HAWKE'S BAY
REGIONAL COUNCIL

Meeting of the Finance Audit & Risk Sub-committee

Date: Wednesday 12 February 2020

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: CONFIRMATION OF THE TERMS OF REFERENCE FOR THE FINANCE, AUDIT AND RISK SUB-COMMITTEE

Reason for Report

1. This item provides an opportunity for the Finance, Audit and Risk Sub-committee (FARS) to review and amend or re-confirm its Terms of Reference as adopted by Council on 6 November 2019. It is then necessary for the Sub-committee to recommend the Terms of Reference to the Corporate and Strategic Committee for confirmation, either as proposed or including agreed amendments.

Officers' Recommendation(s)

2. Council officers recommend that the Terms of Reference (ToR) is reviewed by the Sub-committee and amended to clarify its role and responsibilities before being recommended to the Corporate and Strategic Committee for confirmation and further recommendation to Council for adoption.

Background /Discussion

3. The Finance, Audit and Risk Sub-committee was first established by Hawke's Bay Regional Council in June 2015, and the Terms of Reference have remained largely unaltered since then. At the time of the FARS establishment, a separate Charter document was also agreed.

4. Following Council's decision to re-establish the sub-committee at the beginning of this triennium, it is the view of staff that this is an opportune time to refine the ToR to ensure it is fit for purpose and accurately reflects the role of Council's Governors. To that end, the version of the Terms of Reference proposed is based on the Terms of Reference adopted for the last triennium rather than the version proposed for establishment of an Audit and Risk Committee reporting directly to Council.

Suggested Amendments

5. Staff have used tracked changes to suggest some amendments in the attached version of the Terms of Reference as follows.

   5.1. Reformatted

   5.2. Updated membership

   5.3. Add responsibility to monitor Investment Portfolio returns

   5.4. Added what the FARS is delegated to determine for itself.

6. Staff also request that FARS members offer their suggested amendments for potential agreement and incorporation into the version that will then be recommended to the Corporate and Strategic Committee for confirmation.

Financial and Resource Implications

7. The work of the FARS is budgeted for within Council's "Governance and Community Representation" activities and changes to the Terms of Reference will have no effect on those.

Decision Making Process

8. Council and its committees are 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. Council is required to (LGA sch.7 cl.19(1)) hold the meetings that are necessary for the good government of its region

    8.2. Council may appoint (LGA sch.7 cl. 30(1)(a)) the committees, subcommittees, and other subordinate decision-making bodies that it considers appropriate

    8.3. Given the provisions above, Council can exercise its discretion and make these decisions without consulting directly with the community or others having an interest in the decision.

    8.4. The decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 6 November 2019.

Recommendations

1. That the Finance, Audit and Risk Sub-committee:

    1.1. receives and considers the "Confirmation of the Terms of Reference for the Finance, Audit and Risk Sub-committee" staff report

    1.2. agrees amendments for incorporation into the Terms of Reference for recommendation to the Corporate and Strategic Committee, including:

        1.2.1. …

        1.2.2. …

        1.2.3. …

2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:

    2.1. confirms the Terms of Reference for the Finance, Audit and Risk Sub-committee (following), inclusive of amendments agreed by the Sub-committee on 12 February 2020

    2.2. recommends that Hawke's Bay Regional Council adopts the Terms of Reference for the Finance, Audit and Risk Sub-committee as confirmed by the Corporate and Strategic Committee by resolution on 11 March 2019.

Authored by:

Leeanne Hooper
GOVERNANCE LEAD

Approved by:

Jessica Ellerm **GROUP MANAGER CORPORATE SERVICES**	**Joanne Lawrence** **GROUP MANAGER OFFICE OF THE CHIEF EXECUTIVE AND CHAIR**

Attachment/s

⇩**1** draft tracked changes Finance Audit and Risk Sub-committee Terms of Reference

⇩**2** draft Clean Finance Audit and Risk Sub-committee Terms of Reference

Finance, Audit and Risk Sub-committee

Terms of Reference

for Council adoption 25 March 2020

1. Purpose

The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for:

1.1. The provision of appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements

1.2. The review of Council's revenue and expenditure policies and the effectiveness of those policies.

1.3. The independence and adequacy of internal and external audit functions

1.4. The robustness of risk management systems, processes and practices

1.5. Compliance with applicable laws, regulations, standards and best practice guidelines.

2. Specific Responsibilities

The Finance, Audit and Risk Sub-committee shall have responsibility and authority to:

2.1. Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes

2.2. Satisfy itself that the financial statements and statements of service performance are supported by adequate management signoff and adequate internal controls and recommend adoption of the Annual Report by Council

2.3. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements

~~2.3.~~2.4. Monitor the performance of Council's investment portfolio

~~2.4.~~2.5. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees

~~2.5.~~2.6. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)

~~2.6.~~2.7. Enquire of internal and external auditors for any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to this

~~2.7.~~2.8. Conduct a sub-committee members-only session with Audit NZ to discuss any matters that the auditors wish to bring to the Sub-committee's attention and/or any issues of independence

~~2.8.~~2.9. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place

~~2.9.~~2.10. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks

~~2.10.~~2.11. Undertake systematic reviews of Council operational activities against Council stated performance criteria to determine efficiency/effectiveness of delivery of Council services

~~2.11.~~2.12. Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines; including health and safety.

3. Accountability

3.1. The Finance, Audit and Risk Sub-committee is not delegated to make any decisions unless by specific delegation of Council.

The Finance, Audit and Risk Sub-committee is delegated by Council to:

3.2. Obtain external legal or independent professional advice within approved budgets in the satisfaction of its responsibilities and duties

3.3. Secure the attendance at meetings of third parties with relevant experience and expertise as appropriate

3.4. Receive all of the information and documentation needed or requested to fulfill its responsibilities and duties, subject to applicable legislation

3.5. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management

3.6. Review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework

3.7. Assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

~~3.~~4. Membership

~~3.1.~~4.1. Up to ~~Four~~ four members of Council, being: Councillors Will Foley, Craig Foss and Neil Kirton ***(confirmed by Council resolution 6 November 2019)***

~~3.2.~~4.2. An external appointee, being: Rebekah Dinwoodie ***(confirmed by Council resolution 6 November 2019)***

~~4.~~5. ~~Chairman~~Chairperson

A member of the Committee as elected by the Council, being Councillor Craig Foss ***(confirmed by Council resolution 9 November 2016)***

~~5.~~6. Meeting Frequency

The Committee shall meet quarterly, or as required

~~6.~~7. Quorum

The quorum at any meeting of the Committee shall be not less than 3 ~~Councillor~~ members of the Committee.

~~7.~~8. Officers Responsible

~~7.1.~~8.1. Chief Executive

~~7.2.~~8.2. Group Manager Corporate Services

~~7.3.~~8.3. Group Manager Office of the Chief Executive and Chair

HAWKES BAY REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Finance, Audit and Risk Sub-committee

Terms of Reference

for Council adoption 25 March 2020

1. **Purpose**

The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for:

1.1. The provision of appropriate controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements

1.2. The review of Council's revenue and expenditure policies and the effectiveness of those policies.

1.3. The independence and adequacy of internal and external audit functions

1.4. The robustness of risk management systems, processes and practices

1.5. Compliance with applicable laws, regulations, standards and best practice guidelines.

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The Finance, Audit and Risk Sub-committee shall have responsibility and authority to:

2.1. Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes

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2.4. Monitor the performance of Council's investment portfolio

2.5. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees

2.6. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)

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2.8. Conduct a sub-committee members-only session with Audit NZ to discuss any matters that the auditors wish to bring to the Sub-committee's attention and/or any issues of independence

2.9. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place

2.10. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks

2.11. Undertake systematic reviews of Council operational activities against Council stated performance criteria to determine efficiency/effectiveness of delivery of Council services

2.12. Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines; including health and safety.

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The Finance, Audit and Risk Sub-committee is delegated by Council to:

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3.3. Secure the attendance at meetings of third parties with relevant experience and expertise as appropriate

3.4. Receive all of the information and documentation needed or requested to fulfill its responsibilities and duties, subject to applicable legislation

3.5. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management

3.6. Review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework

3.7. Assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

4. Membership

4.1. Up to four members of Council, being: Councillors Will Foley, Craig Foss and Neil Kirton ***(confirmed by Council resolution 6 November 2019)***

4.2. An external appointee, being: Rebekah Dinwoodie ***(confirmed by Council resolution 6 November 2019)***

5. Chairperson

A member of the Committee as elected by the Council, being Councillor Craig Foss ***(confirmed by Council resolution 9 November 2016)***

6. Meeting Frequency

The Committee shall meet quarterly, or as required

7. Quorum

The quorum at any meeting of the Committee shall be not less than 3 members of the Committee.

