councils supported the proposal and HBRC committed to a new three-year funding agreement which increased HBT's funding from \$920,000 to \$1.82M over three years.
12. Council believes the investment outlined above has paid off and that the sector should have the momentum to sustain strong visitor numbers. Accordingly, through the 2018 – 28 Long Term Plan (LTP) process, HBRC consulted on reducing HBT's funding back to \$920,000pa.
13. Following consultation Council decided to support HBT at a rate of \$1.52M per annum, for three years, with subsequent funding levels to be reviewed through the 2021-31 LTP process. HBRC also adjusted the economic development rating split. (Please see **Attachment 1** for *Council's 2018-2028 LTP Resolutions*.)
14. Funding for Hawke's Bay Tourism comes through a targeted economic development rate. (This rate also contributes to Business Hawke's Bay and other miscellaneous economic development opportunities). The economic development rate is charged out at two different rates; residential ratepayers via a Uniformed Annual Charge (UAC) and commercial/industrial ratepayers via Capital Value (CV).
15. This rating split between residential and commercial has changed from 70:30 to 50:50 this year (year 1) and will change again next year to 30:70 (year 2). The result of this change means that the commercial sector will predominantly fund the rate. Note that in both scenarios Wairoa District ratepayers' contribution is limited to 5% of the total economic development rate.
16. Hawke's Bay Tourism believes it is in a very positive space with widespread public, industry and political support. It has recorded a 6% annual growth rate in visitor spend for the past three years. According to MBIE's latest Monthly Tourism Estimates visitors generated \$646M into the Hawke's Bay's economy (year-end October 2018).
17. The table below provides an estimated breakdown of the \$646M (\$1.8M a day) visitor spend into categories as well as an attempt to match those categories with similar HBRC commercial rating codes. This allows a comparison between the industries receiving the tourist revenues and commercial/industrial ratepayer contributing to the (non-residential) funding of HBT.
18. Please note there may some differences between the compared categories, but where possible we have endeavoured to compare like with like.

MBIE Visitor Spend Category	\$ spent & as a % of the \$646m spend		HBRC Rating Category	\$ collected for the Economic Development rate & as a % of HBT funding	
Retail sales – other	\$166m	26%	Commercial Retailing use -CR	\$200,100	19%
Accommodation:	\$80m	12%	Accommodation (such as motels and hotels) - CA	\$55,100	5%
Retail sales – fuel and other automotive products	\$65m	10%	Service Stations -CS	\$14,200	1.0%

MBIE Visitor Spend Category	\$ spent & as a % of the \$646m spend	HBRC Rating Category	\$ collected for the Economic Development rate & as a % of HBT funding
Other tourism products	\$61m 9%	Tourist type attractions as well as other amenities with an emphasis on leisure activities of a non-sporting type - CT	\$1,700 0.2%
Food and Beverage servicing services	\$117m 18%	Liquor outlets, Taverns -CL	\$11,000 1.0%
Retail sales alcohol, food and beverage	\$84m 13%		
Other passenger transport	\$54m 8%		
Cultural recreation and gambling	\$19m 3%		
Commercial -Resthomes, Health Operators Education, Motor Vehicle Sales, Office, Parking buildings, Vacant Land, Other			\$315,000 29%
Industrial – Food processing, Light manufacturing, Services, Vacant Land, Other			\$494,000 45%

21. Based on the above information, approximately 74% (right-hand column) of the commercial/industrial rating funding for tourism is sourced from industries not directly benefitting from the tourist industry. 66% of all spend (left-hand column) is with businesses not directly in the tourism industry, i.e. fuel. Please note MBIE record spend by visitors based on credit card use.

Hawke's Bay Tourism Funding from Industry

22. Hawke's Bay Tourism expects to collect about \$120,000 this year through membership and support partners. It currently has 386 paying members, being:
- 22.1. 223 Web Listing members (each pay \$100+GST per year)
 - 22.2. 163 Tourism Operator members (each pay \$300+GST per year)
 - 22.3. 28 International marketing group members (each pay an additional \$500+ GST per year)
 - 22.4. HBT also has 16 support partners (each pay \$300+GST per annum). These are businesses who aren't tourism operators but who value and support tourism.
23. HBT also expects to secure around \$345,500 from industry through advertising, event sponsorship and event registration.
24. In addition to the revenue outlined above HBT receives "in-kind support" from industry to support HBT activity. HBT hosts over 200 travel agents and journalists each year. Industry gives a significant amount of free or heavily discounted rooms, flights, meals and tours each year to offset HBT costs. HBT believes a conservative estimate of in-kind support is approximately \$500,000pa.
25. While HBT acknowledges it could increase membership fees it believes there needs to be a balance – some members would absorb an increase, other smaller tourism businesses (particularly those in CHB or Wairoa) would struggle to pay more than the \$100 per annum they pay now. HBT believes there are genuinely only a handful of tourism players who have the capacity to provide more revenue to Hawke's Bay Tourism. These would be the same 15 – 20 businesses who back in 2011 contributed a further \$120,000 per year for three years. This money was for re-establishing the RTO alongside HBRC. HBT is in discussions with the Hawke's Bay Airport in terms of more direct support.
26. The tourism industry in the region is mainly made up of 1-2 person operations so the potential pool of funding would still be considerably small relative to what's required to market the region. Margins are tight mainly because tourism is seasonal. The majority of

visitors come to Hawke's Bay November – May, therefore revenue made over summer also must sustain the business over the quieter months. HBT's recommendation would be for a stakeholder survey to be conducted to ask the industry what they believe they can afford to contribute.

Hawke's Bay Tourism's Activities

27. Hawke's Bay Tourism has an annual budget of \$1,985,600. This excludes event ticketing revenue of \$400k per annum:
 - 27.1. Advertising and promotion - 47%
 - 27.2. This includes digital advertising, print ads, search, billboards, creating content, digital video, www.hawkesbaynz.com, social media, public relations, hosting media, developing collateral, attending consumer shows, training travel agents, developing tourism product, and attending trade shows to promote Hawke's Bay.
 - 27.3. Salaries and expenses – 29% (In 2018 HBT employs 6.5 staff. In 2011 HBT employed 6 staff)
 - 27.4. Event development, marketing and promotion - 13%
 - 27.5. Overheads - 11%
28. HBT has led a Regional Events Strategy to build events in the shoulder seasons. The Hawke's Bay Marathon (May), Winter & Summer F.A.W.C! (June and November), The Big & Little Easy events (Easter), The Spring Fling in CHB (September & October) are all examples of creating events that drive reasons for people to visit Hawke's Bay. HBT also markets and supports a wide range of existing events including Art Deco Weekend, Horse of the Year and Triple Peaks.

Future Funding Models

29. HBT's objective is to raise \$2million per annum to fund the promotion of Hawke's Bay and ensure a long-term sustainable approach to marketing of the region. This is in-line with HBT's current revenue from all sources.
30. In order to achieve this it is proposing a model composing of three components:
 - 30.1. Implementing a regional visitor tax/bed levy;
 - 30.2. Retaining an element core funding from the Economic Development rate HBRC collects on behalf of the region's councils; and
 - 30.3. Maintaining the industry funding at current or higher levels.

Implementing a regional visitor tax/bed levy

31. This could include a regional tax/levy based on a percentage or fixed amount per night added to accommodation charges for both commercial and peer-to-peer accommodation providers. Collaboration with both the commercial accommodation sector and peer-to-peer platforms would be necessary.
32. Local Government New Zealand (LGNZ) are investigating the notion of a local visitor tax/bed levy and are investing in a piece of work to understand the costs/benefits and logistics of such a levy. A scope of work has been developed and an RFP is expected to be delivered by the end of the year. HBT is a trustee of Regional Tourism New Zealand and will be part of the working group providing input and feedback on this paper. It would make sense to closely follow this rather than duplicate the work they are doing. This is outlined in LGNZ's submission on the proposed International Visitor Levy which provides an excellent overview of the issues under discussion: <http://www.lgnz.co.nz/assets/Uploads/IVCTL-Final-submission.pdf>
33. If HBT aims to raise \$2M per annum to fund the promotion of Hawkes' Bay a 2.5% regional tax/bed levy would be required on each night.
34. This is based on \$80M spent on accommodation in the year-end October 2018. (If bookings were made in New Zealand the \$80m would include revenue gained from the Airbnb sector.)

Retaining core funding via the Economic Development rate

35. This would include retaining funding through the economic development rate, but to a lesser extent as currently allocated. For example - If HBT retained HBRC funding of approximately \$1.0M pa and used a regional tax/bed levy to raise a further \$1.0M a 1.3% levy would be required.

Maintaining the industry funding at current or higher levels

36. This would see tourism operators continue to pay for membership, advertising charges and other partnership marketing contributions. As stated earlier HBT believes there are only a small number of tourism players who would have the capacity to contribute more to HBT. Its recommendation would be for a stakeholder survey to be conducted to ask the industry what they believe they can afford to contribute.

Considerations for future funding models

Component	Pros	Cons	Hawke's Bay specific issues
A regional visitor tax/bed levy administered regionally but adopted nationally.	Same framework across all regions in NZ. Aims to create an even playing field by applying the levy on all providing paid accommodation.	Only targets accommodation sector which receives only 12% of tourism spend. Cost to administer to be determined – less for smaller entities but could be high cost for bigger operators. Difficulty in finding all in peer-to-peer category. Additional resources may be needed. Legislative change is needed so implementing such a levy could be a slow process.	Need to take into account all peer-to-peer properties. HBRC versus TLA collection.
Retain core funding from the economic development rate HBRC collects on behalf of the region's councils.	Provides a means for sectors who are not accommodation providers but who benefit from tourism promotion to contribute. Depending on Council's vision for the rate, could free up funding to be used for other sectors. Lessens the burden on the ratepayer.	Council feels the sector now has the momentum to sustain strong visitor numbers. Depending on the level, may effect Council's aim of returning to focus on environmental priorities.	

Component	Pros	Cons	Hawke's Bay specific issues
Maintaining industry funding at current or higher levels	This supports the principle of equity and the case for tourism operators to pay more than most other businesses, but not all tourism funding. Public perception - it is important that industry operators are seen to be paying their way.	The benefits of destination marketing and tourism development cannot be made exclusive to those who contribute to the Regional Tourism Organisation (RTO). This leads to freeloading where beneficiary businesses rely on others paying. This in-turn demotivates those who are paying, eroding sustainability of any funding achieved. Maintaining membership support is very time consuming to the detriment of destination marketing activity.	HBT already performs relatively well on this (Third highest of NZ's RTOs which reported in 2016 survey. An updated survey is being undertaken in early 2019). Current contributions over and above financial contributions include approximately \$500k in in-kind contributions to supporting HBT activity. Hawke's Bay does not have many large-scale tourism businesses compared with other regions. This will improve if the public investment is made to grow existing and new businesses.

Feedback from the Hawke's Bay Local Government Leaders' Forum

37. HBRC staff engaged with this forum on 3 December 2018 to ascertain support for a discussion about a regional visitor tax/bed levy. The forum was supportive of the funding review and would like potential funding secured through a bed levy to not focus solely on funding activities of HBT but more broadly focused on funding tourism activities generally, including infrastructure. The leaders agreed on the proposed next steps of:
- 37.1. Formally convene a Local Government workshop to progress the discussion
 - 37.2. Closely track industry developments, particularly LGNZ's work
 - 37.3. Consider in parallel the development of an all-of-region Tourism Strategy, noting the possibility of Potential Growth Funding (PGF) for this.

National Context

38. HBRC's review is coming at a time when the topic of how best to fund tourism in NZ is under significant scrutiny, in no small part due to the challenge of managing industry growth. The following sets out some of the national and regional discussions, initiatives and reviews currently in play.

Draft Aotearoa New Zealand Government Tourism Strategy

39. The draft strategy was released in November with submissions being accepted until 4 February 2019. It outlines government's role in its aim to make sure tourism growth is productive, sustainable and inclusive. In the current environment of rapid visitor growth the strategy states government needs to take a stronger role in its stewardship of the tourism system, more actively partner with local government, iwi and other regional stakeholders on tourism development and dispersal, and better align its regional tourism-related investments and interventions.
40. Challenges that have been exacerbated or created by recent growth predominantly manifest at a local government level, which provides much of the infrastructure needed to support tourism.
41. The strategy identifies five outcomes with its overarching aim to "Enrich New Zealand through sustainable tourism growth". Priority work areas include:
- 41.1. Support local government and the sector to identify and develop reliable funding streams

- 41.2. Work with regions to support them to take a strategic and coherent approach when deciding how they want to plan, manage, market and develop their destinations.

42. HBT intends to make a submission to the draft strategy and seek support from HBRC.

Productivity Commission's Local Government Funding and Financing Inquiry

43. This is looking at improvements to the local authority funding and financing environment, including recommendations in response to tourism pressures. DOC is also thinking about how best we charge for facilities on public conservation lands, the Draft Aotearoa New Zealand Government Tourism Strategy states.

International Visitor Conservation and Tourism Levy

44. This levy will be set at \$35 per visitor and is estimated to raise \$80M a year, to be split between conservation projects and tourism infrastructure. It will be collected through visa fees and via the new Electronic Travel Authority fee. It was approved by Cabinet in September and legislation is due to be passed around mid-2019.

Local Government New Zealand – Local Tourist Levy

45. LGNZ is investing in a rigorous piece of economic work to understand the costs and benefits of a visitor tax/levy up and down the delivery chain. They believe this is the only way to have a credible conversation across all levels of government and across the tourism industry and more importantly the people who decide we do this – government and officials.
46. A scope of work has been developed and an RFP will be delivered by the end of the year. Hawke's Bay Tourism is a trustee of Regional Tourism New Zealand and will be part of the working group providing input and feedback on this paper.
47. LGNZ made a submission to the International Visitor Conservation and Tourism Levy saying it supports a border levy but notes that it will only partially address the issue of funding mixed-use infrastructure used by tourists as a significant number of tourists will be exempt from the levy.
48. It says a local tourist levy would "assist councils to alleviate the unfair burden on local ratepayers from continuing to subsidise the tourism industry."
49. In its submission LGNZ says throughout the world local tourism levies are a common way of meeting the costs that tourism creates in local communities, citing for example accommodation levies are commonly used throughout Europe, the United States and Canada. Currently New Zealand is an outlier in respect of local tourism funding, it says.
50. A great deal of work has already been done on this topic as a visitor tax debate started in 1974.