8. Officers Responsible

8.1. Chief Executive

8.2. Group Manager Corporate Services

8.3. Group Manager Office of the Chief Executive and Chair

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: SUB-COMMITTEE WORK PROGRAMME

Reason for Report

1. This item provides the opportunity for the sub-committee to influence, in light of its confirmed Terms of Reference, the work programme for the remainder of the 2019-22 triennium.

Officers' Recommendations

2. Council staff recommend that the Sub-committee workshops the internal audit programme with input from the Internal Auditors and Council staff to develop the work programme for this triennium for adoption at the May FARS meeting.

3. In the meantime, staff also recommend that FARS confirms that the Internal Audits scheduled for remainder of the 2019-20 financial year are to be scoped and/or undertaken as planned.

Internal Audit

4. In 2017, the combined HBLASS Councils undertook a request for proposal (RFP) process for internal audit services process, concluded in June with the successful tenderer being Crowe Horwath. Crowe Horwath was awarded the highest scoring tender in unanimous agreement with all HBLASS Council representatives, which assessed both price and non-price information including capability, capacity, approach and methodology, and value add. The contract was for a three-year period, with a possibility of a two-year extension. The contract is valued at $30,000 + GST per annum, which is in line with Council budget provisions.

5. Responsibility for the internal audit programme has recently moved from the finance team and now rests with Joanne Lawrence, Group Manager, Office of the Chief Executive and Chair (OCEC). Day to day management will form part of the role responsibilities of the new Risk and Assurance Lead once appointed.

6. Crowe Horwath (recently renamed Findex) provides Audit services across the Hawke's Bay councils and as such is the most cost-effective method of service delivery.

7. Each year the schedule for the annual Internal Audit programme is agreed within the sub-committee work programme to align with Council's risk register. There are four internal audits conducted each year, with one audit per quarter. Each Internal Audit report is provided to the FARS for consideration. The Data Analytics audit is conducted annually which leaves three other internal audits available for other parts of Council's business.

8. The audit schedule for 2019-20 covers:

   8.1. IT Security (completed and to be presented to the 12 February 2020 sub-committee meeting)

   8.2. Data Analytics (underway and awaiting final audit report) – this is an annual audit

   8.3. Risk Management and Asset Management audits to be completed by 30 June 2020 with the audit reports to be provided to FARS at the committee's meeting in May 2020.

Item	Scheduled / Status
Cyber Security	Report received – to be presented to first FARS meeting of triennium
Data Analytics (annual audit)	Completed in Q2. Final report to FARS Q4 meeting.

Item	Scheduled / Status
Water Management – Follow Up Review	Report was presented to 22 May FARS meeting, with further follow up report scheduled to be presented to the next FARS meeting in collaboration with the Group Manager Regulation.
Asset Management	Was scheduled for Q3 FARS meeting but delayed to Q4 whilst scope is confirmed with relevant business unit
Risk Management	Was scheduled for Q3 FARS meeting but delayed to Q4 whilst scope is confirmed with relevant business audit

9. Compliance with applicable laws, regulations, standards and best practice guidelines is normally tested through an Internal Audit.

10. The current schedule of internal audits in the 2019-20 financial year is accommodated within existing budgets as set by the 2018-28 Long Term Plan, however if the sub-committee wishes to consider additional work in this area budget allocations may require reconsideration.

11. The recommendations from the Internal Audits, along with the External Audits, will form part of the Audit Action list, that will be provided to the Sub-Committee on a quarterly basis with details on steps taken to date and actions still required.

External Audit

12. As part of the requirements of the provision of the Long Term Plan and the Annual Report, Council is required to have aspects undergo an external audit and the auditors provide audit opinions on whether the documents give effect to the purpose set out in the Local Government Act 2002 and the quality of the information and assumptions, where required, underlying the financial statements.

13. The Auditor-General is appointed by the Local Government Act to audit the Regional Council and appoints an auditor to conduct the audit on their behalf. Currently the External Auditors are Audit New Zealand and the new external auditor, Karen Young, is attending on 12 February to meet the Sub-Committee.

14. To inform the FAR Sub-Committee, the auditors will provide an audit plan to detail the processes to be used and the key areas of focus required by the Auditor-General to review.

15. Following the audits, along with the audit opinions, the auditors provide management reports that provide feedback on the audit processes and recommendations with management feedback. The recommendations continue to be monitored in subsequent audits to ensure they are actioned.

16. The recommendations will form part of the Audit Action list, along with the recommendations from Internal Audit that will be provided to the Sub-Committee on a quarterly basis with details on steps taken to date and actions still required.

17. Staff will work with the auditors to develop the audit plan for the Annual Report 2019/20 and present this to the next FARS Sub-Committee meeting.

Section 17a activity reviews

18. Section 17a reviews were introduced as part of the Government's 2012 Better Local Government reform programme, designed to encourage and enable local authorities to improve the efficiency and effectiveness of their operations and processes.

19. Council is required to give effect to the purpose of local government as prescribed by Section 10 of the LGA, which is "to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances."

20. S17a reviews are required:

    20.1. Every six years after previous review

    20.2. Before expiry of contracts related to the delivery of infrastructure, services or regulatory functions

    20.3. When significant changes to service levels are considered.

21. Initial steps required under s17a include proposing a materiality threshold value for the reviews. Analysis has been undertaken and the level for creating exceptions to Section 17a has been assessed at $300,000 based on peer review and total Council spend (total budgeted operational and capital expenditure).

22. In the absence of other factors (e.g. high probability of significant savings, high public interest in the service), where a service has gross annual expenditure of less than $300,000 it will be assumed that the costs of undertaking Section 17a reviews would be in excess of the likely benefits and a review will not be carried out on those services.

23. A number of reviews have been undertaken in recent years in various forms and contexts and these are deemed as completed. The priority for Council should be on repurposing those reviews and incorporating any Section 17a requirements. Other priorities will be set by the expiry or renewal of significant contracts where staff identify opportunities to explore service improvements and efficiency gains.

24. Due to the recent internal reorganisation and LTP processes, several of Council's functional activities have been reviewed more recently. It is therefore proposed that these be re-reviewed in a few years' time, once the most recent restructure and LTP process has matured. It is further proposed that no reviews are undertaken in Q1 and Q2 of the 2018-19 financial year due to resourcing constraints. Council has forecast a senior accountant as part of the realignment of the finance team to assist with these reviews.

25. Staff have undertaken analysis and sought guidance from the Executive team and have recommended priority review areas (attached) for the sub-committee to provide feedback on**.** These have been sorted by priority and are proposed to begin once the significant LTP process has been completed.

26. The approach in determining a work programme is to seek out opportunities to add practical value to the services and activities that the Council provides or undertakes for and on behalf of its community, including:

    26.1. Understanding the nature of and rationale for services or activities currently provided or undertaken

    26.2. Looking at the context (including service demand) in which these services are and will be delivered, now and into the future

    26.3. Identifying opportunities that might arise for improving the efficiency or effectiveness of the services or activities, including opportunities that might arise from a collaborative approach with other parties

    26.4. Assessing those opportunities to see if they might add value for the Hawke's Bay community.

27. In addition staff have reviewed external guidance on best practice approaches to determine priority review areas for Council. SOLGM's guidance recommends using the activities (not groups) disclosed for reporting in the Long Term Plans as a starting point for defining 'services' to be reviewed. Determination of priority options is based on guidance which is highlighted further in this section below.

28. External advice suggests the following principles when considering whether an activity should be reviewed.

    28.1. The bigger the budget the more efficiency gains are possible

    28.2. Capital intensive services are more likely to generate savings

28.3. The greater the cost of a review as a percentage of the total cost of service, the less value in a review

28.4. The more generic the service the more opportunity for economies of scale or scope

28.5. Services which are core competencies and have non-commercial objectives should be retained in house

28.6. There is value in conducting a review if it could further Council's strategic priorities or responds to a demographic trend or future problem

28.7. The success of many alternative service delivery methods depends on the existence of a competitive market

28.8. Services that have been the subject of comprehensive review under other procurement or legislative processes are less likely to generate new and better ways of doing things

28.9. A service that consistently achieves its performance targets is evidence that it meets customer expectations, and a review is less likely to realise benefits

28.10. If operating costs are comparable with other suppliers then a review is less likely to realise efficiency gains

28.11. Council will get the most "bang for buck" by focusing on services that are important to citizens and are failing to meet their expectations

28.12. The more elapsed time since the last review, the greater value in a review

28.13. Service reviews realise the most benefits when there is certainty around the operating environment in which the service is delivered

28.14. Reviews undertaken jointly with relevant councils and service providers will realise the most value.

29. Where another Council is planning to review its similar activities, a joint approach will be investigated to establish whether it is likely to bring cost efficiencies to the review process.

30. Given the inability to recruit for this role, Risk and Assurance Lead (Office of the CE & Chair), staff propose to contract an external resource to progress this area of work and update the next FARS meeting.

Financial and Resource Implications

31. Staff confirm that the work programme proposed is accommodated within existing budgets as set by the 2018-28 Long Term Plan, however if the sub-committee wishes to consider additional work budget allocations may require reconsideration.