Next Steps

51. Formally convene a workshop early next year of the Hawke's Bay councils to progress the discussion around a regional visitor tax/bed levy. The goal is to have a shared position for Hawke's Bay before any further work is undertaken on this.
52. Progress the development of an all-of-region Tourism Strategy. This would include identifying who will lead this piece of work and the development of the scope of the strategy.
53. Closely track industry developments and report back to the Corporate and Strategic Committee when new information comes to light.

Decision Making Process

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

Recommendations

That the Corporate and Strategic Committee receives and notes the “HB Tourism Update” joint staff report.

Authored by:

Annie Dundas
GENERAL MANAGER HAWKE'S BAY
TOURISM

Mandy Sharpe
PROJECT MANAGER

Approved by:

Tom Skerman
GROUP MANAGER STRATEGIC
PLANNING

Attachment/s

- [!\[\]\(e27c4336460e9e6729a19580c0456728_img.jpg\) 1](#) LTP HB Tourism Resolutions
- [!\[\]\(1a140e8db538fd46d58af9f9540232fd_img.jpg\) 2](#) HB Tourism October-December 2018 Quarterly Report

Hawke's Bay Regional Council's 2018 – 28 Long Term Plan Resolutions

Hawke's Bay Regional Council:

1. *Confirmed its proposal, as consulted on, to support Hawke's Bay Tourism at a rate of \$1.52m for the 2018-19 year. It also resolved to retain that rate of \$1.52m for the first three years of the LTP, with subsequent funding levels to be reviewed through the 2021-2031 Long Term Plan process.*
2. *Agreed to adjust the rating split to become more weighted to the commercial sector, as consulted on. These changes will be made to the economic development rate.*

It also requested that:

3. ***Hawke's Bay Tourism examine levels of accommodation in private homes achieved through hosting websites to recommend to HBRC possible differentiated rating levels for accommodation providers based on occupancy rates.***
4. ***HBRC staff work with Hawke's Bay Tourism to investigate the possibility of introducing a bed tax via enabling legislation to support the activities of HB Tourism.***
5. *Invites HB Tourism to better support Māori tourism in Hawke's Bay, and*
6. *Encourages HB Tourism to actively promote the Living Wage initiative amongst its members.*

Item 9**Attachment 1**



Hawke's Bay Tourism Ltd – Second Quarter Report 2018 2019

Prepared by Annie Dundas, GM Hawke's Bay Tourism

Item 9

General outlook

Spring has continued to provide consistent growth in visitor spend for Hawke's Bay - \$645m year end September +5%, commercial nights remain flat but Air BNB spend is tracking well-up on the previous twelve months. Importantly the mood of the industry remains positive.

The cruise season has begun and already the region has hosted five ships. There has been one cancellation due to weather to date. HBT submitted to HBRC in favour of their preferred option in regard to the Port expansion plans.

The biggest issues facing the industry concern staffing and a shortage predicted as we head into the summer season.

Areas of Focus

Additional Funding Streams for HBT

A funding paper has been prepared for discussion at the December 12 HBRC Corporate and Strategic Committee in conjunction with HBRC staff.

Maori Tourism

Hinewai Hawaikirangi has been appointed as the new Maori representative on the HBT Board. Hinewai is from Napier Maori Tours, a relatively new but highly successful Maori tourism business. The HBT Board is immensely grateful for the work Mike Mohi undertook on the HBT Board and sincerely thanked him for his efforts over the last three years. His work has helped to cement this role on the HBT Board.

HBT continues to work alongside existing and emerging Maori tourism operators. HBT has met with several Maori businesses looking to establish themselves in tourism.

Our Tauira Mahi – Maori graduate has completed her time with HBT. We will be looking to employ another graduate in the New Year.

Summary of activity undertaken this quarter

Advertising

Our Spring and Summer advertising schedules have included dedicated activity for Summer F.A.W.C! which has contributed to a 50% YOY increase in website traffic in the promotional period. We saw a 56% YOY increase in volume of new visitors and a pleasing 37% YOY increase in volume of returning visitors, which probably reflects our growing FAWC database. In addition a range of events have been given support over the spring period, including the Hawke's Bay Show, Hawke's Bay Wine Auction, editorial around the big line-up of winery and cellar door concerts, Horse of the Year 2019, and the upcoming Black Barn OpenAir Cinema season. In December we will start advertising for the international cricket season, Art Deco Festival, Bridge Pa Wine Festival and the summer concert series.

Attachment 2



Events

Summer F.A.W.C! concluded with the following results:

- 5,105 tickets available (5,029 in 2017), 75% were sold (91% in 2017)
- Generated \$271,335 in online ticket sales (\$290,512 in 2017)
- 38% of survey respondents were first time F.A.W.C!ers
- Approximately 35-40% of online ticket sales were from outside Hawke's Bay
- 36% bought tickets for visiting friends and family
- 91% of event managers considered Summer F.A.W.C! to be excellent or good, 9% fair

The Big Easy 2019 is confirmed at Easter – The Little Easy CHB on Friday 19 April, Big Easy on Saturday 20 April. Ticket sales are being targeted for early 2019 to coincide with Napier's Summer Cycling Carnival. HBT, NCC, HDC and HBRC all work on this event together.

Travel Trade Activity

Our new Tourism Manager Kerry Ralston started in this quarter and has is starting to build a strong presence for Hawke's Bay amongst key sellers in Auckland. All the Product Managers/senior team members mentioned the TECNZ conference HBT hosted in August and how beneficial it was coming to the region, many hadn't been for a long time. Across the board all inbound operators are expecting their biggest summer season ever, all are under resourced and struggling to find good staff so it is to be expected that the next 3 months will be a high-pressure time for this part of the industry.

HBT attended the annual Conventions and Incentives New Zealand Conference in Auckland (CINZ). This was a two-day conference with attendees including Professional Conference Organisers, Destination Management Companies specialising in this sector, suppliers of accommodation, activities and venues associated with events and Convention Bureaus.

Industry support

Year to date industry support for our travel agent famil programme has seen 213 agents hosted since July. 84% of costs (\$59,000) has been covered by the industry, 8% (\$6,000) by Hawke's Bay Tourism and the remainder by Tourism New Zealand.

At the end of November HBT had 386-member listings on the regional website.

Stakeholder Collaboration

Hawke's Bay Tourism is keen to develop a Visitor Strategy for Hawke's Bay alongside key stakeholders as part of Matariki. This is a Visitor Strategy for Hawke's Bay centred around the need to establish a long-term sustainable plan to cope with visitor growth. This would involve multiple stakeholders across the region. HBT will be applying for PGF funding to have this work developed.

HBT has begun work with Learning Hawke's Bay, HDC and NCC around building resources for education students from China wishing to study in Hawke's Bay. Information for this sector will be housed on the new Chinese language Hawke's Bay website.

HBT Stewardship

Over 60 tourism businesses in Hawke's Bay have received Qualmark Gold (14), Silver (40), Bronze (14) status. Qualmark looks to recognise businesses that are delivering a holistically sustainable experience. Businesses are awarded a Bronze, Silver or Gold award depending on their performance against the Sustainable Tourism Business criterion. A Gold Award recognises the best sustainable



tourism businesses in New Zealand, with the delivery of exceptional customer experiences an integral part of everything they do. A Gold Sustainable Tourism Award identifies those businesses leading the way in making the New Zealand tourism industry a world class sustainable visitor destination.

HBT is working to understand how many operators are now paying the Living Wage. An industry survey is proposed to understand this more fully. This survey will be conducted as part of the Visitor Strategy for Hawke's Bay and we hope to complete the survey in the first part of 2019.

Financial Position

HBT is five months into the new financial year and a new budget, all activity is on track. The reduced budget has meant a drop in domestic advertising spend and we have reduced costs associated with the new website as well.

Item 9**Attachment 2**



Appendix

Commentary around statistics –

All spend data is based on estimates by MBIE. The Monthly Regional Tourism Estimates (MRTes) provide an estimate of regional monthly expenditure on tourism from both international and domestic consumers – provided by MBIE.

Commercial Accommodation (CAM) represents approximately 30-40% of all nights spent in Hawke's Bay and allows us to see trends across hotel, motel, backpacker and holiday park accommodation. This report is provided by Statistics New Zealand.

The Net Promoter Score is sourced from AA Traveller Research and is based on domestic visitor assessment only.

Visitor Arrivals and Spend

The matrix below highlights Commercial Accommodation, the Monthly Regional Tourism Estimates, Air BNB data and a Net Promoter Score for the region.



Regional Comparisons

The chart below details where we sit against comparable regions and those close to us geographically. The first four columns are related to visitor spend as estimated by MBIE. The next two columns show Commercial Accommodation only and the last in the AA Traveller net promoter score – a measure of domestic travellers only.



	Annual Spend Estimate 12 months to Sep 2018	Overall Growth	Domestic Growth	International Growth	Annual CAM guest nights 12 months to Sep 2018	CAM Growth	Net Promoter Score - Sept
Wellington	\$2,404m	6.7%	7.1%	5.9%	2,694,837	1.0%	31
Hamilton & Waikato	\$1,560m	7.6%	7.2%	9.0%	1,412,453	0.8%	3
Bay of Plenty	\$888m	5.0%	3.8%	9.7%	1,195,474	-2.9%	47
Rotorua	\$827m	6.1%	6.7%	5.4%	2,343,248	5.6%	46
Nelson	\$669m	4.5%	3.4%	6.3%	1,485,065	-0.7%	48
Taupo	\$648m	6.4%	7.5%	4.0%	1,160,673	3.8%	50
Hawke's Bay	\$645m	5.1%	4.2%	8.4%	1,220,225	0.3%	43
Manawatu	\$465m	4.3%	2.9%	12.6%	553,868	3.6%	-18
Coromandel	\$464m	7.7%	5.0%	17.1%	920,920	1.7%	56
Taranaki	\$404m	12.4%	13.2%	9.3%	669,647	7.0%	30
Marlborough	\$402m	12.9%	14.6%	9.5%	767,994	-3.6%	29
Wairarapa	\$190m	11.0%	12.5%	5.2%	253,672	7.4%	32
National	\$28,931m	8.0%	7.5%	8.7%	39,980,761	2.5%	-

Accommodation

Year end results remain flat and much of this is due to such a strong summer the year before where we saw Te Matatini, International Cricket and a Mission Concert. None of these things occurred this 2017/2018.

The Monthly Regional Spend Estimates (MRTEs) have recorded that approximately \$80.3m per annum is spent in accommodation and its tracking at +4.5%. Some of the \$15m spent in Air BNB is recorded here but if accommodation is booked outside of NZ this spend is not recorded in the MRTE's.

Commercial Accommodation Hawke's Bay

- Guest nights for the month of September rose 3% off the back of a strong month for international arrivals +21%. Domestic nights fell 1%.
- Year end September 18 was flat for commercial nights
- Important to note that commercial accommodation offerings dropped 6%. Several more motels are now fully owned by WINZ or being used by WINZ to house low income families. No data is recorded from these properties. This has pushed up the overall occupancy rate to 61.2% for the year across all properties.
- 21% international growth ranked 5th of 31 RTO's.

Air BNB

Air BNB revenue combines Napier/Hastings whole house only, not private room bookings. This data comes from Air DNA a data scraping service.

Growth in Air BNB is substantial year on year, however we do expect this to plateau over the next 12 months.

Some Air BNB revenue is accounted for in MRTE visitor spend – ie all Air BNB properties booked in NZ are accounted, bookings made out of NZ are not counted.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: REPORT FROM THE FINANCE AUDIT AND RISK SUB-COMMITTEE

Item 10

Reason for Report

1. The following matters were considered by the Finance Audit and Risk Sub-committee meeting on 21 November 2018 and are now presented for the Committee's information.

Agenda Items

2. Local Government Funding Agency Accession presented the documentation necessary to enable Council to execute legal documents required to implement its 27 June 2018 decision to join LGRA as an unrated guaranteeing Local Authority, with the sub-committee recommendations following adopted by Council without change on 28 November 2018.
 2. The Finance, Audit and Risk Sub-committee recommends that Hawke's Bay Regional Council:
 - 2.1. Confirms Council's intention to join the Local Government Funding Agency as an unrated guaranteeing Local Authority.
 - 2.2. Delegates authority to the Chief Executive to execute the following documents for the purposes of recommendation 2.1. above.
 - 2.2.1. Letter from Council to Computershare Investor Services Limited (to amend and restate Council's 21 October 2009 Registrar and Paying Agent Services Agreement)
 - 2.2.2. Security Stock Certificate (in relation to the Multi-Issuer Deed)
 - 2.2.3. Security Stock Certificate (in relation to the Equity Commitment Deed)
 - 2.2.4. Security Stock Certificate (in relation to the Guarantee); and
 - 2.2.5. Stock Issuance Certificate (in relation to the documents noted at recommendation 2.2.2. – 2.2.4.).
 - 2.3. Authorises Council's elected members (Chairperson and Deputy Chairperson) to execute the following deeds for the purposes of recommendation 2.1 above:
 - 2.3.1. Deed of Amendment and Restatement of Debenture Trust Deed
 - 2.3.2. Accession Deed to Multi-Issuer Deed
 - 2.3.3. Accession Deed to Notes Subscription Agreement
 - 2.3.4. Accession Deed to Equity Commitment Deed, and
 - 2.3.5. Accession Deed to Guarantee and Indemnity.
 - 2.4. Delegates authority to the Chief Executive to execute such other documents and take such other steps on behalf of Council as the Chief Executive considers it is necessary or desirable to execute or take to give effect to recommendation 2.1 above.
3. **Health & Safety Internal Audit Report** provided the H&S Internal Audit report and findings as well as the proposed work programme for implementing and monitoring the recommendations. A follow-up report on implementation of the work programme including critical risks and the controls, processes and monitoring of these. In addition,

the sub-committee requested that staff provide the Draft Strategic Plan, including Council's overarching philosophical positioning, to its February 2019 meeting.

4. **Internal Audit update** provided a status report on the internal audit work programme and sought agreement from the sub-committee to either defer the Business Continuance Plan audit or note it as a follow up for a future financial year. The sub-committee requested that staff investigate, with Crowe Horwath, whether it is viable for any of the proposed future internal audits to be brought forward in the work programme and report back to the next FA&RS meeting. In relation to the 'living wage', the sub-committee was advised a small percentage of staff salaries that fell below the threshold were adjusted to align with Council's recently adopted Living Wage Policy, and that a review of Council's Procurement Policy, to include a weighting for contractors who comply with Council's Living Wage Policy, will be reported to a future sub-committee meeting.
5. It is proposed to review the Procurement Policy to include a weighting for contractors who comply with Council's Living Wage Policy and staff will prepare a report for a future sub-committee meeting
6. **Treasury Update** provided progress on the development of council's diversified investment portfolio, advising that the process of transferring funds has taken longer than anticipated and may have an effect on the budgeted returns, and that staff will update Council on the effects and any mitigation that may be needed. Further, staff advised that the full transfer of funds is expected to be completed by the end of January 2019. A Treasury report (to the sub-committee and full Council) including forecast vs actual returns of all investments, will be prepared for the February 2019 sub-committee meeting.
7. **Appointment of an Independent Member of the Finance, Audit & Risk Sub-committee** following the recruitment and interview process, the sub-committee recommended an appointment to Council, which was agreed on 28 November 2018.

Decision Making Process

8. These matters have all been specifically considered at the Committee level except where specifically noted.

Recommendations

That the Corporate and Strategic Committee receives and notes the "Report from the 21 November 2018 Finance, Audit and Risk Sub-committee Meeting"

Authored by:

Leeanne Hooper
PRINCIPAL ADVISOR GOVERNANCE

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

**SUBJECT: ANNUAL PLAN PROGRESS REPORT FOR THE FIRST FOUR MONTHS OF
THE 2018-2019 FINANCIAL YEAR**

Item 11

Reason for Report

1. To provide Council with a financial progress report for the first four months of the 2018-2019 financial year to 31 October 2018.

Financial Summary to 31 October 2018

2. The financial results for the first four months of the 2018-19 financial year are tracking to budget. There are no significant concerns at the moment however a few pressure points outlined below will be monitored closely as the year progresses.

Our Port Consultation Costs

- 2.1. The 2018-28 Long Term Plan (LTP) included \$100,000 funding for the development and communication of the Port consultation.
- 2.2. As the process has progressed this budget has been exceeded due to un-forecast expenses associated with procuring out of scope legal and other professional advice in addition to the planned costs for auditing of the LTP amendment, communications advice, postage and delivery.
- 2.3. Some of the above costs are yet to be finalised, but are estimated to total \$250,000. A full update will be provided at the next financial report in the New Year. It is possible a significant amount of the over-spend can be absorbed within the phase 1 project budget approved for HBRIC.

Investment Income

- 2.4. The LTP provided for the transfer of \$50 million previously set aside for the Ruataniwha Water Storage Scheme (RWSS) to a diversified managed investment fund in order to preserve the capital and grow investment income to help fund the increase in Council's operating activities.
- 2.5. The process of selecting and then finalising arrangements with the appointed fund managers has taken longer than initially expected, exacerbated by a decision to appoint two fund managers. Full year forecast returns could be unachievable because of the delay in placing these funds which forecast a return of 4.5% compared to term deposit rates at around 3%. There is currently a \$204,000 negative variance to budget assumptions which will fluctuate depending on the performance of funds in the next six months. Staff will continue to update Council on the overall performance of investment income and any mitigation that maybe required.

Reorganisation Costs

- 2.6. The 2018-28 LTP included a number of new roles to support the increase in operating activities. These positions were dependant on adoption of the LTP which was officially adopted in June 2018 creating a timing delay before they could be advertised. There have been some financial savings as a result in the timing delay in filling all of these roles. Currently 25 positions of the 32 new LTP roles have been filled.
- 2.7. The recent reorganisation of the corporate structure necessitated a refresh of Council building facilities in order to accommodate a number of new staff. These costs were factored into the LTP and this work is still being carried out and actual

costs are not yet fully known. Staff will continue to be monitor these as the year progresses.

New Projects –Erosion Control Scheme, Farm Plans, Sustainable Homes

- 2.8. There were a number of significant new projects in the LTP which have required the development of new policy before they could begin operationally. The erosion control scheme, farm plans and sustainable homes scheme are three loan funded projects which have taken some time to setup. This will affect the amount of operational work and therefore the level of borrowing required this financial year. These projects will be reported on individually within the financial progress reports throughout the year. As represented by the 396k variance to budget in the Groups of Activities.

Additional Financial Information for Four Months to 31 October 2018

3. The usual financial information is attached, consisting of:
- 3.1. Section A – Operating Account
 - 3.2. Section B – Balance Sheet.
 - 3.3. Section C – Capital Activity

Decision Making Process

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

Recommendation

That Hawke's Bay Regional Council receives and takes note of the "***Annual Plan Progress Report for the First Three Months of the 2017-18 Financial Year***".

Authored by:

Manton Collings
CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE
SERVICES

Attachment/s

- [1](#) Financial Reporting to 31 October 2018

SECTION A

Item 11

Attachment 1

HAWKE'S BAY REGIONAL COUNCIL OPERATING STATEMENT Four Months Ended 31 October 2018 (Pd 04)						
	NET FUNDING REQUIREMENT After 4 Months				ANNUAL BUDGET \$,\$000	ACTUAL / ANNUAL BUDGET (%)
	ACTUAL \$,\$000	PRO RATA BUDGET \$,\$000	ACTUAL / PRO RATA \$,\$000	Favourable/ Unfavourable		
GROUPS OF ACTIVITIES						
Strategic Planning	(556)	(634)	78	F	(2,733)	20%
Asset Management	(722)	(786)	64	F	(2,553)	28%
Integrated Catchment Management	(2,773)	(2,911)	137	F	(10,101)	27%
Consents & Compliance	(704)	(709)	6	F	(1,679)	42%
Emergency Management	(27)	(48)	21	F	(149)	18%
Transport	(87)	(120)	33	F	(173)	51%
Governance & Partnerships	(1,036)	(1,093)	57	F	(3,212)	32%
	(5,905)	(6,301)	396	F	(20,600)	29%
CAPITAL PROJECTS						
Strategic Planning	-	0	-	F	5	0%
Asset Management	(84)	(116)	33	F	(520)	16%
Integrated Catchment Management	(8)	0	(8)	U	(89)	9%
	(92)	(116)	25	F	(604)	15%
OPERATIONS GROUP						
Notional Interest on Ops Grp Fixed Assets	60	59	1		177	34%
Operations Group Council Activities	-	-	-		-	
Operations Group External Activities	47	38	9		113	41%
NET OPERATIONS GROUP ACTIVITIES	107	97	10	F	290	37%
NET FUNDING REQUIREMENT	(5,890)	(6,321)	431	F	(20,914)	28%
REGIONAL INCOME						
Investment Company						
HBRC Dividends (Napier Port)	-	-	-	F	10,000	0%
Other Investments						
HBRC Forestry Estate	86	86	-	F	258	33%
Restricted Leasehold Land Rental	50	49	2	F	146	34%
Investment Property Rental	284	278	6	F	833	34%
Interest	657	861	(204)	U	2,583	25%
Other Funding						
General Rate/Uniform Annual General Charge	2,317	2,310	7	F	6,931	33%
Other Income	2	9	(8)	U	28	6%
TOTAL REGIONAL INCOME	3,396	3,593	(197)	U	20,779	16%
OPERATING SURPLUS /(DEFICIT)	(2,495)	(2,728)	233	F	(136)	

Scheme Reserves

HAWKE'S BAY REGIONAL COUNCIL
MOVEMENT ON SPECIAL SCHEME RESERVES
Four Months Ended 31 October 2018 (Pd 04)

	Scheme Reserve Opening Balances	Movement On Scheme Reserve Year to Date	Scheme Reserve Closing Balances 31/10/2018	Pro-Rata Closing Balances 31/10/2018	Variance	Comments
	\$'000	\$'000	\$'000	\$'000	\$'000	
Flood Protection & Drainage Schemes						
Separate Schemes						
Makara	30	8	38	41	(3)	U
Paeroa	110	3	112	116	(4)	U
Porangahau	161	11	172	173	(1)	U
Poukawa	77	4	81	83	(1)	U
Ohuia-Whakaki	(23)	(4)	(26)	(15)	(11)	U
Esk	72	(1)	71	73	(2)	U
Whirinaki	24	1	25	26	(1)	U
Maraetotara	18	3	21	21	(0)	U
Te Ngāru Stream	13	(1)	12	12	(0)	U
Kopuawhara	(1)	3	2	2	0	F
Opoho	20	5	25	27	(2)	U
Kairakau Community Scheme	17	3	19	20	(0)	U
Total Separate Rating Schemes	518	34	552	578	(26)	U
Larger Schemes						
Upper Tukituki	282	101	383	376	7	F
Wairoa Rivers & Streams Scheme	(75)	13	(62)	(58)	(4)	U
Central & Stn Areas Scheme	52	17	69	35	33	F
HPFCS Rivers Scheme	786	300	1,086	1,011	75	F
HPFCS Drainage Schemes	2,626	462	3,088	2,970	119	F
Total Larger Schemes	3,670	893	4,563	4,334	229	
Total Flood Protection & Drainage	4,188	927	5,116	4,913	203	
Other Schemes						
Sustainable Homes	2,157	548	2,705	1,893	813	F 1
Gravel Management	(295)	54	(241)	(268)	27	F
Tangoio Soil Conservation Res.	3,176	(109)	3,067	3,076	(9)	U
Soil Conservation Nursery	(194)	29	(164)	(140)	(24)	U
Water Initiatives	78	(89)	(11)	(53)	41	F
Biosecurity - Noxious Plants	80	86	166	126	39	F
Biosecurity - Animal Pest Control	(34)	178	145	150	(5)	U
Emergency Management	84	172	255	(159)	414	F 2
Land Transport Administration	38	39	77	237	(160)	U 3
Total Other Schemes	5,090	908	5,998	4,862	1,137	
Total Schemes	9,279	1,835	11,114	9,774	1,340	F

Management Comments on Scheme Balances

Note Ref	Activity	Variation from Reforecast \$'000 (F) or (U)	Management Comment (major variances)
1	Sustainable Homes	\$813 (F)	There have been significant repayments of existing loans during the first four months of the year reflecting strong house sales.
2	Emergency Management	\$414 (F)	Increase savings from various staff vacancies for the year so far.
3	Land Transport	\$160 (U)	The timing of the NZTA subsidies is slightly behind expenditure.

SECTION B

Item 11

Attachment 1

HAWKE'S BAY REGIONAL COUNCIL			
CONSOLIDATED BALANCE SHEET			
	Actual 31-Oct-18 \$'000	Actual 30-Jun-18 \$'000	Management Comments
Non Current Assets			
Property, plant & equipment	22,187	21,453	1
Infrastructure assets	173,226	173,004	2
Investment property	46,554	47,102	3
Intangible assets	4,718	5,273	4
Financial assets	4,946	1,901	5
Investment in Council-controlled organisations	283,500	283,500	
Advances to home owners (Sustainable Homes)	7,245	7,630	6
Forestry assets	10,800	10,698	7
	553,176	550,561	
Current Assets			
Inventories	119	122	
Accounts receivable	25,534	6,736	8
Loan to HBRIC Limited	6,500	0	9
Prepayments	87	255	10
Accrued income	1,171	2,743	10
Work in progress	227	235	10
Financial assets	35,860	56,368	5
Advances to home owners (Sustainable Homes)	805	848	6
Cash & cash equivalents	30,047	27,309	5
	100,350	94,616	
TOTAL ASSETS	653,526	645,177	
Equity	595,366	595,746	
Non Current Liabilities			
Borrowings	18,150	19,125	11
Employee entitlements	709	542	
Other liabilities	14,099	14,128	
	32,957	33,795	
Current Liabilities			
Accounts payable	3,977	3,664	13
Accrued expenses	42	4,450	14
Deposits and retentions / Income in advance	15,565	1,781	15
Employee entitlements	944	1,096	
Borrowings	3,900	3,900	11
Other liabilities	775	745	
	25,203	15,636	
TOTAL LIABILITIES	58,160	49,431	
TOTAL EQUITY & LIABILITIES	653,526	645,177	

Management Comments on Balance Sheet Movements		
Note Ref	Activity	Management Comment (major variances)
1	Property, Plant and Equipment	Property, plant and equipment have increased by \$734,000 for to the budgeted capital purchasing programme offset by depreciation.
2	Infrastructure Assets	Infrastructure assets have increased by \$220,000 since the beginning of the year reflecting capital expenses made for the maintenance and improvement of infrastructure assets offset by depreciation.
3	Investment Property	Investment property has decreased by \$548,000 reflecting the disposal of leasehold land properties to the leaseholders.
4	Intangible Assets	Intangible assets have decreased by \$555,000 due to the amortisation on existing assets. The IRIS project is nearing the end of phase one and should be fully complete by the end of the financial year.
5	Financial Assets	Total cash, cash equivalents and financial assets have decreased by \$17,770,000 since the beginning of the year reflecting the \$6,500,000 loaned to HBRIC Limited and the day to day activity of the Council through the first four months of the year before rates and dividend income is received.
6	Sustainable Homes	Advances to Home Owners through the sustainable homes programme have decreased by \$428,000 reflecting the up-take from the public since the beginning of the year offset by repayments of existing clean heat loans.
7	Forestry Assets	Forestry Assets have increased by \$102,000 reflecting the capital spending on the harvest roading for Tutira.
8	Accounts Receivable	Accounts Receivable have increased by \$18,798,000 since the beginning of the year reflecting the rates invoices that were sent out in September and are due at the end of January.
9	Loan to HBRIC Limited	Council approved a loan facility for HBRIC Ltd of which \$6,500,000 has been drawn down.
10	Accrued Income, Prepayments and Work in Progress	Accrued Income has decreased by \$1,748,000 reflecting a decrease in accruals, prepayments and work in progress provisions compared to year end.
11	Borrowings	Borrowings have decreased by \$975,000, being the repayments made for the year to date. 2018/19 borrowing will occur in January / February this year.
12	Employee Entitlements	Employee Entitlements have increased by \$77,000 overall due to provisions for outstanding annual leave balances, sick and long service leave increasing during the year.
13	Accounts Payable	Accounts payable have increased by \$313,000 reflecting the annual GST to pay on our rates income.
14	Accrued Expenses	Accrued expenses have decreased by \$4,408,000 compared to last year due to the payment to ACC for annuity costs and Napier leasehold sales being paid in July.
15	Deposits and Retentions	Income in advance has increased \$13,784,000 more than the end of last year due to rates income received in advance.