Decision Making Process

32. Council and its committees are 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:

32.1. The decision does not significantly alter the service provision or affect a strategic asset.

32.2. The use of the special consultative procedure is not prescribed by legislation.

32.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

32.4. The persons directly affected by this decision are Council staff and members of the Finance, Audit and Risk Sub-committee.

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

32.6. The Sub-committee can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision in accordance with its Terms of Reference.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the “Sub-committee Work Programme” staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council’s adopted Significance and Engagement Policy, and that the Sub-committee can exercise its discretion and make decisions on this item without conferring directly with the community, in accordance with its Terms of Reference.
3. Agrees that the work programme for the Sub-committee will be developed through workshops ahead of confirming the schedule of work and budget allocations at the 3 May FARS meeting, and that in the meantime Internal Audits agreed in August 2019 will scoped and/or be carried out as planned.

Authored by:

Leeanne Hooper **GOVERNANCE LEAD**	**Bronda Smith** **CHIEF FINANCIAL OFFICER**

Approved by:

Jessica Ellerm **GROUP MANAGER CORPORATE SERVICES**	**Joanne Lawrence** **GROUP MANAGER OFFICE OF THE CHIEF EXECUTIVE AND CHAIR**

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: RISK ASSESSMENT AND MANAGEMENT

Reason for Report

1. This item provides the Sub-committee with the six-monthly review of the risks that Council is exposed to and the mitigation actions in place to manage Council's risk profile.

Officers' Recommendation

2. Staff recommend that the Sub-committee confirms its confidence that Council management has a current and comprehensive risk management framework and associated procedures for the effective identification and management of the organisation's significant risks.

Executive Summary

3. The risk assessment and management update provides the Finance, Audit and Risk Sub-Committee (FARS) with a summary of the risks activity over the last six months. Outlined in the report are the changes to the risk trend ratings with two risks covering Civil Defence preparedness and Council's investment portfolio shifting downwards.
4. Also covered in this update is the work undertaken to examine some areas of interest raised at the last FARS meeting on 21 August 2019 around risk of harm to the environment, staff wellbeing and retention and civil defence. Upon further examination these risks are well-managed.

Background/Discussion

5. The Sub-committee last considered the six monthly risk management report at its 21 August 2019 meeting.
6. Subsequent to this meeting, the Executive Leadership Team has considered the Sub-Committee's feedback and reviewed the organisation's strategic risks with each Group Manager. Details of any resulting changes to the risk register matrix are outlined following.
7. During this period staff resourcing to support this work has continued to be very stretched as described further on in this item.

Key Changes to the Risk Register Matrix

8. Following the feedback at the 21 August 2019 Finance, Audit and Risk Sub-committee (FARS) meeting, staff consideration (summarised following) has been given to:
   8.1. whether to add a new risk regarding environmental harm
   8.2. providing further detail surrounding the CDEM (Civil Defence) risk
   8.3. providing supplementary information on staff retention and welfare.

Risk of Harm to the Environment

9. That there is no recognised 'Risk of Harm to Environment' general risk was raised, as relates to harm to the environment generally. Specifically, this risk would cover Council's requirement to protect the environment, and not cause it undue harm. This may occur during Council's day to day practices, whereby one or more groups may have conflicting goals.

10. After a discussion within the Executive, it is considered that Risk of Harm to the Environment sits best within CORP003 Inadequate Contractor Management with respect to any action or inaction by Council contractors that causes environmental harm. To mitigate this risk Council works with its contractors to ensure they follow environmental Codes of Practice, River Guides and the work is within the permitted activity rules under the Resource Management Plan (RMP).

Staff Wellbeing and Retention

11. Several mitigation initiatives have been implemented for Staff Wellbeing and Staff Retention risks, including:

    11.1. the implementation of the organisational development review and subsequent work programme and relevant staff resourcing

    11.2. Learning and Development Strategy and Action Plan

    11.3. full remuneration review and recommended changes completed.

12. A focus on recruitment, talent acquisition and retention will be a key focus for the early part of 2020 by the People and Capability team, and the imminent recruitment of a Senior Advisor, Health, Safety and Wellbeing will also add valuable support to the staff wellbeing work programme.

Civil Defence

13. At the 12 February 2019 FARS meeting update, some uncertainty was expressed as to the level of detail within the risk register and whether this was sufficient or too excessive. There was also some query as to how much societal risk should be covered in the register i.e. demographic changes. In addition to the consideration of Civil Defence risks, both of these questions are being addressed through a Hazard Risk review currently underway, involving HBRC staff plus the HBRC Chairman (as the council’s representative on the CDEM Group Joint Committee).

Risk Register summary update

14. At the last risk update to FARS, risks trending upwards included the Implementation of the National Policy for Freshwater Management (STRAT001). Central government is expected to impose a new deadline of 2025 for all freshwater plans to be operative, and the Strategic Planning team will continue to monitor this risk closely.

15. The human health impacts from contamination of drinking water risk (REG002) continues to trend downwards as a result of the review of National Environment Standards for drinking water and the identification of source protection zones in Plan Change 9.

16. Suggestions were made that consideration should be given to the human health risks associated with swimming and recreational activities in contaminated water and with regard to landfills not listed on the HAIL register. The Executive team discussed this and felt that any such human health risks are more appropriately aligned to the risk “Health and Safety of Staff and Public” (OCEC001). This Council works with the Hawke’s Bay District Health Board who has the lead role on the public health risks around swimming.

17. Since the August 2019 FARS committee meeting, there has been a recent review of the risk register with all the risk owners. Risk owners are managing their risks actively. Updates can be seen in **green** on the attached risk register.

18. At today’s meeting, FARS will be provided with separate updates on the three areas of:

    18.1. Contracts/Procurement

    18.2. Cyber Security

    18.3. the Business Continuity Plan.

Risk Trend ratings

19. There have been two changes to trend ratings in this review period.

20. CDEM001: Preparedness of CDEM and HBRC staff to respond effectively in a regional emergency – communication, resources and capability being adequate

    20.1. Trending down due to the successful activation exercise carried out in October 2019. In addition, there is a review of the regional CDEM risk profile and group plan commencing in the first quarter of 2020.

21. CORP002: Investment Portfolio

    21.1. This risk is no longer trending upwards. The investment portfolio returns are now projected to be in line or higher than expected. With the IPO now complete and bringing financial risk diversification, there is less reliance on the dividend.

Risk Management function

22. Whilst the risk management process has gained traction and maturity with regular and frequent Executive Leadership Team interrogation of all strategic level risks, it is recognised that further work is required to build the wider organisation's risk management knowledge and understanding.

23. A newly established Risk and Assurance Lead role will have responsibility for the risk management portfolio. Alongside this they will develop the Council's assurance framework which will include responsibility for the internal audit programme and quality management system (ISO 9001:2015 certification). The recruitment of this lead role is proving challenging, along with other vacancies with the HBRC. A temporary contract with an established external entity is currently being examined as an interim contingency arrangement.

24. A key priority for the Risk and Assurance Lead role is to progress workshops with staff to fully embed a whole of organisation understanding around risk management.

25. At a group manager level, this portfolio will be held by the Group Manager (OCEC).

Decision Making Process

26. Council and its committees are 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:

    26.1. The decision does not significantly alter the service provision or affect a strategic asset.

    26.2. The use of the special consultative procedure is not prescribed by legislation.

    26.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

    26.4. The persons directly affected by this decision are Council staff and members of the Finance, Audit and Risk Sub-committee.

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

    26.6. The Sub-committee can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision in accordance with its Terms of Reference.

Recommendations

The Finance, Audit and Risk Sub-committee:

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 the Sub-committee can exercise its discretion and make decisions on this item without conferring directly with the community, in accordance with its Terms of Reference.

2. Receives and considers the *“Six Monthly Risk Assessment and Management”* staff report.

and either

3. Confirms its confidence that Council management has a current and comprehensive risk management framework and associated procedures for the effective identification and management of the Council’s significant risks.
4. Recommends that the Corporate and Strategic Committee receives and notes the resolutions of the Sub-committee, confirming the robustness of Council’s risk management systems, processes and practices.

OR

5. Advises staff of the specific risks (following) that require reassessment to confirm the level of risk is accurate and internal controls are adequate, for reporting back to the 13 May 2020 Sub-committee meeting.

   5.1. …

   5.2. …

6. Recommends that the Corporate and Strategic Committee receives and notes the resolutions of the Sub-committee, including the specific risks that require reassessment.

Authored by:

Joanne Lawrence
GROUP MANAGER OFFICE OF THE
CHIEF EXECUTIVE AND CHAIR

Approved by:

James Palmer
CHIEF EXECUTIVE

Attachment/s

⇩**1** Risk Management Register February 2020

Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)		Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor	Description	Effectiveness	Consequence	Likelihood	Factor			⬆ ↔ ⬇
REG001: Human Health impacts from contamination of drinking water - death or illness as a result of contamination render water unusable to consume and/or use for food preparation. Further impacts may include impacts to agricultural and pastoral activities	Public Health Organisational Reputational Environmental Financial	Extreme	Likely	Extreme	* Increased monitoring of bores and testing of water supply - targeted testing of consents situated within area near known municipal drinking water bores * Operation of Regional Joint Working Group (JWG) & Joint Governance Group for drinking water * Advancement of TANK plan change with new regulations and rules recommended by Joint Working Group * Enforcement of adequate consents (including wastewater, stormwater, drinking water & other consents) * Focus on going open communication between relevant authorities * Increased resourcing for consents/compliance to address need for greater physical monitoring of bores (also recommended by compliance review) * Voluntary bore owner assessment/remediation - supply of report of security to HBRC * Internal audit on critical water infrastructure assets monitoring complete with second review due Q4 2018/19 * Inclusion of source protection zones in TANK * Proactive communication with small scale bore owners, including clarity of responsibility and the release of brochures regarding bore security * Council disclaimers and consents have been reviewed and updated to ensure clarification as to responsibility of consents * Risk based approach to water monitoring has been reviewed with priority one consents being monitored on a more frequent basis completed through additional resource implemented through Long Term Plan (LTP) *** Additional resourcing for bore security monitoring programme.**	Effective	High	Highly Unlikely	Moderate	* Continue with better collaboration and communication between relevant stakeholders (including District/City Councils and Health Boards) * Potential for advocacy role and clarification is established between all stakeholders as to where responsibility lies through Terms of Reference * Set up a contingency fund to contract in resource to help with monitoring if needed * Review of regional plan to provide for monitoring for ongoing life of bore. * Application of NES for drinking water (additional control of activities that may have an affect on public drinking water supplies) NES for drinking water being reviewed to further tighten land use impacts.- ongoing consultation phase - Central Government due to finalise in June 2020. * Continue to provide feedback to influence Water New Zealand * Identification of source protection zones completed for inclusion in plan change 9	Group Manager - Regulation	⬇
CORP001: ICT Failure - Business Wide. Risk being loss of data and/or inability to access ICT systems. Causes could include cybersecurity attack, intentional and malicious behaviour by staff or a significant hardware failure.	Organisational Reputational	Extreme	Near Certain	Extreme	* Server refresh cycles and server room restrictions * Antivirus software and Firewalls * Back ups (including off site backups) * ICT acceptable use policy * Access control * Generator * Robust vendor selection process * Independent cyber security audit - IT Audit has taken place and report (going to Andrew) due any time now. Recommendations will be reviewed when report received. * Staff training including regular reminders to staff * Cyber security insurance (also covers Cloud) *** Finance dept software system is no longer being updated by Microsoft (support continued until February 2021)**	Satisfactory	High	High	High	* Cyber security risk is increasing - ensuring staff are aware of the risks and how to detect any scam activity * Formalised incident reporting and assessment * Repeat of previously held "phishing training" * Independent audit on appropriate controls in place (to include penetration testing) * Improved staff wide understanding of ICT backup plans * Improved staff consultation when implementing or altering an ICT system or process * Reduce the risk of hardware failure affecting services * Option for text alert system for generator failure * Reduce reliance on one staff member holding knowledge of systems *** Cyber security review being reported back to the committee, actions being forwarded.**	Group Manager - Corporate Services	↔
OCEC001: Health and Safety of Staff and Public - staff working in the field or otherwise. Staff working alone and/or in potentially dangerous locations and terrain. A health & safety culture amongst all staff.	Health and Safety Organisational Reputational	Extreme	Likely	Extreme	* E-Road. Vehicle management and Global Positioning System. Reporting on EROAD information has re-commenced with speeding exceedances being reported to Executive. Procedures to deal with 'exceeders' prior to misconduct step, to be developed. N>B EROAD is not seen as an H&S mechanism notwithstanding it can help with H&S issues. * Improved structure and formality around working alone including buddy system. Working Alone policy has been reviewed and amended to reflect the external monitoring put in place thus reliance on buddy is significantly reduced or not required. * Provide appropriate emergency location devices for staff working in remote locations or other high risk work situations. InReach devices have been purchased for all staff requiring them. Significant increase in numbers of devices. Monthly check in and report is valuable audit process. * Regular Health and Safety training and policies in place. Working alone policy has been modified. * Appropriate Property, Plant and Equipment always provided. High spec fleet maintained. Good technical support provided for staff. * Site safety plans - to be filled out on a daily basis. Site Safety plans in various forms are completed by majority of sections. * Liability Insurance * Development, and regular review of Codes of Practice (COP) for safe work practices across the full range of Council work. COP's are reviewed according to schedule. Some are over due, but key ones up to date. Reviewed as need or issue arises. * Corporate Risk Management Framework (H&S Committee) - continue to ensure effectiveness of committee * Monitoring of workplace stress, vitae support and stress and resilience training. Well Being –Hauora Strategy and Action plan developed * SiteWise for contractors. Unclear if ALL relevant contractors requiring Sitewise certification has happened but picture is becoming clearer and better maintained with a specific staff focused on it. * Vehicle driver training reintroduced for staff. Consideration of vehicle cameras to be undertaken register	Effective	High	Unlikely	Moderate	* Option to capture training and an 'action register' to be created when staff are required to upgrade/renew training. Good capture of H&S training on Hasmate but still a lot of 'other' training not noted as not aware of it. Bring up for key training works OK out of Hasmate. * Investigate benchmarks to ensure we are meeting standards as a minimum (i.e. 4WD training) Some benchmarks reported on both at council level and across sector. New metrics for reporting being developed. * Creation of organisation wide risk averse and continuous improvement culture. Encouragement of self reporting. On going awareness work. Effective representation on H&S committees. * Regular review and updating of Codes Of Practices'. COP's regularly reviewed but not specifically presented to Executive. Done through H&S committee and out to relevant sections for comments. * Health & Safety audit complete - Work programme underway. Audit recs underway. Strategy and Implementation Plan adopted as well as Governance Charter and Executive commitment doc. * Review of H&S for contractors including induction requirements and exemption processes. Improved contractor registering and induction but need for improvement in this area still and monitoring of work. * Review current Job Safety Analysis process and consider options for efficiency such as a standardised template. No work yet done on standardised template for field analysis. * Physical auditing of sites to ensure that correct processes are being followed. Not enough resource at present to do sufficient field auditing. Key areas done. * Ensure officers are aware of their roles and responsibilities (both staff and Councillors) Training planned for Executive, Managers, Councillors and committee members later in year. * On person recording devices available for staff. No one using on person video camera regularly at this time. * Internal communications on H&S to be improved through a variety of channels to create better reporting and awareness * Liaison with other "best practice" organisations to consider implementation of proven successful processes *** We are in the process of recruiting a H&S senior advisor - hopefully appointing by Feb 2020 (as with all recruitment it has been a challenge to fill this role, once appointed this role will provide the resourcing to deliver the H& S work programme).**	Group Manager - Office of the Chief Executive and Chair	↔
CDEM001: Preparedness of CDEM and HBRC staff to respond effectively in a regional emergency - communication, resources and capability being adequate	Public Health and Safety Organisational Reputational	Extreme	Likely	Extreme	* Trained staff on how to respond in an emergency to ensure safety of others and themselves * Activation exercises - **Full Regional exercise carried out in late Oct 2019, facility tested and fully operational - activation processes practiced, tested and fit for purpose.** * Joint approach with other local Councils showing effectiveness - **Joint exercise highlighted need for further work in ensuring timely and effective comms between Councils.** * Relationships with businesses who have resources that could be borrowed in an emergency * Regular testing of buildings and equipment to ensure minimum requirements are met, and will function as expected during an emergency - see bullet 2 above * Relationship development with other agencies **- Key partners were atively involved in exercise** * Rebuild of current response facility commenced in July 2018 to ensure 100% Level 4 Building Standards - moving into new building in mid August - operational mid September. * Staff within HBRC and other Council's now trained to a more advanced level * Two audits have corrective actions being worked on, including improvement of facilities and training. * Disaster work with other stakeholders to secure other buildings	Satisfactory	Moderate	Unlikely	Moderate	* Continue to build on relationship management with other stakeholders * Continue to educate public using social media and other forums on what to do in case of an emergency. * Enact any findings from post exercise/event * Progress community resilience plans across high risk communities. * Shorter but higher frequency of training to ensure that staff are still relevant and able to attend training sessions * Continue with targeted training * CDEM considerations to be understood and included in various projects * Continue with implementation of group work programme focusing on risk, research and recovery * Regional multi-agency exercise (Ex Ruaumoko) was held in Oct 2019. *** Review of Regional risk profile and group plan commencing in the first quarter of 2020.**	Group Manager - Civil Defence	⬇