HAWKE'S BAY REGIONAL COUNCIL
OTHER INFORMATION
Four Months Ended 31 October 2018 (Pd 04)

INTEREST RATE	31-Oct-18	30-Jun-18
	\$'000	\$'000
Average Interest Rate on Liquid Investments	3.01%	3.23%

ACCOUNTS RECEIVABLE	31-Oct-18	30-Jun-18
	\$'000	\$'000
Rates Receivable	23,162	1,518
Payments in Advance	(435)	(1,651)
Rate Receivables	22,737	(133)
Other Receivables	2,395	5,241
Provision for Impaired Receivables	(23)	(23)
TOTAL ACCOUNTS RECEIVABLE	25,534	6,736

ACCOUNTS PAYABLE	31-Oct-18	30-Jun-18
	\$'000	\$'000
Aged Accounts Payable		
1-30 days	3,976	3,664
31-60 days	0	0
61-90 days	0	0
Over 91	1	1
TOTAL ACCOUNTS PAYABLE	3,977	3,665

HAWKE'S BAY REGIONAL COUNCIL**EXTERNAL AND INTERNAL LOANS****Four Months Ended 31 October 2018 (Pd 04)****EXTERNAL LOANS**

	ACTUAL to 30 JUNE 2019				Year 1 LTP to 30 JUNE 2019			
	Balance	Repayments	Borrowing	Balance	Balance	Repayments	Borrowing	Balance
	1/07/2018			31/10/2018	1/07/2018			30/06/2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Regional Infrastructure	2,365	(100)	-	2,265	2,070	(405)	100	1,765
Regional Parks	1,794	(87)	-	1,707	1,446	(326)	160	1,280
Systems Integration	1,764	(110)	-	1,654	2,631	(495)	1,555	3,691
Sustainable Homes	13,562	(558)	-	13,004	14,315	(2,408)	2,700	14,607
Upper Tukituki Flood Control	100	(8)	-	93	70	(30)	-	40
Karamu & Tributaries Flood Control & Drainage	120	(10)	-	110	80	(40)	-	40
Monitoring Bores	40	(3)	-	38	30	(10)	-	20
HPFCS Flood Protection & River Control	205	(11)	-	194	160	(45)	-	115
Dalton Street Building Remediation	397	(15)	-	381	138	(31)	-	107
Science Equipment	1,719	(52)	-	1,667	1,514	(262)	495	1,747
Solar Hot Water	0	-	-	0	0	-	-	0
Energy Futures	150	(5)	-	145	130	(20)	-	110
Air Quality Site Loan	60	(2)	-	58	52	-	-	52
Erosion Control Scheme	0	-	-	0	0	(38)	1,500	1,462
FEMPs	0	-	-	0	0	(82)	500	418
Operations Group Office Extension	450	(15)	-	435	390	(60)	-	330
TOTAL	22,725	(975)	0	21,750	23,025	(4,252)	7,010	25,783

INTERNAL LOANS

	ACTUAL to 30 JUNE 2019				Year 1 LTP to 30 JUNE 2019			
	Balance	Repayments	Borrowing	Balance	Balance	Repayments	Borrowing	Balance
	1/07/2018			31/10/2018	1/07/2018			30/06/2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Transport Electronic Ticketing	-	-	-	0	40	(25)	250	265
Computer Equipment	500	(80)	-	420	420	(80)	-	340
Science Equipment	1,140	(160)	-	980	980	(165)	100	915
Tutira Easements	0	-	-	0	100	(10)	-	90
Biodiversity	-	-	-	0	-	(5)	100	95
Makara Scheme Loan	206	(7)	-	199	199	(9)	-	190
TOTAL	1,846	(247)	0	1,599	1,739	(294)	450	1,895

Management Comments on Borrowings

The external loan requirement for 2018/19 are to be drawn down in the new year once HBRC has officially joined the LGFA. The amount that can be borrowed internally (as per HBRC Liability management policies) is limited to the funds held in the Infrastructure Asset Depreciation Reserve and the Asset Replacement Reserve.

HAWKE'S BAY REGIONAL COUNCIL

Reserves Funding

AT 31 OCTOBER 2018

	Total	Operating Reserves	Project Schemes	Infrastructure Asset Depreciation	Wairoa Rivers & Streams	Asset Replace-ment	Council Disaster Damage	Scheme Disaster Damage	Clive River Dredging	Tangoio Reserve Fund	Maungaharuru Tangitu Reserve	Ngati Pahauwera Reserve Fund	Sale of Land Invmnt	Sale of Land Non-Invmnt	Rabbit Reserve	Napier Mussel Farm	Effective Interest Rate (%)
	\$'000	\$'000	\$'000 *	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Publicly Listed Shares	331						331										N/A
Government Stock	1,288						1,288										3.02%
Bank Deposits [Maturity > 365 days]	3,500			155	923	701	259		928	267	54	95		117	1	0	0.00%
Bank Deposits [Maturity 92 - 365 days]	43,929							3,200					40,729				3.14%
Cash & Cash Equivalents [Maturity < 92 days]	21,545	(3,643)	7,042	2,026	4		195	198		2,700	223	0	12,016	698	68	18	3.33%
	70,593	(3,643)	7,042	2,181	927	701	2,073	3,398	928	2,967	277	95	52,745	815	69	18	3.01%

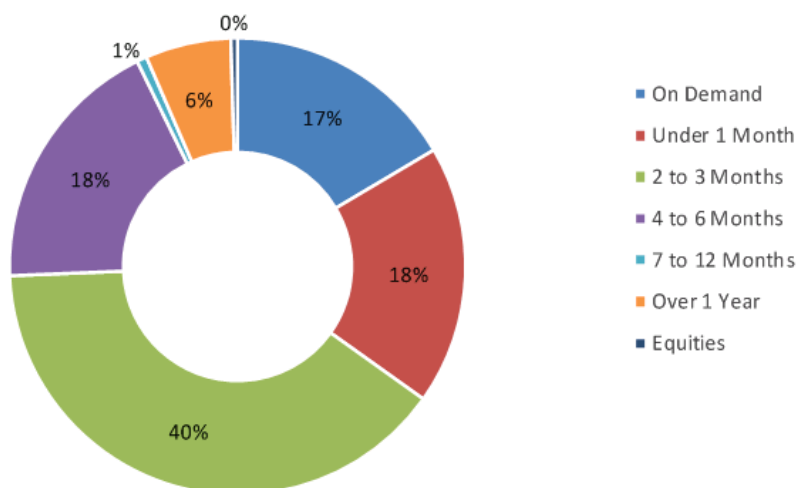
Reconciliation to Balance Sheet:	
Non Current Financial Asse	4,619
Current Financial Assets	44,429
Cash & Cash Equivalents	21,545
	70,593

* These balances are used to finance Council's operating activity

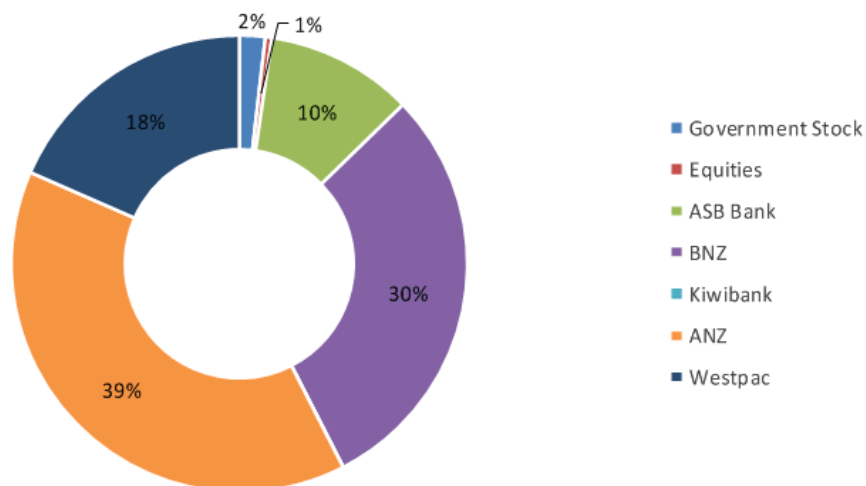
HAWKE'S BAY REGIONAL COUNCIL

FINANCIAL ASSETS AT 31 OCTOBER 2018

MATURITY PROFILE



ALLOCATION BY INSTITUTION



SECTION C

Item 11

Attachment 1

HAWKE'S BAY REGIONAL COUNCIL CAPITAL ACTIVITY SUMMARY Four Months Ended 31 October 2018 (Pd 04)					
	ACTUAL	PRORATA	ACTUAL /	Favourable /	ANNUAL
	\$,000	BUDGET	PRORATA	Unfavourable	BUDGET
	\$,000	\$,000	\$,000		\$,000
CAPITAL EXPENDITURE					
Operating Assets	1,146	1,276	(130)	F	6,379
Strategic Planning	5	20	(15)	F	20
Land Drainage & River Control	392	513	(121)	F	3,421
Sustainable Homes	969	920	49	U	5,109
FEMPs	0	0	0	F	583
Erosion Control Scheme	0	0	0	F	1,538
Biodiversity	0	35	(35)	F	105
Open Spaces	0	0	0	F	486
Governance & Community Leadership - Regional Infrastructure	100	81	19	U	405
Forestry	102	22	80	U	22
Napier Gisborne Rail	9	0	9	U	1,500
Water Augmentation	0	0	0	F	1,666
	<u>2,722</u>	<u>2,866</u>	<u>(143)</u>	<u>F</u>	<u>21,233</u>

HAWKE'S BAY REGIONAL COUNCIL

CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: HBRC WORKS GROUP SIX MONTHLY UPDATE

Item 12

Reason for Report

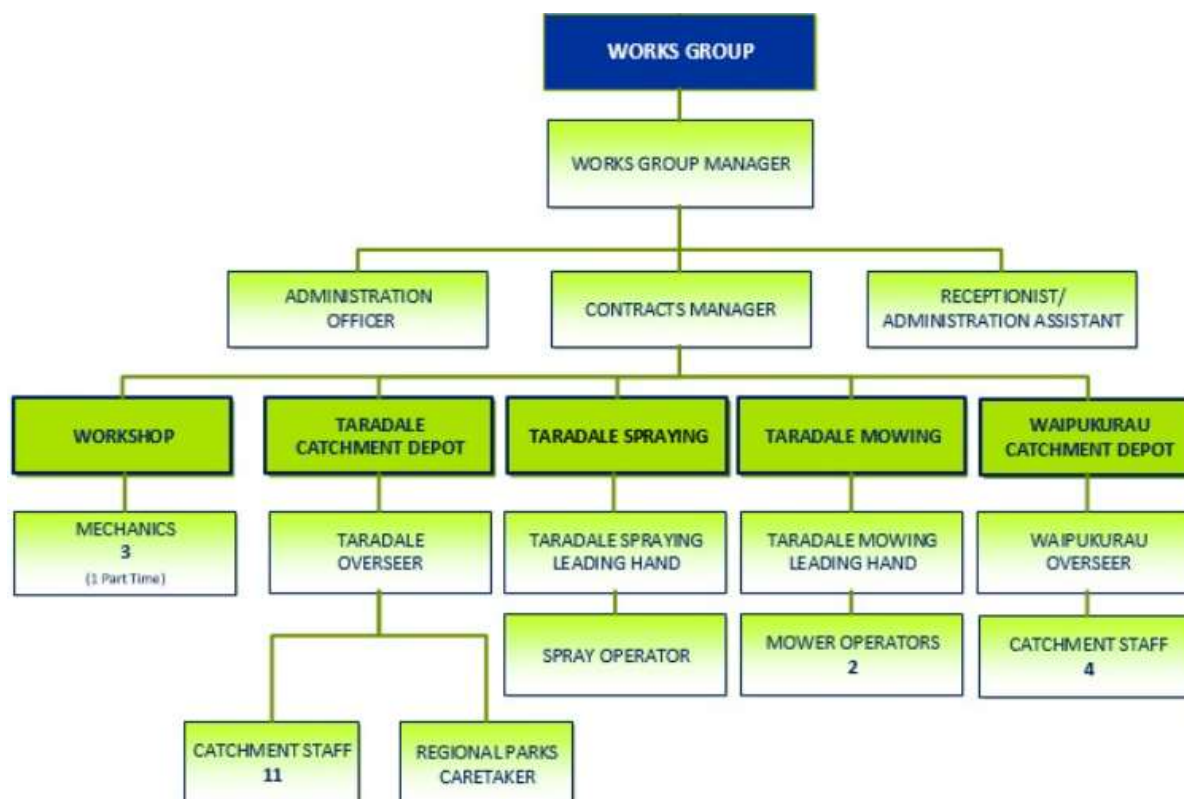
1. This item provides the Committee with an update on the overall structure, performance and other areas of interest of Council's Works Group, including procurement procedures and processes.

Background

2. It was agreed at the 7 March 2018 Finance, Audit and Risk sub-committee meeting that the Works Group would present to both the Finance, Audit and Risk sub-committee and Corporate and Strategic committee meetings on an alternating six-monthly basis.
3. Hamish Fraser (Works Group Manager) and Kathy Hughes (Office Administrator) will attend the meeting to provide a presentation of an overview of Works Group structure, financial performance for the year ended 30 June 2018, along with an update on various projects and responses that have been underway throughout the year.

Overview

4. The Works Group sits in the organizational structure under the Asset Management Group of Activities. There are a total of 30 staff, based out of both Taradale and Waipukurau depots, structure as follows.



5. Works Group is a business Unit of Council, with its own accounts and balance sheet. The majority of work (approximately 80%) is performed for Council, and that remainder of work is a combination of work performed for other Councils, shared services and tendered work.
6. Works Group has a strong emphasis on specialised plant, with staff who are highly skilled and trained in their relevant fields.

7. Works Group holds a TQS1 standard in Quality and also holds a strong Health & Safety standard, being SiteWise accredited to 100%.
8. The presentation at today's meeting will display the financial performance of the group, and will traverse the wide variety of projects and responses that Works Group has been involved in recently. Examples include tree clearing, vegetation control, open spaces and civil construction works, along with emergency response such as the September 2018 flood event.

Procurement procedures and processes

9. At a previous Finance, Audit & Risk sub-committee meeting, Councillors sought feedback as to the Works Groups procurement procedures and processes.
10. Works Group operates under the same procurement policies and processes as Council. Specifically, procurement of all plant and equipment is completed via a tender process seeking responses from at least three reputable suppliers.
11. It is worth noting that, in addition to this, Works Group is a member of the CCNZ (Civil Contractors NZ) and automatically becomes a member of 'N3' (previously GSB Government Stores Board). N3 provides the benefits of group buying power and results in significant savings through key suppliers.

Decision Making Process

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

Recommendation

That the Corporate and Strategic Committee receives and notes the "HBRC Works Group" staff report.

Authored by:

Melissa des Landes
CORPORATE ACCOUNTANT

Hamish Fraser
WORKS GROUP MANAGER

Approved by:

Chris Dolley
GROUP MANAGER ASSET
MANAGEMENT

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: HUMAN RESOURCES AND HEALTH & SAFETY 2017-18 ANNUAL REPORTS

Item 13

Reason for Report

1. To provide Councillors with an overview of the key human resource metrics recorded for the year 1 July 2017 to 1 July 2018, along with an update of key health and safety information for the same period. A copy of the HR Highlights document is attached.