Attachment 1

Item 5

Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	**Risk Type**	**Gross Risk** (no effective measures in place)			**Current Practice/Strategy (Avoidance and mitigation measures)**		**Residual Risk** (considering measures in place)			**Management Options**	**Risk Owner**	Trend
		Consequence	Likelihood	Factor	**Description**	Effectiveness	Consequence	Likelihood	Factor			↑ ↔ ↓
ASSET001: Infrastructure Exceedance - flood control and drainage assets exceeding design capacity resulting in loss and/or hardship to community and assets	Organisational Financial Reputational Public Health & Safety	Extreme	Likely	Extreme	* Ongoing data collection to enable return period estimates to be improved over time * Professional engineers and hydrologists * Best design practice followed * Review of levels of service undertaken when required * Disaster damage reserves held in line with Council policy * Asset management plans are a living document and are therefore constantly being reviewed. * Recent review of hydrometric network, no major issues flagged * Debriefs and lessons learned following any weather related response * The Heretaunga Plains flood control is being considered for upgrading from 1 in 100 to 1 in 500 level of protection.	Effective	High	Unlikely	Moderate	* Asset management framework aligned with standard * Continuing staff development * National guidelines for asset risk and condition - standardised flood protection * Consider secondments or national pool of qualified engineers for high demand times when specialist knowledge is required *Reassessment of level and suitability of backup equipment * Engage with River Engineers Special Interest Group, assess opportunities to second staff from other Councils	Group Manager - Asset Management	↔
REG002: Risk of contaminated site contaminating aquifer - Pollutants spilling out into aquifer resulting in compromised water safety	Public Health Organisational Reputational Environmental Financial	Extreme	Unlikely	Extreme	* Maintenance of 'HAIL' register * Strategic monitoring and review * Control of contaminated soils through consents * Enforcement of consents with provision of certain actions to be addressed * Physical remediation with site monitoring and enforcement * Compliance team review completed and additional resourcing appointed	Effective	High	Unlikely	Moderate	* Review of hazards management programme * Education and encouragement of correct disposal methods - consents team get large influx of queries, option to create a FAQ sheet * Create a pamphlet on good storm water guidance practice * Engage in a collaborative approach with other Territorial Local Authorities (TLA's) * Monitoring reports * Encourage self reporting * Continue with tightening up of source protection zones and continue with bore security programme reported to JWG * Encouraging self reporting and testing including a reporting portal for well owners and information brochures * Enforcement action taken where required.	Group Manager - Regulation	↓
OCEC002: Disruption to Business Continuity - Inability to perform business functions due to staff, building or equipment loss, or system failure	Organisational Reputational	High	Likely	High	* Appropriate insurance cover * Contingency in place for provision of office space and equipment * ICM Group quality management system * ICT backups * Business Continuance Plan in place (reviewed annually) * Cyber security insurance implemented * Avoid using products and services that have a single operator * Business Continuance Review recently conducted * Implementation of IRIS to assist with accessibility of paperless information	Satisfactory	High	Highly Unlikely	Moderate	* Regular review of Business Continuance Plan (BCP). Reviewed, effective 1/7/19 **- The BCP was successfully tested in the civil defense exercise is October 2019 some follow up work required to fully embed practice.** * Improved staff wide training and awareness - Lisa P connects with new staff creating awareness * Creation of 'one pager' go to guide that staff can refer to in the incidence of risk to Business Continuance * Centralised database of staff personal contact details in the event of a business outage. Held by payroll * Staff to review findings of recent review and refresh BCP within the organisation. Completed * New dedicated ownership proposed in Business Continuance. Civil Defence, clearer who owns. * Ensure staff are aware of existence of BCP and where to find it * Perform a desk top exercise for staff. Civil Defence exercise *** Responsibility for maintaining the BCP and ensuring its effectiveness will be part of the new R &A Lead role**	Group Manager - Office of the Chief Executive and Chair	↔
MAORI001: Co-governance of natural resources - Goals and/or objectives may not align. Relationships and communication channels with tangata whenua and partners may break down.	Environmental Organisational Reputational	High	Likely	High	* Work programme - resource in place with responsibilities for progressing co-governance issues * A collaborative process with Council working to improve relationship with Treaty Claimant Groups and Tangata Whenua * Strategic overview of how "nuts and bolts mesh" * Partnerships team has been established. * HBRC responsiveness to Maori strategy is under development key component of which will be relationships engagements with tangata whenua	Effective	Moderate	Unlikely	Moderate	* Continue to build on relationship management with relevant stakeholders to ensure collaboration * Recognition of 80% voting rule may allow for delays in decision making processes (RPC) * Code of Conduct to be extended to non-elected members (RPC) * Provide clarity around legislative function around what HBRC does under RMA * Provision more lead time in plan changes for tangata whenua engagement *** Facilitate treaty workshop for elected councillors and ELT**	Te Pou Whakarae	↔
CORP002: Investment Portfolio - ability to receive expected dividends. Financial reliance on dividends from Napier Port in time of planned expansion. HBRIC Limited with renewed mandate and directorship.	Financial Organisational Reputational	High	Likely	High	* Treasury Policy * Funding strategy development * Napier Port holds insurance for material damage and business interruption * Public consultation on Port Funding Options to diversify risk pool and fund expansion * Engagement of fund manager(s) to diversify funding mix and increase returns * Council approves SOI and appointment of Directors for HBRIC Limited. Regular reporting from HBRIC to Council. * IPO transaction expected to take place on 19 August which will reduce our shareholding to 55% therefore less reliance on port dividend - proceeds unknown at this time. Less ability to accurately forecast financial returns on Diversified Investment Portfolio.	Satisfactory	High	Unlikely	Moderate	* Alter funding mix to reduce reliance on Napier Port Dividend * Continue with communications strategy on Port Transaction * Increase internal treasury performance reporting including reporting on market conditions * Continued development of appropriate policy *** An update is being submitted to the Finance, Audit & Risk Sub-committee.**	Group Manager - Corporate Services	↔
ORG001: Failure to establish and maintain relationships and communication channels with key stakeholders/partners - TLA's, government, ratepayers, business partners, funding providers, media, Maori	Organisational Reputational	High	Likely	High	* Development of protocols/guidelines for staff * Establishment of scheduled reporting and meeting appointments with key stakeholders * Creation of Maori Partnerships Group. On going development of group and its bilateral engagement with post settlement treaty entities.Participation by the chair and the CE and the regional leaders and CE fora - large efforts going into cross council collaboration and regional projects. * Agreement to Memoranda of Understanding where appropriate and mutually agreed * Formation of joint working groups * Additional Tangata Whenua funding requested in LTP * CRM (Customer relations database) 27/8 Show and Tell to Exec * Participation of Matariki REDS Executive steering partnership * Regular bi-lateral meetings with TA's and leaders forum	Effective	Moderate	Unlikely	Moderate	* Regular and proactive communication with stakeholders to maintain and build trust and enhance two way communication * Development of a new stakeholder plan and a review of council's communications strategy with an emphasis of stronger targeting of key stakeholders. * Networking/relationship building training to be provided to staff * Additional staff visibility at relevant events. Role of Regional officers - identify ways to free up time for CE and across business * Ensuring stakeholders (i.e. suppliers) understand our business and it's requirements - stakeholder engagement plan *Stakeholder engagement strategy and implementation plan *** Central Government - increased investment and engagement with central Government agencies particularly in relation to freshwater climate change and resource management.**	Chief Executive	↔

Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)		Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend ⬆ ⬌ ⬇
		Consequence	Likelihood	Factor	Description	Effectiveness	Consequence	Likelihood	Factor			
OCEC003: Ability to effectively engage with public and stakeholders - insufficient clarity around organisation's financial position, priorities and strategy. Diffusion of resourcing and capability. Public expectations may be misinformed.	Organisational Reputational	High	Likely	High	* Regular media releases to inform stakeholders using a variety of relevant channels. This continues and will increase now the two new communications advisors have joined the Comms & Marketing team (20 May). * Public consultation. Public consultation is undertaken when required by law. There is also regular interaction with the public through Facebook. * Engagement with Councillor's (and other stakeholders) on specific issues to ensure clear communication strategy. Councillors receive media releases and e-newsletters sent out as well as media stories regarding the regional council A stakeholder list of around 350 receives a bi-monthly newsletter updating them on the work of the Regional Council * Proactive information sharing i.e. media releases and reporting, publication of Works Group work programme in public spaces. There is proactive information sharing through media releases, e-newsletters and Facebook, as well as the Regional Council website * Continuous improvement of internal alignment of strategy and purpose * Continue to differentiate roles and responsibilities between HBRC and TLA's. Communications frequently explain the role and the work of the Regional Council * Programme of communication with farmers and asset management plans. As part of the Communications Strategy and Plan a programme of work to engage with farmers is scheduled. * Once the two new communications advisors are on board on 20 May this work will be increased	Satisfactory	Moderate	Unlikely	Moderate	* Cross organisational engagement plan * Provision of clear breakdown of costs and resource implications to Councillors * Communications team to promote "good news stories" and greater visibility of outcome reporting. This is undertaken, although it has been hampered by a lack of resources and a restructure in the Communications and Marketing team. This will improve when the two new communications advisors are on board from 20 May. * General work programme to better engage with stakeholders including a stakeholder audit scheduled for current year * Collaborative work programme with CE's and Chairs regionally * New communications strategic plan agreed and to be actioned in current year *** Stakeholder engagement plan has been drafted, requires further discussion with exec and councillors to determine scope of engagement. A key priority for 2020.**	Group Manager - Office of the Chief Executive and Chair	⬌
STRAT001: Implementation of National Policy for Freshwater Management (NPSFM) - risk that aspects of policy do not meet minimum standards and or failure to meet statutory deadlines.	Organisational Environmental Reputational	High	*Unlikely*	Moderate	* Annual Report and Progressive Implementation Plan * Liaison with other councils and agencies (MFE and MPI) for guidance on NPSFM implementation * Long Term Plan and Annual Plan * On-going monitoring programme * Heavy involvement in relevant stakeholder groups * Recent reorganisation has aided in facilitating better work across organisation	Effective	Moderate	Unlikely	Moderate	* Continue with regular monitoring to ensure that minimum requirements are being met * Ensuring that planning processes are robust and fit for purpose * Have an adaptive cycle to ensure that changes can be made if required * Maintain support of Overseer model or find alternative *** Retaining and attracting, developing internal policy planning, science expertise** * Project review to assess correctness of approach *High possibility that central government will impose new deadline of 2025 for all freshwater plans to be operative.	Group Manager - Strategic Planning	⬆
STRAT002: Ability for Council to deliver on planned projects - Annual Plan/LTP projects. Both minor and major projects and strategies. Risk of resourcing constraints including staff time being diverted elsewhere.	Environmental Organisational Reputational				* Ensuring appropriate project plan is in place * Strategic and suitably qualified staff to ensure projects are executed properly * Ensuring risks are adequately managed so staff time isn't diverted elsewhere * Regular communication to stakeholders including public to ensure expectations are met * New Project Management Office (PMO) implemented with dedicated resource in this space * Pilot projects underway with planned reporting to future Council meetings. Pilot completed - Initiatives register established for better visibility of projects/workstreams * Increased staff training on Project Management principles * Consideration of impact or influence of 3rd parties who may be misaligned with project goals * Project Management training in place *** Project sponsor training being rolled out across potential project sponsors commencing February 2020** *** Creation of initiatives register plus ongoing investigations for project management "tool" for HBRC**					* Continue to monitor projects to ensure deadlines are being met * Consider formalising project management discipline/training to all staff involved in projects * Full clarity of ownership on projects * Consider resourcing within whole of Council and ability to move staff within projects * Monitoring of pilot projects * Option for labour hour budgeting to better understand resourcing capacity and constraints * Active prioritisation of projects *** Iniitiatives register gives snapshop visibility of project status.**	Group Manager - Strategic Planning	⬌
ORG002: Ability to retain and attract appropriately skilled staff - a large proportion of roles require highly technical skills. Required service levels may be impacted as a result of not being able to fill roles and/or staff resignations	Financial Organisational Reputational	Moderate	Likely	Moderate	* Remuneration at local government market rates. Local and National * Regular professional development training provided to staff where applicable * Advertisement of roles outside of region to attract staff with specific skills. Recruitment consultants engaged where required * Strong staff culture including flexible working hours, open door policies * Ensuring ongoing training and staff advancement, and promote internally where possible * Cross skilling of staff where possible * Introduction of staff performance management system and review process	Satisfactory	Moderate	Likely	Moderate	* Emphasis on maintaining strong staff culture * Staff satisfaction and engagement survey to be repeated/held annually * Ensuring ongoing competitiveness in remuneration by using market surveys. Review undertaken and new system in place. * Reward staff where possible and invest in their training and wellbeing - as above * Establish clarity of roles. Ongoing overview of JD's * Provide flexibility in roles where possible * Branding and image opportunities. Drew to ensure we are employer of choice * Remuneration flexibility (i.e. training, benefits etc.) Completed in review * Review other options for recruitment such as a finders fee, or bonding opportunities. Not yet completed *** Review and restructure of HR Team. Creation of new dedicated recruitment advisor role and development of a learnig and development strategy.** *** Review and role out of new remuneration to performance management system with salary adjustments market competitiveness.** *** Ongoing focus on staff welfare and welbeing and recognition.** ***Working with other regional councils nationally on workforce pipelines eg - river engineers.**	Chief Executive	⬌
ICM001: Biosecurity Incident - Examples include a large scale biosecurity incident in Hawke's Bay such as foot and mouth outbreak. Beetle infestation. Pest control toxins leaked into agricultural food chain. Risk of failure of other organisations to fulfil their responsibilities.	Public Health Organisational Reputational Environmental Financial	High	Unlikely	High	* HBRC to act in a support role (MPI) however good relationships maintained with Central Government with regard to possible incident responses * Approved contractors to undertake biosecurity work * Auditing of farmers handling and distributing their own bait stations * Poison handling and bait distribution specification standards * Cape to City project - elimination of pests * Proactive communication with stakeholders * Implementation of on-farm biosecurity protocol	Effective	Moderate	Unlikely	Moderate	* Continue to maintain good relationships with Central Government * Investigate training of staff on how to respond to biosecurity incident - MPI are now running a National Biosecurity capability network training programme that HBRC staff have been invited to participate. * Proactive agreement with MPI. Regional biosecurity forum * Communication to staff regarding proper protocols in the event of an outbreak (i.e. location of stock) * Review learnings of Microplasma Bovis report * Review/increase activity in communication with stakeholders * Discuss potential of Biosecurity communication plan with rest of organisation *** ICM will hold an independent review that we are to ensure that our bio security are operating to our best management standard approaches.**	Group Manager - Integrated Catchment Management	⬌
CORP003: Inadequate Contractor Management - resulting in unnecessary costs and/or insufficient output or quality. Our reputation is at risk if contractors do not deliver quality work that meets environmental performance expectations or is unsafe.	Financial Organisational Reputational	Moderate	Unlikely	Moderate	* Appropriate contracts in place as per procurement policy * Regular audits of contractor performance and safety * SiteWise to help ensure quality and compliance of contractor * Standardised contract available for staff to use * Procurement and contract management audit complete with informal work programme on findings underway including development of templates * New contracts management process including automated workflows was implemented from 1 July. This should ensure adherence to the procurement policy and provide greater oversight for management. Regular reports will be made available.	Satisfactory	Low	Likely	Moderate	* Ensure staff continue to follow correct procurement procedures * Continue to ensure contractors are inducted as per HBRC policies * Implement formalised contractor performance assessment process * Ensure contracts are adequate and liability is clarified * Assessment of opportunities to have a "preferred supplier" where possible * Investigate joint resource opportunities for procurement/contract manager role	Group Manager - Corporate Services	⬌

Risk Descriptor - details the main component and provides an example of a risk(s) that may be attributable	Risk Type	Gross Risk (no effective measures in place)			Current Practice/Strategy (Avoidance and mitigation measures)		Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend ↑ ↔ ↓
		Consequence	Likelihood	Factor	Description	Effectiveness	Consequence	Likelihood	Factor			
STRAT003: Ability to maintain awareness and understanding of relevant legislation - inability to comply with consents, statute and national standards.	Organisational Reputational	Moderate	Likely	Moderate	* Regular training and monitoring of legislation. * Ability for staff to make submissions on legislation changes * Independent advice provided when needed * Local Government NZ membership. Other relevant professional/government body memberships * ICM Group Improvement register logs and prioritises impending legislative changes	Effective	Moderate	Unlikely	Moderate	* Ensure staff obtain advice when and where required * Ensure training is provided * Cross organisational ownership * Central database that provides updates on relevant legislation changes * Dedication of more resourcing and enable more functional knowledge sharing within organisation	Group Manager - Strategic Planning	↔
OCEC004: Risk of Council providing incorrect or sensitive information to stakeholders - Either intentionally or unintentionally. Litigation arising as a result	Financial Organisational Reputational	Moderate	Unlikely	Moderate	* Ensuring staff are adequately trained and briefed before providing information * Peer review of public documents * Critical documents to be externally reviewed * Professional indemnity and Public liability insurances are held * Quality control of information held (i.e. passwords)	Effective	Low	Unlikely	Low	* Implement privacy awareness training so staff are aware of their roles and responsibilities, including document management training and negligence. All new staff are made aware of their responsibilities re privacy and confidentiality. The Privacy Commissioner does offer training for those that wish to take it up. A privacy audit anticipated in first half of 2020, and a new privacy officer to be appointed following departure of HR Manager. * Local Government Official Information and Meetings Act (LGOIMA) training session to be held by governance team, scheduled for 2019/20 calendar year. Governance advisor trains staff via team meetings or directs staff to the staff policy. Video is also due to be recorded. * Customer Relationship Management database currently being trialled with Executive assistants * Media training completed in 2018/19 calendar year for all staff and Councillors. * Ensure all Council business is conducted on Council email address by all staff and Councillors * FAQ cards to be created and dispersed amongst staff regarding topical media stories to ensure all staff are aware of appropriate response to questions *** Media training has been provided to Councillors and staff.** *** A privacy audit anticipated in first half of 2020, and a new privacy officer to be appointed following departure of HR Manager.**	Group Manager - Office of the Chief Executive and Chair	↔
CORP004: Accuracy and integrity of financial information - ensuring statutory returns are filed accurately. Information provided to stakeholders is factual.	Financial Reputational	Moderate	Unlikely	Moderate	* Internal and External audit held routinely * Training of finance staff held frequently * Training sessions held with non-finance staff by finance staff * Fraud policy and training * Segregation of duties and correct authorisation levels in place - reviewed annually * Peer review of work * Implementing a new budgeting and reporting tool which will allow for production of a rolling forecast for both operational expenditure and CAPEX. This will give us greater sight of tracking over the financial period, highlighting spend forecasts for the year. CAPEX will be reported on a quarterly basis. * New improved monthly reporting for internal purposes and introduction of on line reporting tool which will allow budget holders to review and update budgets on a rolling forecast basis.	Effective	Moderate	Unlikely	Low	* Peer reviews to be conducted when non-finance staff are responsible for producing financial information * Continue with internal and external audits and ensure recommendations are implemented and followed * Improve frequency and readability of both reporting internally and to Council * Option for labour hour budgeting to better understand resourcing capacity and constraints	Group Manager - Corporate Services	↔