Key Metrics

Staff Numbers (Previous year in brackets)

2. The number of roles provided in this report reflect the LTP and reorganization process undertaken this year. While all roles have not yet been filled, it does provide an accurate 'snapshot' of the new establishment moving forward. As at July 2018 **237.06 FTE** made up of 253 positions (200.5 FTE previous year).
 - 2.1. Dalton Street (including Waipukurau and Wairoa): 207.56 FTE (171.24)
 - 2.2. Works Group (Taradale and Waipukurau): 29.5 FTE (29)
3. Turnover for the year ending 30 June 2018 was 5.1% (8% in 2017). 12 staff left and 18 staff members were internally promoted to a new position during the year. While the internal promotions were largely due to a number of new roles being created by the reorganisation, it is a positive result and ensures we are able to offer career opportunities to a number of staff.
4. The Lawson Williams – HRINZ New Zealand Staff Turnover Survey indicated an average turnover of 16.9% for contributing organisations in 2017, and 12.3% for contributing local government organisations. Strategic Pay's turnover figure for local government indicated a 14.8% level.
5. Exit interviews are held with all departing staff to get feedback on a range of issues related to their work while with Council and the reasons for leaving. For this past year that feedback has not indicated any concerning trends related to the reason for leaving. Specific information on this aspect is provided on page 2 in the **attached** highlights document.
6. Council employed 22 students during the 2017-18 summer period over a range of Council activities.

Staff Leave Usage

7. The average number of sick days used was 5.7, slightly up on the 2017 total of 5.5 days. There was an increase in the total number of sick days used, 1065 days compared to 986 in 2017 which in part reflects increased staff numbers. The number of staff taking more than the annual allocation of 10 days remained at 11% the same as 2017 - this is only possible where staff have accumulated sick leave over the term of their employment to use.
8. Annual leave usage remained constant at an average of 18.8 days per staff.

Average Age/Tenure/Workforce Composition

9. The average age of Dalton street staff was 45 and the average tenure 8 years.
10. For Works Group staff the average age was 52 with an average tenure of 11 years.
11. The aging workforce is an issue that will be of concern in the future and is not one that is easily or quickly resolved. It will require a concerted effort from the sector to address this

aspect. As outlined below, the regional council HR sector group is presently working with the rivers engineering group to look at options we can promote.

12. The number of female staff employed by Council increased to 103 from 84 in 2017. In comparison, the number of males employed increased from 85 to 90. The number of females in manager or team leader roles has increased from 8 in 2017 to 19 in 2018 and compares to 33 males in supervisory roles. While an improvement, it still reflects an imbalance that requires attention. We have targeted more female staff to undertake leadership training as part of the annual training programme to assist with this issue.

Health and Safety

13. Dalton Street staff had 28 work related 'incidents' reported through the year. 9 were 'near miss' incidents (no injury). Just over 27 days were taken off as the result of 6 accidents. One accident accounted for 14 days of this total after a trip and fall in the Council car park.
14. Works Group reported 38 work related accidents/incidents this year, 23 were classed as 'near misses', mostly minor property damage. Of the balance, the majority required no time off work with only 14.68 days taken off for work related accidents, a reduction from 25 days in 2017.
15. Council's ACC experience rating information is a useful benchmarking indicator to assess how we compare to others within our industry peer group. Our rehabilitation rate, which is the number of weekly compensation days for qualifying claims per \$1 million liable earnings in the levy risk group, was, in the local government services category, 1.35 compared to the industry peer group score of 3.09. In the heavy and civil engineering category, which covers the Works Group staff, our rehabilitation rate was 0.90 compared to 23.02 for the industry peer group.
16. The joint approach by all five local councils to adopt Sitewise for contractor health and safety assessment has worked very well and had been adopted by a number of other Councils across the country.
17. While for some small 'sole operator' contractors the assessment process has been demanding, the majority have embraced the concept and accepted that it has improved their processes and helped them get a better focus on health and safety.
18. The recent Health and Safety audit by Crowe Horwath was presented to the Finance Audit and Risk Sub-Committee meeting on 21 November 2018 and made a number of recommendations which will be addressed over the next 12 months.
19. The critical risks, in no order of priority, for council staff are:
 - 19.1. Vehicle use on both public roads and private property
 - 19.2. Working with equipment and machinery
 - 19.3. Working in isolated areas
 - 19.4. Dealing with clients/public
 - 19.5. A dynamic working environment, e.g. rivers, remote sites
 - 19.6. Environmental aspects e.g. poisonous plants, insects, weather
 - 19.7. Office based issues, e.g. work station, work pressure.

Staff Training and Qualifications

20. The training budget was 1.9% of the total salary budget which is a slight increase on last year's 1.7%.
21. There has been a significant increase in the training budget for 2018/19 which will result in more training opportunities across the council.
22. The main focus for training has remained on leadership development and we have continued to identify appropriate staff to undertake the training programme developed for this purpose. Those that attend have indicated that the content and relevance has had a significant and positive impact on their work activities. A number of those staff

that have attended this training have moved into leadership roles in the Council or were new to leadership roles.

23. The overall staff qualifications can be seen in the attached HR Highlights. Over 100 staff have a degree or above qualification, including 6 with PhDs and 28 with Masters. This reflects the level of experience and qualifications Council requires of its staff to undertake the variety and range of work undertaken.
24. It also reinforces the need to source and retain skilled and qualified staff who are appropriate to undertake the complex requirements of the Council's work.

Industrial

25. All supervising staff are employed under individual employment agreements.
26. There are two current collective employment agreements, both are three year agreements and expire in 2020. The Dalton Street Collective Agreement covers under half the staff whose work is covered by this agreement; a majority have chosen individual agreements.

Further Commentary

27. The significant increase in staff, resulting from Council's commitment to initiatives in the LTP, presented some challenges over the later few months of the last financial year and first few months of the new one. Accommodation became an issue and attracting suitable applicants to fill the range of roles and managing multiple recruitment processes, proved a significant challenge.
28. In the main, we have been able to secure some very good staff into the new roles, many through internal appointments, albeit it has taken us longer to fill a number of roles than we had hoped. Some roles have proved more difficult and reflect a national shortage of suitable candidates for certain roles, e.g river engineering and senior planning. Any delays in appointments also impacts on workloads and work time lines.
29. On a national level there are some initiatives in the early stages of development, to try and address shortages across a range of regional council roles commencing with river engineers. However, realistically it will be a few years before any tangible results are evident.
30. The actual average salary increase for the year was 3%. This average incorporates movements to the salary midpoint (100%), increases for staff on the pay spectrum, i.e. not at the 100% level and those paid a 'merit' payment i.e. over the 100% level.
31. A number of employers, including local government, pay 'across the board' increases that do not always recognise the 'market rate' and then they find themselves having to make significant adjustments to attract new staff.
32. While paying the 'market rate' can put pressure on salary budgets, in the longer term it is more effective in attracting new staff and satisfying the salary expectations of existing staff. It also moderates the need for a significant movement in salaries if they have not kept up with market rates which can happen when 'across the board' increases are applied to all roles.
33. The 'living wage' has been raised in Council in previous discussions. At present, all permanent and fixed term staff (excluding summer students) are paid above the current national 'living wage'.

Decision Making Process

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

Recommendation

That the Corporate and Strategic Committee receives and notes the "**Human Resources 2017-18 Annual Report**".

Authored by:

**Viv Moule
HUMAN RESOURCES MANAGER**

Approved by:

**Joanne Lawrence
GROUP MANAGER OFFICE OF THE
CHIEF EXECUTIVE AND CHAIR**

Attachment/s

[!\[\]\(a870788d6ed9b8fd294b7654a8c8526b_img.jpg\) 1](#) 2018 Human Resources Highlights

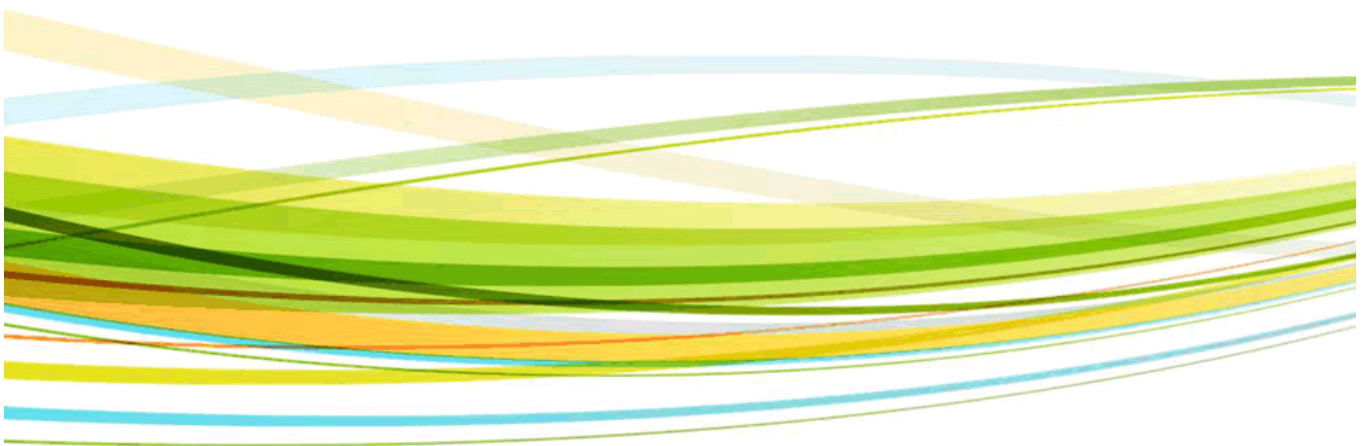
Hawke's Bay Regional Council

Human Resources Report

An outline of some of the key human resource
metrics for the year 1 July 2017 to 1 July 2018

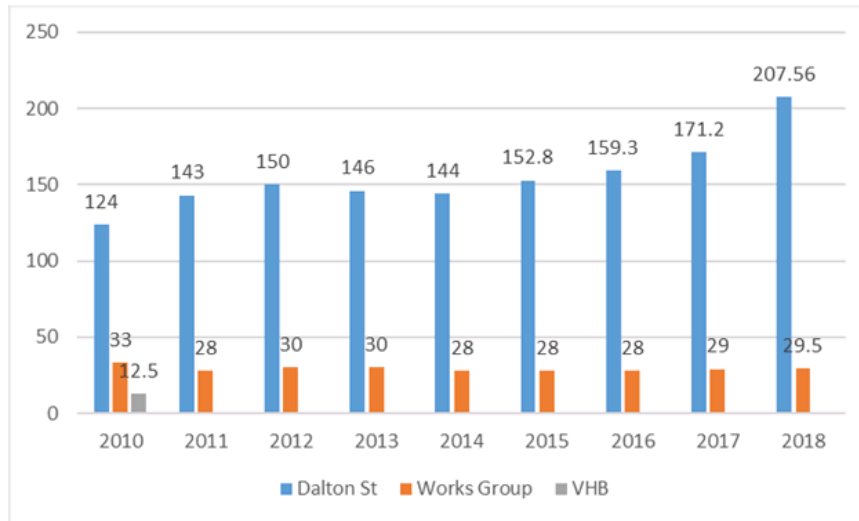
Prepared by Viv Moule
Human Resources Manager
November 2018

2017-18 Highlights



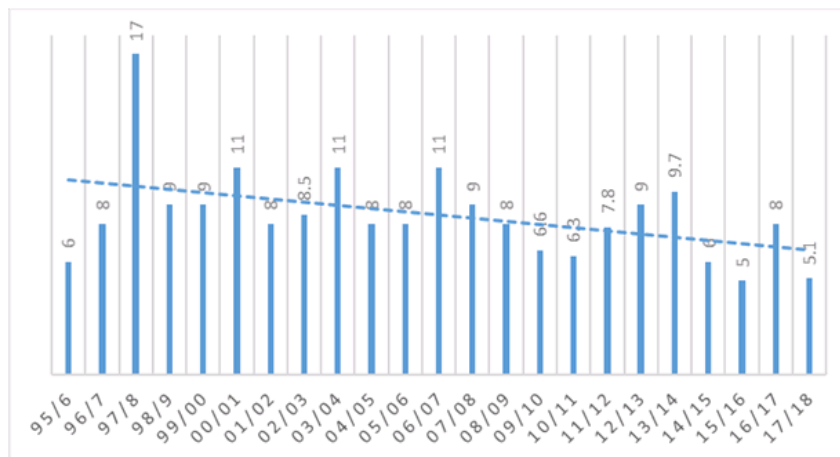
HR Report Highlights 2017-18

Staff Numbers 2010 to 2018 - Full time equivalent (FTE)

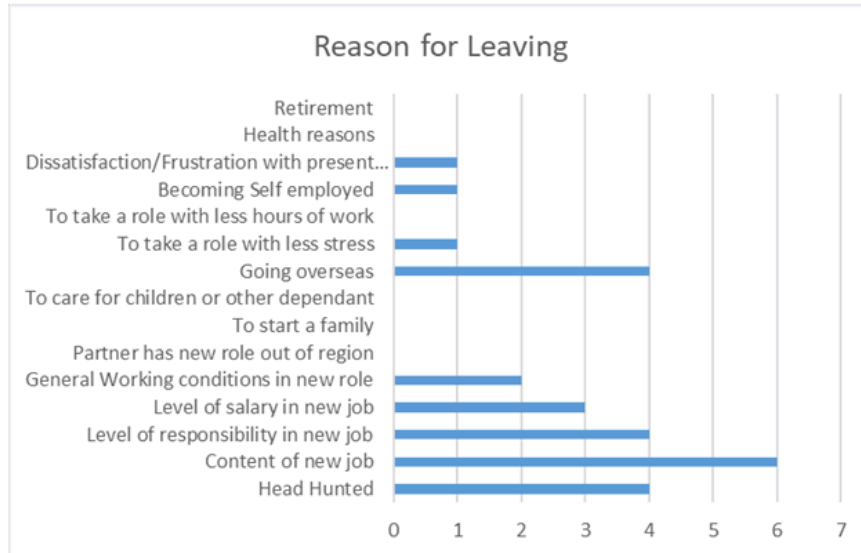
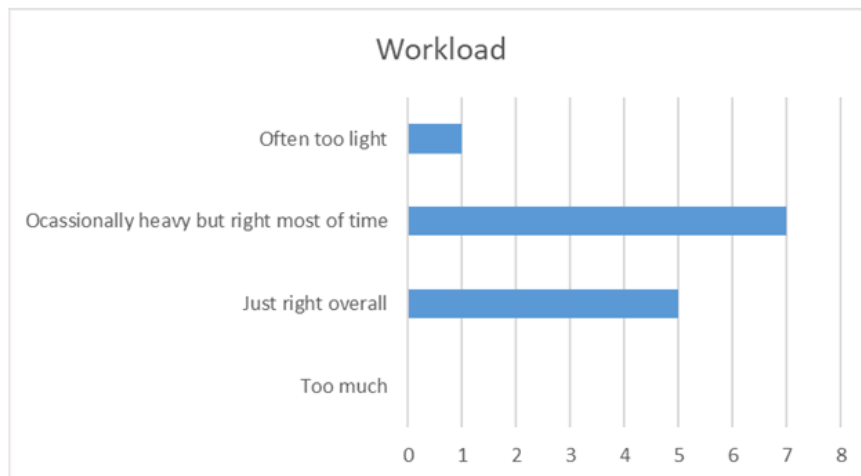