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: TREASURY REPORT FOR PERIOD TO 31 DECEMBER 2019

Reason for Report

1. This item provides an update of compliance monitoring of treasury activity and reports the performance of Council's diversified investment portfolios.
2. Brett Johanson (Partner) and John Hepburn (Manager Corporate Treasury) will be in attendance at the 11 February meeting making a short presentation at 10.30am.

Executive Summary

Long Term Investment Fund (LTIF)

3. The total size of the LTIF portfolio at the end of December 2019 was $50.7m, with approximately half invested with Mercer and Jarden respectively.
4. The combined Mercer and Jarden portfolios generated a *net* return of approximately 2.2% over the December 19 quarter. The Jarden portfolio was the biggest contributor due a higher return.
5. The combined LTIF portfolio has generated a *net* return of approximately 11.1% since inception in January 2019 which represents 347 days of investment, just short of one year.

Future Investment Fund – Port Proceeds (FIF)

6. The total size of the PFIF portfolio at the end of December was $104.7m, with approximately half invested with Mercer and Jarden respectively.
7. The FIF portfolios were implemented on the 16 September 2019 following the Napier Port IPO, this represents 106 days of investment.
8. The Mercer portfolios performance for the quarter correspond to annualised returns of 6.6%.
9. The Jarden portfolios performance for the quarter corresponds to average annualised returns of 5.8%.
10. The Mercer portfolios are compliant with SIPO requirements. Jarden are adopting a staggered implementation approach, meaning both portfolios (HBRC and HBRIC) are not yet SIPO compliant with their target asset allocations. The Jarden portfolios had an allocation to growth assets of 25% at the end of December versus a target benchmark allocation of 50%.

Background

11. HBRC has procured Treasury Advice and services from PwC since 2018.
12. Internally, HBRC's CFO is developing capability-building programmes to transfer skills from consultants to staff to build internal capabilities to continuously improve and provide an adequate and mature treasury function.
13. Staff have worked with PwC over the past two years during which we have joined the LGFA providing access to borrowing at reduced rates, developed and adopted the current SIPO and run an RFP process for the appointment of investment fund managers.

14. HBRC has a new dedicated resource in the form of a Treasury and Funding Accountant joining us in March 2020. This will allow a broader focus to include a more mature cash-flow function, and as borrowing needs will likely increase over time debt management is another key area where we look to mature as an organisation and enhance reporting to this committee.

15. Staff seek feedback from members of the FARS regarding the level and detail of treasury reporting sought as we continue to develop the reporting function in this area.

Decision Making Process

16. 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 Finance, Audit and Risk Sub-committee receives and notes the "*Treasury Report for period to 31 December 2019*" staff report.

Authored by:

Bronda Smith
CHIEF FINANCIAL OFFICER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** HBRC Treasury Report December 2019

Item 7

Hawke’s Bay Regional Council

Attachment 1

Quarterly Treasury Report

As at 31 December 2019

Contents

1.0 Treasury Activity Compliance Monitor

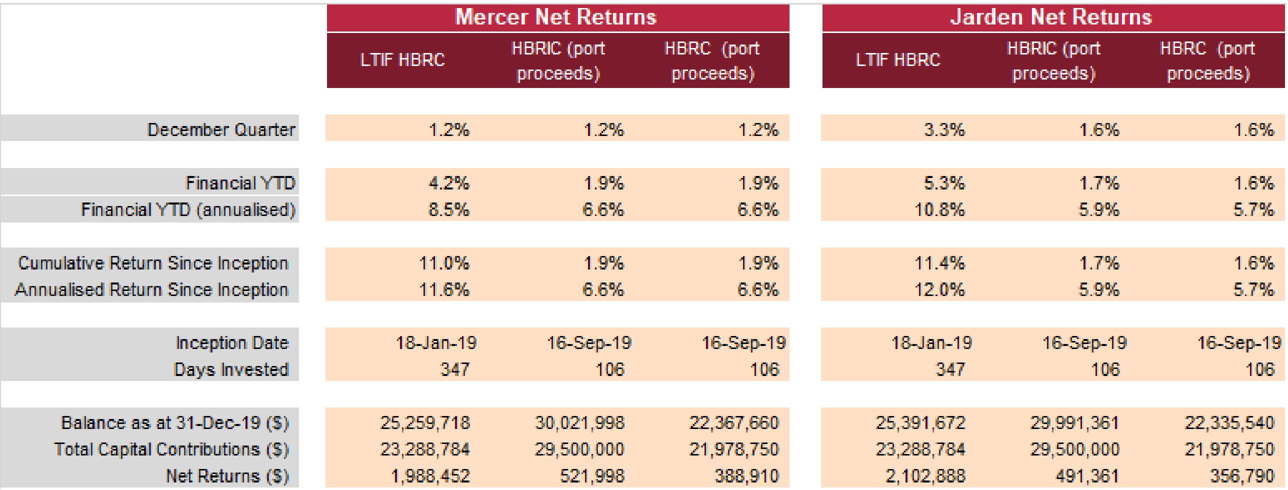
Policy document	Policy parameters	Compliance
Treasury Policy	Borrowing limits	Yes
	Funding risk control limits	Yes
	Liquidity buffer	Yes
	Interest rate risk control limits	Yes
	Treasury investment parameters	Yes
	Counterparty credit limits	Yes
SIPO	Asset allocations	No

Attachment 1

Item 7

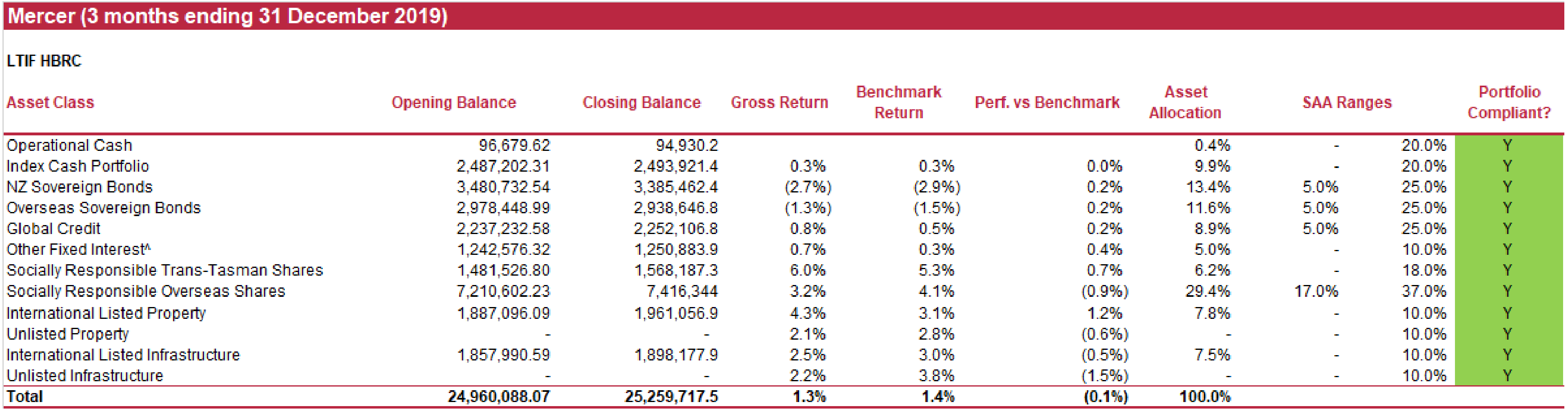
2.0 Investment Management Reporting

Performance Summary (net returns – after management and custodial fees)