VHB=Venture Hawkes Bay

Staff Turnover % Rate 1994 to 2018 (Includes Works Group)

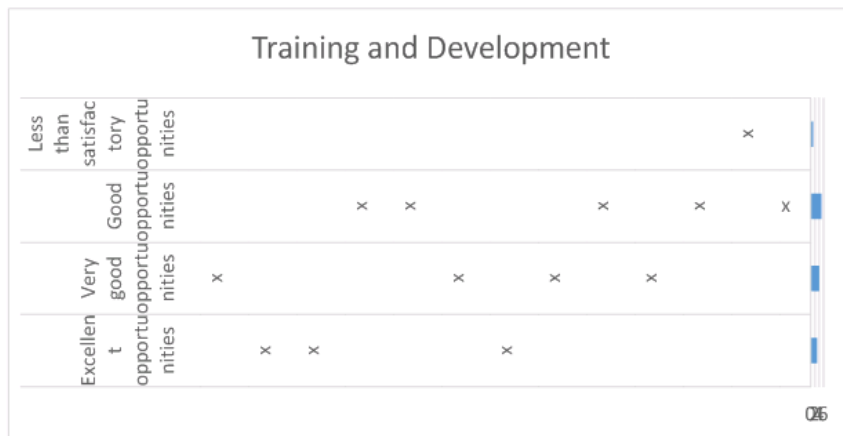


HR Report Highlights 2017-18

*Summary of Exit Interview Feedback**a) Reason for Leaving**b) Workload*

HR Report Highlights 2017-18

c) Training and Development



d) Working for council



HR Report Highlights 2017-18

Staff Average Age/Time with Council

	Average Age	Average Tenure (Years)
Dalton Street	45	8
Catchment staff	52	11

Staff Ratio: Number of Managers/Team Leaders to Line Staff (Dalton Street)

- 60: 162 = 1 : 2.7

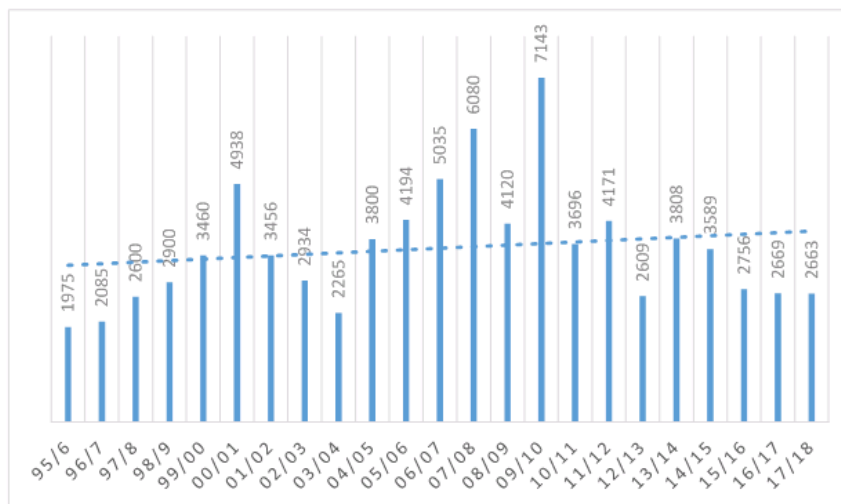
Workplace Composition July 2018 (2017)

Male	Female
90 (85)	103 (84)

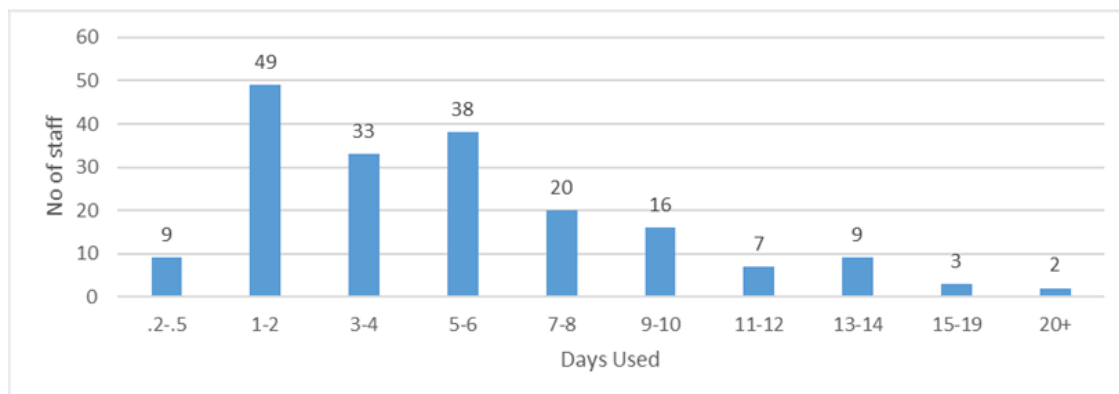
Managers/Team Leaders July 2018	
Male	Female
33 (27)	19 (8)

Staff Age Profile

	20-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	65+
Dalton Street	8	16	20	28	29	28	24	17	15	8
Works Group	0	0	1	3	3	6	7	3	6	0

Average Staff Replacement Costs (Readily Identifiable Costs Only – eg, Advertising, Interview and Relocation Costs)

HR Report Highlights 2017-18

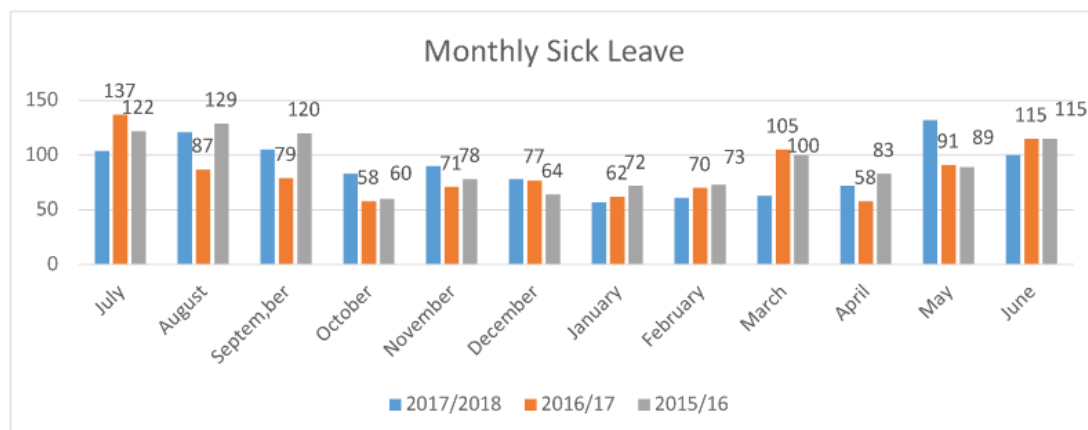
Staff Sick Leave Usage - Dalton Street (186 Staff)

Dalton Street 2017/18: Average Usage = 5.7 days

Average Annual Leave Usage - Dalton Street

Dalton Street: Average = 18.8 days (19.4 days 2016/17)

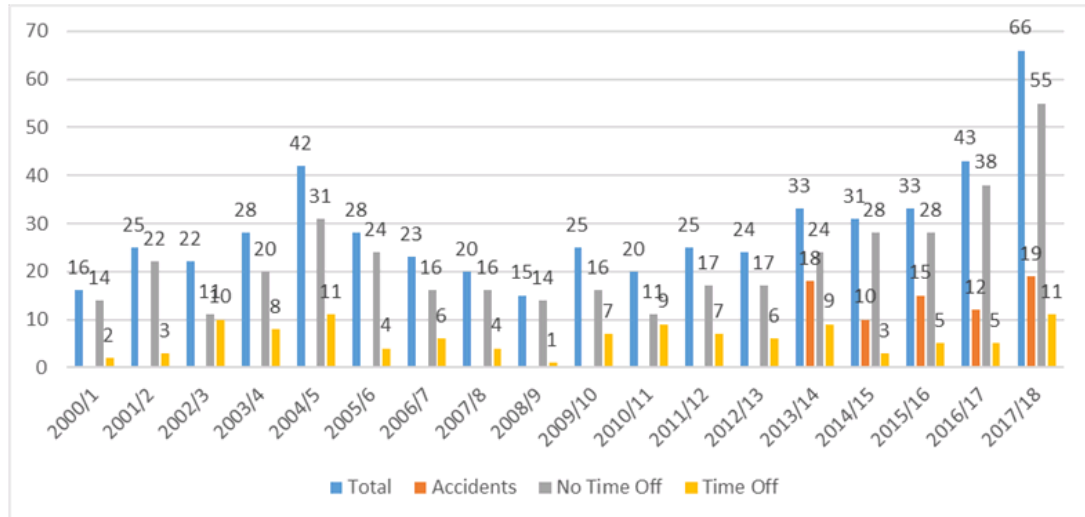
Works Group: Average = 23.2 days (23.3 days 2016/17)

Sick Leave Days per Month - Dalton Street*Staff Health Benefits (2017 numbers)*

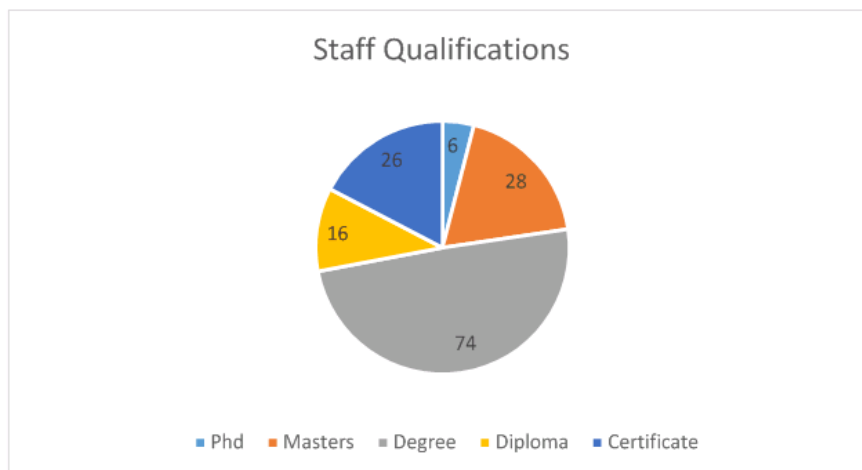
Health Checks	Eye Tests/Lenses	Flu Injections	Buccaline Tablets
15 (5)	2 (14)	86 (66)	40 (32)

HR Report Highlights 2017-18

Accidents/Incidents

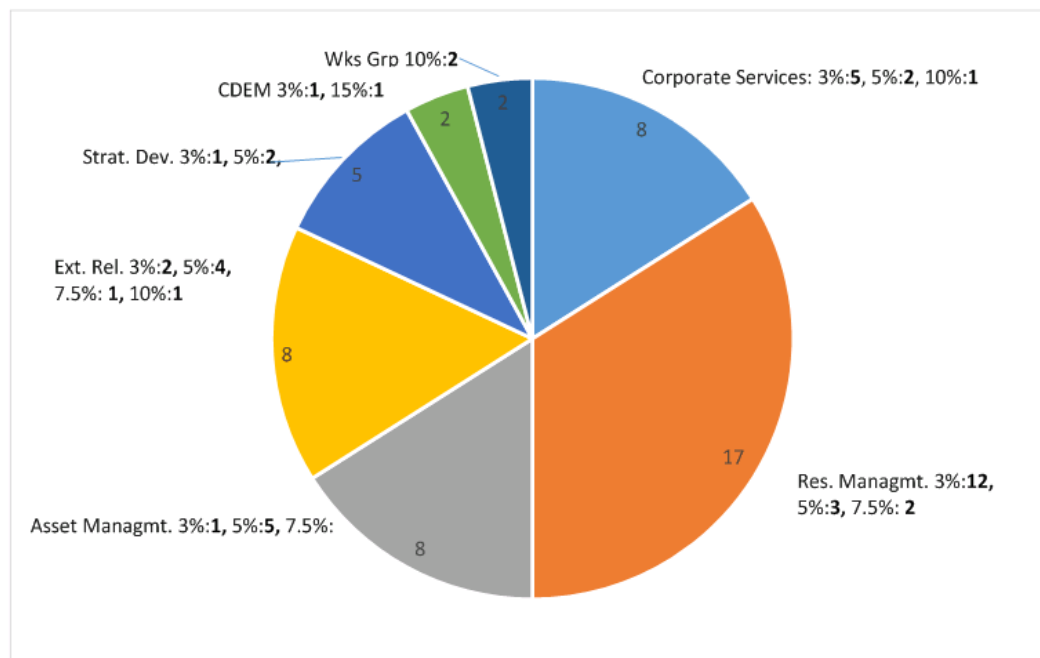


Staff Qualifications - Dalton Street



HR Report Highlights 2017-18

Staff Receiving Staff Recognition Payments



26% (26% - 2017) of eligible staff receive a staff recognition payment

Base Salary Bands – 1 July 2018

FTE Staff: 207 (includes Works Group)

Salary Band *	No of Staff Receiving a Base Salary/Wage in this Band
< \$60,000	61
\$60,000 - \$79,999	62
\$80,000 - \$99,999	45
\$100,000 - \$119,999	19
\$120,000 - \$139,999	11
\$140,000 - \$179,999	5
\$180,000 - \$309,999	4

*Includes Kiwisaver payments and any relevant fringe benefit tax (FBT) applying.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

**Subject: HBRC RESPONSE TO WATER MANAGEMENT INTERNAL AUDIT
RECOMMENDATIONS**

Item 14

Reason for Report

1. To provide a six-month progress update on the response to the Crowe Horwath Water Management Internal Audit report findings and recommendations as requested by the 13 June Corporate and Strategic Committee.

Background

2. As part of the internal audit programme Crowe Horwath conducted an audit on Council's water management processes in May 2018. The scope of this audit was originally broad in focus, and in response to Councillors' requests the scope was narrowed down to focus on the "three waters" with further focus on consents held by local authorities only.
3. The findings have been responded to and presented to Council on two separate occasions this year as requested by councillors.

Discussion

4. A progress report on the recommendations from the audit review are attached.
5. A number of the recommendations from the audit are dependent upon the implementation of the IRIS – the Integrated Resource Information System – being developed by Council over the past two years. At the time of writing this agenda paper IRIS has been "Live" for three days so while the capability is now available no implementation of recommendations has been tested, while the system is being bedded in. Therefore those categories have been marked as "orange" in the attachment and will be updated at the next report to the Committee on review progress.
6. The yellow category represents "in progress" and the green category is "achieved" or "underway".

Decision Making Process

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

Recommendation

That the Corporate and Strategic Committee receives and notes the ***"HBRC Response to the Water Management Internal Audit Recommendations"*** staff report.

Authored & Approved by:

Liz Lambert
GROUP MANAGER REGULATION

Attachment/s

[!\[\]\(84f47badaad7772cd95667a7c387a639_img.jpg\) 1](#) Audit review update

TOPIC	RECOMMENDATION	RATE OF FINDING	PROGRESS
Uncertainty over National Environmental Standard for Drinking Water responsibilities	The HB JDWG should establish responsibilities for protecting sources of human drinking water from being contaminated within the region and develop appropriate procedures for managing, monitoring and reporting on impact of activities on drinking water sources	High	The HB JDWG has agreed a protocol for the management of arsenic contamination in groundwater. This protocol includes identifying the roles and responsibilities of the various agencies in the management of drinking water.
No set process for documenting and reporting findings	HBRC should adopt a standard procedure for how information is documented and stored.	Moderate	IRIS incorporates the ability to document and record findings collected in the field.
Adoption of risk monitoring programme	HBRC should formally adopt the risk monitoring programme. This should include the monitoring frequency that is appropriate to the risk appetite of Council.	High	The annual risk monitoring programme is to be signed off by the Executive Leadership Team ensuring it is consistent with Council's Compliance Strategy
Lack of resources to effectively monitor resource consents	HBRC should ensure that the Resource Use (now Compliance) team is appropriately resourced to implement the risk monitoring programme.	Moderate	Additional Compliance staff have been recruited as part of the 2018/28 Long Term Plan and two additional staff are budgeted for in Year 2 of the Plan. Currently equipped to monitor all Priority 1 consents (including TLA consents).
Lack of formal staff development programmes and succession planning	Both Consent and Compliance teams should implement a formal professional development process for senior staff. A formal succession planning process is implemented for the Consents Team.	Low	Individual Performance Development Plans are now in place for all staff and include identification of individual training and development needs and a commitment to provide these.

Attachment 1

Item 14

Monitoring Officer reports not reviewed	The Team Leader should sign off within the document management system that the Monitoring Officer's report has been reviewed.	Moderate	All monitoring reports are reviewed and signed off by Team Leaders and Section Manager.
Consent reporting to be improved	HBRC should complete reporting at a monitoring officer level that provides an overview of consents monitored based on the priority (risk) rating of the consent.	Moderate	IRIS allows for enhanced reporting including reporting by risk type.
IRIS to improve follow up process	On the implementation of IRIS all actions dates should be documented in the system	Low	Up until the introduction of IRIS there has been no functionality for automated alerts. This is now incorporated in IRIS
Hawke's Bay Joint Drinking Water Group does not include all councils	CHBDC and WDC are to be encouraged to attend the Joint Drinking Water Group.	Moderate	Both CHBDC and WDC have made appointments of Tier 2 staff to the JDWG meetings.
Lack of formal relationship between Science and Resource Use (Compliance) teams	A formal communication agreement and procedure should be implemented. This agreement should clearly define communication protocols and clarify what information is relevant to each group.	Moderate	This is being developed and is in a draft phase.
Complaint reporting to be improved	A monthly report should be prepared which sets the actual response time against the planned response time.	Low	The Incident and Pollution Response is the next module to "go live" in March 2019 and will provide this information.
Lack of regular reporting to Group Manager or Executive	Compliance Manager to formally report via GM Regulation to Executive	Moderate	IRIS will assist and enhance real-time reporting and allow a regular reporting schedule to the Executive.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: FUTURE OPERATIONAL PERFORMANCE REPORTING

Item 15

Reason for Report

1. This report provides the Corporate and Strategic Committee with:
 - 1.1. an update of the initial findings of investigations into how to significantly improve the performance reporting capability across all levels of the Council, and
 - 1.2. the work underway to provide performance monitoring and reporting, including against the Annual and Long Term plans, which will support the Council, Chief Executive and Group Managers with timely data and analysis to oversee the organisation's delivery of community outcomes.

Background

2. Council agreed to the establishment of the Office of the Chief Executive and Chair (OCEC) in the 2018-2028 LTP. In the LTP proposal, it was noted that greater focus and resource is needed to lead and drive whole of organisation performance.
3. Greater visibility and tracking of progress on Council projects, of core service delivery and risk monitoring at the organisation level needs to be improved in order for the Chief Executive to meet his responsibilities to Council. A key aspect of this visibility being optimal utilisation of its reporting tool.
4. Council introduced Opal3 in 2015 as a means of providing meaningful, timely and accurate performance reporting on projects and work streams in easily understood formats. It is an online reporting tool that has been previously used to provide information to Council such as the Annual Plan report and some of our statutory reporting eg the State of Environment and consent timeframes.
5. Anecdotal feedback from across the Council, is that there is room to enhance the quality of reporting so OCEC has commenced a project designed to ensure that performance reporting is improved significantly across all levels.
6. Opal3 is used extensively and successfully by other councils including Auckland Council, Taranaki Regional Council and Hamilton City and is also used by several central government entities including Maritime NZ. Each of these entities produces good-quality, timely reports. Two staff visited these councils to ascertain the approach they used when launching Opal3, and best practices utilised in operating the tool. Key features of what they report on and the way they report include:
 - 6.1. Performance against non-financial and financial targets
 - 6.2. Performance of Long Term Plan (LTP) and Business Plans (BP) activities
 - 6.3. Trend reporting and analysis
 - 6.4. Commentary on an exception basis where performance is beyond agreed tolerances.
7. Reports are mostly produced three-monthly and also include reporting on important non-LTP metrics such as:
 - 7.1. Human resource functions (actual FTE versus 12 months previous, turnover, occupational health and safety statistics, training courses etc.)
 - 7.2. Culture including results of staff surveys
 - 7.3. LGOIMA statistics on numbers, time to resolve, performance against legislative requirements.

8. Extensive use of traffic light indicators provides a good visual display. Opal3 is able to produce these reports provided all fields are populated at the time new activities are introduced. In HBRC's case, it is apparent accurate baselines and measurable metrics were not provided in some instances, hence negating the ability to provide good-quality reporting.
9. As evidenced from our visits to other users, Opal3 is fit-for-purpose as a reporting tool for Council. What we have commenced doing is revisiting the way all activities, projects and works streams are established and populated in Opal3.
10. A briefing paper was presented to the Executive Management Team (ELT) on 23 October 2018 on the initial findings of organisational performance monitoring and agreed to:
 - 10.1. Continue using Opal3 as the Council's reporting tool
 - 10.2. Responsibility for Opal3 is transferred to OCEC from Corporate Services
 - 10.3. We will continue the research of the ways other councils use Opal3
 - 10.4. The appointment of staff champions of Opal 3 from each of the business groups.

Next Steps

11. The timeline below indicates we will be in a position to provide a half-year update by 22 February. This is most likely to come from a mix of Opal3 and manual reporting.
12. We have commenced consultation with staff and so far have consulted with group managers, project managers and/or staff who have been nominated by their group managers.
13. We are currently working through reloading all LTP activities into Opal3, a task we anticipate will take until 31 March 2019. This is because each activity requires development of clear and measurable metrics to allow for a baseline to measure the future performance against. We will also work with the responsible teams to coach them into providing meaningful commentary on results, especially where variances outside of tolerances are noted.
14. The full year results will be entirely Opal3 generated (no longer a mix with manual reporting as at the half year results) and consistent in appearance, with meaningful commentary that reflects the status of results. We will also develop snapshots of results and achievements designed to be useful tools for communication purposes to demonstrate results and achievements to a range of audiences.
15. After the half and full-year results are produced, we will check back in with staff and continue developing the quality of reports so we are able to offer more customisation and reporting options.

Timeline

Activity	Due Date
Presentation to Corporate and Strategic Committee	12 December 2018
Presentation to Council	19 December 2018
Provide half-year updates to ELT	11 February 2019
Produce half-year results and updates to Council	27 February 2019
Feedback and first phase customisation begins	31 March 2019
Full-year results and update produced	2 August 2019
Feedback and second phase customisation begins	16 August 2019

Costs

16. It is not anticipated any substantial costs will be associated with these improvements, except possible minor consultation costs with the Opal3 product owner if any immediate customisation is identified in the current phase of work.

Decision Making Process

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

Recommendation

That Hawke's Bay Regional Council receives and notes the "Future Operational Performance Reporting" staff report.

Authored by:

Peter Wallwork
PRINCIPAL ADVISOR -
ORGANISATIONAL PERFORMANCE

Joanne Lawrence
GROUP MANAGER OFFICE OF THE
CHIEF EXECUTIVE AND CHAIR

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: PMO PILOT UPDATE AND PROJECT STATUS REPORT

Item 16

Reason for Report

1. To provide the Corporate and Strategic Committee with a status report on the 19 pilot projects being actively supported by the Project Management Office (PMO).
2. This paper also provides a general update of the progress of the roll-out of the PMO.

Background

3. As a result of the recent reorganisation, a PMO was established to act as a centre of excellence for project management. This is the first time that HBRC has had dedicated resources to implement a consistent best practice project management (PM) framework across the whole of the organisation in a structured and supported manner.
4. At the last Corporate and Strategic meeting (3 October) we informed the committee of the establishment of the PMO, its key roles, the project management framework we are implementing, identified the 19 pilot projects and our intention to provide quarterly status reports. This report is the first of those reports.
5. As previously noted the pilot projects were selected and approved by the Executive Team as a mix of size, type, phase and cross-function across the organisation. The pilot is to road test the project management framework, tools, templates and training.

Status of the 19 pilot projects

6. Attached to this report is a summary table of the 19 pilot projects for the **November** reporting period. The purpose of the summary status report is to keep the Committee abreast of project progress and provide assurance that action has been taken on escalated issues (i.e. amber and red traffic lights).
7. More information is provided below on an exception basis, of the four red and five amber projects (please note this information may be out-of-date for some projects as it is based on the November monthly status reports). No commentary is provided on the remaining 10 green projects.

Overall Status (change from previous month)	Project Name	Escalations
Red (no change)	Regional Integrated Ticketing System (RITS) * This project is run by a consortium of nine regional councils.	Schedule - INIT (the provider) is behind schedule with system development, but a recent successful Factory Acceptance Testing process has given greater confidence that a revised schedule will be adhered to. This should be reflected in the reduction from red to amber in the December report. Budget - NZTA revised its subsidy rate for the project after budgets were finalised by HBRC, however, we are still within HBRC local budget, with further delay, there is a risk that this could be exceeded. Risks - We are scheduled for 15 April 2019 Go Live, subject to the system functioning properly. There are several phases of testing which we will take part in and at which we will specifically test our own fares, routes, zone structures etc. The project management team will guide and support through this, and we have been assured that no region will go live until it is satisfied with the system's functioning.

Overall Status (change from previous month)	Project Name	Escalations
Red (no change)	Public Access to Rivers	Scope and budget - This project requires a critical review to ensure clarity in scope and budget. It may be replaced by a number of smaller projects. This review will occur when Manager Regional Projects and Project Manager roles are filled. The project currently has no project manager. Recruitment for Team Leader Open Spaces and two project delivery resources is currently underway.
Red (no change)	Heretaunga Plains Flood Protection Scheme (HPFPS) LOS increase	Scope and budget – same as above. Budget is \$1.1m per year for construction and \$0.1m p.a. for enhancement. A total of \$20m over a twenty year period. With significant project planning and design required it is unlikely that construction will commence this financial year. Cashflow based on schedule needs to be produced. Schedule - Current project is for a period of twenty years from July 2018. There is currently no high level schedule of Initiation, Planning, Execution and Closure. There are significant land issues to be resolved depending on the option selected to increase LOS from 1:100 to 1:500 which may require consultation and time to resolve.
Red (worsened)	Implementation of MERI framework (Monitoring, Evaluation, Reporting and Improving)	Budget – a new job code and labour hours for team members engaged in the MERI project needs to be considered as part of 2019/20 Annual Plan. Costs for external consultants for social science aspects of the MERI is unknown and may not be possible in current LTP budget. No in-house social science knowledge/skills.
Amber (no change)	State of the Environment Monitoring – Lakes	Issues/Risks - A presumed power outage caused an unplanned 'off' period for the air curtain in Waikopiro. A cyanobacterial bloom developed in the 3 days the air curtain was off. Air curtain turned back on and has removed the obvious symptoms of a bloom (i.e. no slick and no bad smells), but too early to tell whether the phytoplankton community will be reset by keeping the lake in a mixed state for an extended period. Early signs are promising but there is huge variability in the data which mean more time is needed to pick up any clear trends. As a result we are looking into communication options so warnings can be automated, and ideally remote operation possible. Lake Tutira has been looking very good, with clear water conditions. pH has started to rise lately, however, which may be an ominous warning for the summer to come.
Amber (no change)	TANK to becoming operative	Schedule - The Project Schedule has been amended to allow 'adequate time' for iwi authorities to respond to the pre-notification draft plan as discussed at RPC on 31 October. This pushes likely notification of PC9 out to March/April. Scope - A scope change includes HBRC science response to SPZs including further modelling work and liaison with JWG (and RPC) Budget - Labour and external costs are still TBC. The above changes to schedule and scope could have a direct impact, resulting in further demands on the budget and staff time. Risk - There are risks to the programming timetable, by and large these are not uncommon to the decision-making process i.e. RPC decisions, consideration of the plan content, reaching consensus.

Overall Status (change from previous month)	Project Name	Escalations
Amber (no change)	IRIS (Integrated Regional Information System) Implementation Phase 1	<p>Budget - HBRC will require or consume more RSHL PMO and SME time than RSHL has anticipated or allowed for - result - fatigue, cost to councils, unmet expectations for HBRC. This is being managed through the Commercial/PIDS Action Plan.</p> <p>Risk - There is risk of losing knowledge through change in staffing. The current Project Manager and Business Analyst have resigned and are expected to be transitioned out of the project by the end of this calendar year.</p>
Amber (worsened)	Whakaki Hot Spot	<p>Risk - We are in a critical phase. Our stakeholders need to sign the affected party approval form if we want to receive the FIF (Freshwater Improvement Fund) grant. The process takes time and pressure is on to meet the deadlines.</p> <p>Schedule - All tasks and milestones currently on track for delivery. However several land blocks will have their SAGM late in Nov which could delay the consenting process a bit. The team is working hard to make sure we meet the deadline.</p> <p>There was an important meeting on Wednesday 5 December that will influence the future of the project – this could change the Risk and overall status to Red.</p>
Amber (worsened)	Napier Port Consultation	<p>Schedule – In the November status report, there was some concern that appeals could be made on consents granted which may have affected decision-making pre- Christmas. No appeals were made so schedule is back on-track for decision on preferred option on 19 December.</p> <p>Budget - Allocated budget of \$100k well over spent including unplanned spend to deliver 2-pager and postcard. \$100K for PWC report.</p> <p>Risk - Judicial review risk live. Mitigation includes comprehensive process and decision paper supported by legal advice from Bell-Gully.</p>

Key Milestones Achieved

8. The key milestones achieved by the PMO so far include:
 - 8.1. Meetings with all teams within HBRC to explain purpose of PMO (presentations)
 - 8.2. Creation of templates, tools and guides created specifically for HBRC
 - 8.3. Creation of a new PMO Hub on HerBi (Council's intranet site) for all HBRC staff to access these best practice resources
 - 8.4. Design and build of project sites for each pilot project (through the PMO hub) – in collaboration with ICT
 - 8.5. In-house training for project managers on how best to use their project sites (with guidance materials)
 - 8.6. Contracted Tregaskis Brown as external partner to work with PMO in delivering one day "Project Management Essentials" workshop for pilot project managers. This workshop included practical tips and tricks for applying the project management tools designed by the PMO, as well as useful guidance for stakeholder management etc.

- 8.7. Quality check all status reports for pilot projects.

Next Steps

9. Next steps for the PMO include:
- 9.1. Updating project sites based on feedback to improve user experience
 - 9.2. Working with OCEC (Office of the Chief Executive and Chair) to identify future opportunities for status reporting through Opal3
 - 9.3. Identifying topics for 'master classes' on specific project management topics and working with Tregaskis Brown to deliver to applicable HBRC staff

Decision Making Process

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

Recommendation

That the Corporate and Strategic Committee receives and notes the "Project Management Office Pilot Update and Project Status" report.

Authored by:

Mandy Sharpe
PROJECT MANAGER

Karina Campbell
SENIOR PROJECT MANAGER

Desiree Cull
STRATEGY AND PROJECTS LEADER

Approved by:

Tom Skerman
GROUP MANAGER STRATEGIC
PLANNING

Attachment/s

- [1](#) PMO Pilot Projects Summary Report

Project Name	Summary	Phase	Project Manager	Sponsor	Overall Status
Regional Integrated Ticketing System (RITS)	The project is a national project to implement a new bus ticketing and smartcard system for nine regional councils across New Zealand. The system will allow all participating regional councils to continue with their own timetables and fares structures but a "smart" bus card will be able to be used in all nine regions. Passengers will be able to top up their cards with money on line (currently this is only possible with cash on the bus), which will speed up bus loading times. However, cards can still be topped up with cash on the bus or at selected retail outlets by cash or EFTPOS. Entry to the bus is via a tag-on system (the card is passed over an electronic reader) and passengers will be required to tag off when they leave the bus also. This will provide councils with detailed information (not currently available) about where people are getting on and off the bus and how far they travel. NZTA is a major partner in the new system, and is funding 65% of the implementation cost. All nine regions will have the new system in place by May 2019.	Planning	Anne Redgrave	Tom Skerman	Red (no change)
Public Access to Rivers	The scope of this project currently has a number of capital investment packages including: - Ngaruroro River Concept Development Park - Cropping Trails- river berms - Lock and Gate Upgrades - Reduce Vehicle Access - Signage Upgrade	Initiation	No project manager assigned as yet	Chris Dolley	Red (no change)
Heretaunga Plains Flood Protection Scheme (HPFPS) LOS increase	The aim of this project is to upgrade the Heretaunga Plains Flood Protection Scheme from a 1:100 year protection level to a 1:500 year protection level. This project is identified as one of the Big Five Major Projects in Council's 2018-28 Long Term Plan.	Initiation	No project manager assigned as yet	Chris Dolley	Red (no change)
Implementation of MERI framework (Monitoring, Evaluation, Reporting and Improving)	The objective of this project is to establish a Monitoring, Evaluation, Reporting and Improvements process, using the Tukituki Catchment plan as a pilot scheme. It is intended that a MERI framework will assist HBRC assess what is being achieved and help identify possible improvements, for plan implementation work programmes within both the Tukituki Catchment and for future plan changes and projects. Annual reporting on the Tukituki Catchment plan is due by 30th June. The first Plan Effectiveness report is due at the end of the 2019 financial year.	Planning	Louise McPhail	Liz Lambert & Iain Maxwell	Red (worsened)
State of the Environment Monitoring – Lakes	The SOE - Lakes "project" is an ongoing work stream at HBRC to monitor and report on the state of lakes within the HB region. The monitoring programme is currently limited to the Tutira Lakes (x 4) and Whakaki. Both of these systems are the subject of renewed investment as part of the hotspots programme, and data collected will help evaluate the efficacy of mitigations and any policy changes being used to improve these taonga. Monthly sampling is undertaken for all lakes except Opouahi (which is quarterly). There are monitoring buoys in each of Lakes Tutira and Waikopiro, and a monitoring platform in Whakaki. The buoys and platform provide continuous measurements of key water quality parameters.	Execution	Andy Hicks	Iain Maxwell	Amber (no change)
TANK to becoming operative	This project represents the beginning of the second phase of the TANK (Tutaekuri, Ahiriri, Ngaruroro, Karamu) plan evolution - the consideration of the draft plan change by the Regional Planning Committee to the plan change becoming operative.	Execution	Ceri Edmonds	Tom Skerman	Amber (no change)
IRIS (Integrated Regional Information System) Implementation Phase 1	This project is the first phase of Council's IRIS implementation (subsequent phases are out of scope). This phase (Phase 1) includes the delivery of the following areas of core functionality; - Consent processing; - Compliance monitoring; - Incidents; and - Enforcements. HBRC made provision for a replacement regulatory management information system (RMIS) in its 2017/18 Annual Plan. The RMIS investment was needed to provide an up-to-date technology and information platform to support Council's strategic plan, workload arising from Plan Changes and expiring consents, and increasing requirements for information. The long-term aim is to deploy IRIS across all resource management functions within Council.	Execution	Yvette Mackay	Jessica Ellerm	Amber (no change)
Whakaki Hot Spot	The Whakaki Hot Spot project is working the Whakaki Lake Trustees to secure Freshwater Improvement Fund funding for Whakaki Lake. This project aims to revitalise the taonga of Whakaki Lake as a wildlife habitat and eel fishery.	Execution	Nicolas Caviale-Delzescaux & Joanne Hales	Iain Maxwell	Amber (worsened)
Napier Port Consultation	This project is to manage the community consultation around the future of the Napier Port. It aims to provide the Councillors with the information necessary to make an informed decision including feedback from the community and comply with legislative requirements.	Execution	Desiree Cull	Jessica Ellerm	Amber (worsened)
Ecosystem Prioritisation and Implementation	The Ecosystem Prioritisation and Implementation project is to secure and improve prioritised ecosystem sites for biodiversity benefits. \$200,000 funding was secured through the 2018-28 Long Term Plan for this work which could include planting, fencing, pest management and other enhancement work (e.g. hydrological improvement of wetlands).	Planning	Keiko Hashiba/Mark Mitchell	Iain Maxwell	Green (improved)

Item 16

Attachment 1

Project Name	Summary	Phase	Project Manager	Sponsor	Overall Status
Te Waiū o Tūtira	Project Te Waiū o Tūtira (the milk of Tūtira) is a joint project between Maungaharuru-Tangitū Trust, Ministry for the Environment, Tūtira local residents and HBRC and has a total cost of \$3.5 million over five years. This includes \$1.5M from the Freshwater Improvement Fund secured in April 2018. The joint project aims to accelerate existing efforts to improve the water quality and ecological habitat in Lakes Waikōpiro and Tūtira.	Execution	Te Kaha Hawaikirangi	Iain Maxwell/Shane Walker (MTT)	Green (no change)
Ahuriri Hot Spot	The focus of the Ahuriri Hot Spots project is to clean up water entering the estuary, remove pests and restore the environment to good health.	Execution	Te Kaha Hawaikirangi	Iain Maxwell	Green (no change)
Ruataniwha Groundwater	The Ruataniwha Groundwater project is to undertake a pre-feasibility technical assessment on the suitability of Managed Aquifer Recharge (MAR) to support sustainable water management in the Ruataniwha Basin. There is considerable pressure on Central Hawke's Bay (CHB) water resources, with the Ruataniwha Water Storage Scheme no longer considered an option to address this. Surface water bodies and existing groundwater users are already affected by currently allocated groundwater abstraction. Furthermore, a Board of Inquiry ruled in 2015 that a further 15 million cubic metres of groundwater shall be allocated for abstraction from the Ruataniwha Basin. HBRC has a legal obligation to implement this, which has potential to substantially increase the pressure on CHB water resources and freshwater environments.	Execution	Jeff Smith	Tom Skerman & Iain Maxwell	Green (no change)
Predator Free HB	Predator Free Hawke's Bay is a collaborative project building on the success and learnings from the Poutiri Ao ō Tāne and Cape to City projects. These projects were developed to find a low cost predator control template to enable massive upscaling of predator control suppression on farmland. This large scale suppression is one of a number of key goals to restoring biodiversity while we deliver the tools and investment required to achieve the PF2050 eradication vision. The farmland predator control template is a key part of the integrated deep bush, urban and farmland context for New Zealand predator control. The aim of the initial phase of the Predator Free Hawke's Bay project is to eradicate possums and suppress feral cat, stoat and ferret across Mahia peninsula. Alongside this will be other initiatives to support Iwi aspirations, education and biodiversity as well as a considerable research component. The long term vision is to transition from widescale possum suppression to eradication across all of Hawke's Bay and progressively transfer resources to predator suppression.	Execution	Wendy Rakete-Stones	Iain Maxwell (& DOC)	Green (no change)
Future Farming Initiative (FFI)	The Future Farming Initiative supports the establishment and operation of an independent, farmer/grower-led hub to support the improved resilience of Hawke's Bay's natural resources, communities and farmers/growers. It will focus on identifying and collecting evidence of low cost, high return options for farmers/growers to adapt to changing future needs, risks and opportunities, including a focus on environmental performance. Project funding for three years (from inception to independence) was secured through the 2018-2028 Long Term Plan.	Initiation	Karina Campbell	Tom Skerman	Green (no change)
HB Tourism Funding Review	This project will explore alternative funding models to generate income for Hawke's Bay Tourism (HBT) to undertake regional tourism promotion. This project came directly from the 2018-28 Long Term Plan in which Council, as the region's sole local government funder of HBT, had proposed it step back its funding over three years as it returns its focus to environmental priorities. Following consultation Council decided however to support HBT at a rate of \$1.52million for the first three years with subsequent funding levels to be reviewed through the 2021-2031 LTP process.	Initiation	Mandy Sharpe	Tom Skerman	Green (no change)
Farm Environmental Management Plan (FEMP)	The FEMP project is to design and manage an efficient data management system related to farm plans. Project funding was secured through the 2018-28 Long Term Plan, in which Council resolved to borrow \$5M over 10 years based on actual demand. Funding is proposed to remove the barrier of uptake by removing the upfront cost to landowners in the form of an interest free loan. Key project deliverables: <ul style="list-style-type: none"> • Establish and manage effective processes for FEMP's regionally • Ensure high quality plans are being submitted • Manage associated data to a high standard • Develop a stakeholder engagement plan • Establish an auditing management plan and process 	Execution	Shane Gilmer	Jessica Ellerm	Green (no change)
Improving Quality of Council Reports	This project looks at several aspects of how we can improve the quality of Council reports, focussing on: <ul style="list-style-type: none"> • reviewing Council report templates to improve the efficiency and effectiveness of 'information' provided to councillors and ensure Councillors are getting the appropriate, relevant and fact based information required to make good decisions • develop a process of training and support for Council staff in terms of writing reports for HBRC • ensuring staff are well informed of the process and timeframes for submitting reports • ensuring that the meetings and agenda software we use (Infocouncil) is being used to full potential. 	Initiation	Leeanne Hooper	Jo Lawrence	Green (no change)
Erosion Control Scheme	This project is to establish the \$30M Erosion Control Scheme. The execution phase has two key stages; 1. Interim Process and 2. ECS Operating Model. This scheme targets Hawke's Bay's 252k hectares (as at 2018) of land at high risk of erosion that is estimated to produce, on average, in excess of 3M tonnes of sediment into the regions waterways every year. The scheme itself will enable tree planting and other erosion control work to occur on land that is intended to remain in pastoral use or is to be retired (i.e. it is not targeting commercial afforestation opportunities). This scheme aims to deliver changes to the Regions landscape at a pace and scale to; <ul style="list-style-type: none"> • Reduce soil erosion • Improve water quality through the reduction of sedimentation into waterways • Improve terrestrial and aquatic biodiversity through habitat protection and creation • Provide community and cultural benefits through forest ecosystem services 	Execution	Amanda Langley	Iain Maxwell	Green (no change)

HAWKE'S BAY REGIONAL COUNCIL
CORPORATE AND STRATEGIC COMMITTEE

Wednesday 12 December 2018

Subject: DISCUSSION OF ITEMS NOT ON THE AGENDA

Item 17

Reason for Report

1. This document has been prepared to assist Committee Members to note the Items of Business Not on the Agenda to be discussed as determined earlier in Agenda Item 5.

1.1. ***Urgent*** items of Business (*supported by tabled CE or Chairman's report*)

	Item Name	Reason not on Agenda	Reason discussion cannot be delayed
1.			
2.			

1.2. ***Minor*** items (*for discussion only*)

Item	Topic	Councillor / Staff
1.		
2.		
3.		