	Mercer Net Returns			Jarden Net Returns		
	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)
December Quarter	1.2%	1.2%	1.2%	3.3%	1.6%	1.6%
Financial YTD	4.2%	1.9%	1.9%	5.3%	1.7%	1.6%
Financial YTD (annualised)	8.5%	6.6%	6.6%	10.8%	5.9%	5.7%
Cumulative Return Since Inception	11.0%	1.9%	1.9%	11.4%	1.7%	1.6%
Annualised Return Since Inception	11.6%	6.6%	6.6%	12.0%	5.9%	5.7%
Inception Date	18-Jan-19	16-Sep-19	16-Sep-19	18-Jan-19	16-Sep-19	16-Sep-19
Days Invested	347	106	106	347	106	106
Balance as at 31-Dec-19 ($)	25,259,718	30,021,998	22,367,660	25,391,672	29,991,361	22,335,540
Total Capital Contributions ($)	23,288,784	29,500,000	21,978,750	23,288,784	29,500,000	21,978,750
Net Returns ($)	1,988,452	521,998	388,910	2,102,888	491,361	356,790

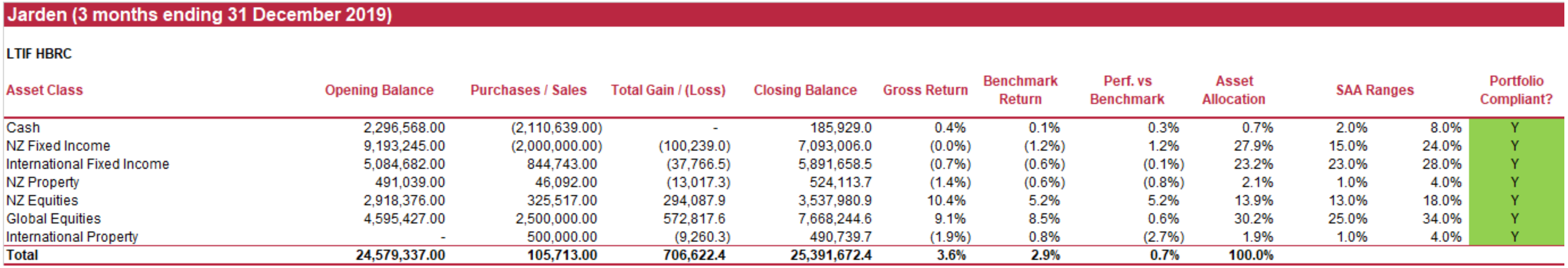
Long Term Investment Fund (LTIF HBRC)



Mercer (3 months ending 31 December 2019)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	96,679.62	94,930.2				0.4%	-	20.0%	Y
Index Cash Portfolio	2,487,202.31	2,493,921.4	0.3%	0.3%	0.0%	9.9%	-	20.0%	Y
NZ Sovereign Bonds	3,480,732.54	3,385,462.4	(2.7%)	(2.9%)	0.2%	13.4%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,978,448.99	2,938,646.8	(1.3%)	(1.5%)	0.2%	11.6%	5.0%	25.0%	Y
Global Credit	2,237,232.58	2,252,106.8	0.8%	0.5%	0.2%	8.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,242,576.32	1,250,883.9	0.7%	0.3%	0.4%	5.0%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,481,526.80	1,568,187.3	6.0%	5.3%	0.7%	6.2%	-	18.0%	Y
Socially Responsible Overseas Shares	7,210,602.23	7,416,344	3.2%	4.1%	(0.9%)	29.4%	17.0%	37.0%	Y
International Listed Property	1,887,096.09	1,961,056.9	4.3%	3.1%	1.2%	7.8%	-	10.0%	Y
Unlisted Property	-	-	2.1%	2.8%	(0.6%)	-	-	10.0%	Y
International Listed Infrastructure	1,857,990.59	1,898,177.9	2.5%	3.0%	(0.5%)	7.5%	-	10.0%	Y
Unlisted Infrastructure	-	-	2.2%	3.8%	(1.5%)	-	-	10.0%	Y
Total	**24,960,088.07**	**25,259,717.5**	**1.3%**	**1.4%**	**(0.1%)**	**100.0%**			



Jarden (3 months ending 31 December 2019)

LTIF HBRC

Asset Class	Opening Balance	Purchases / Sales	Total Gain / (Loss)	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	2,296,568.00	(2,110,639.00)	-	185,929.0	0.4%	0.1%	0.3%	0.7%	2.0%	8.0%	Y
NZ Fixed Income	9,193,245.00	(2,000,000.00)	(100,239.0)	7,093,006.0	(0.0%)	(1.2%)	1.2%	27.9%	15.0%	24.0%	Y
International Fixed Income	5,084,682.00	844,743.00	(37,766.5)	5,891,658.5	(0.7%)	(0.6%)	(0.1%)	23.2%	23.0%	28.0%	Y
NZ Property	491,039.00	46,092.00	(13,017.3)	524,113.7	(1.4%)	(0.6%)	(0.8%)	2.1%	1.0%	4.0%	Y
NZ Equities	2,918,376.00	325,517.00	294,087.9	3,537,980.9	10.4%	5.2%	5.2%	13.9%	13.0%	18.0%	Y
Global Equities	4,595,427.00	2,500,000.00	572,817.6	7,668,244.6	9.1%	8.5%	0.6%	30.2%	25.0%	34.0%	Y
International Property	-	500,000.00	(9,260.3)	490,739.7	(1.9%)	0.8%	(2.7%)	1.9%	1.0%	4.0%	Y
Total	**24,579,337.00**	**105,713.00**	**706,622.4**	**25,391,672.4**	**3.6%**	**2.9%**	**0.7%**	**100.0%**			

Mercer portfolio

- The Mercer portfolio generated a *gross* return (before fees and tax) of 1.3% for the quarter, marginally trailing their benchmark by 10bp. On a *net* (after fees and tax) basis, the portfolio returned 1.2%, trailing the benchmark by 20bp.
- The portfolio has now achieved a *gross* return of 11.4% since inception on 18 January 2019, trailing the benchmark by 1.3%. On a *net* basis, the portfolio has returned 11% since inception, trailing the benchmark by 1.7%.

- Over the quarter, the portfolio performed broadly in line with its benchmark; Socially Responsible Trans-Tasman Shares (+0.7%) and International Listed Property (+1.2%) were standout performers both providing a boost to relative performance, with the former benefitting from an overweight holding to Metlifecare and Summerset Group.
- The portfolio remains compliant with the strategic asset allocation (SAA) ranges stipulated in the SIPO.

Jarden portfolio

- Jarden generated a *gross* return (before fees and tax) of 3.6% for the quarter, leading their benchmark by 70bp. On a *net* (after fees and tax) basis, the portfolio returned 3.3%, leading the benchmark by 40bp. The portfolio has achieved a *net* return of 11.4% since inception on 18 January 2019.
- NZ and Global Equities were the standout performers for the portfolio over the quarter, returning 10.4% and 9.1% respectively. International and NZ Property were the two weakest asset classes, both declining by 1-2%.
- The portfolio is now compliant with the strategic asset allocation (SAA) ranges stipulated in the SIPO.

Combined portfolio

- The combined Mercer and Jarden portfolios generated a *net* return of approximately 2.2% over the December quarter. The Jarden portfolio was the biggest contributor due to its higher return. The combined LTIF portfolio has generated a *net* return of approximately 11.1% since inception.
- The total size of the LTIF portfolio at the end of December was $50.651m, with approximately half invested with Mercer and Jarden respectively.

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Attachment 1

Future Investment Fund – Port Proceeds

Mercer (3 months ending 31 December 2019)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	114,906.9	112,827.6				0.4%	-	20.0%	Y
Index Cash Portfolio	2,956,121.0	2,964,107.0	0.3%	0.3%	0.0%	9.9%	-	20.0%	Y
NZ Sovereign Bonds	4,136,964.1	4,023,732.4	(2.7%)	(2.9%)	0.2%	13.4%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,539,983.7	3,492,677.5	(1.3%)	(1.5%)	0.2%	11.6%	5.0%	25.0%	Y
Global Credit	2,659,023.9	2,676,702.4	0.8%	0.5%	0.2%	8.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,476,842.5	1,486,716.3	0.7%	0.3%	0.4%	5.0%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,760,842.9	1,863,841.7	6.0%	5.3%	0.7%	6.2%	-	18.0%	Y
Socially Responsible Overseas Shares	8,570,035.8	8,814,566.5	3.2%	4.1%	(0.9%)	29.4%	17.0%	37.0%	Y
International Listed Property	2,242,875.2	2,330,780.1	4.3%	3.1%	1.2%	7.8%	-	10.0%	Y
Unlisted Property	-	-	2.1%	2.8%	(0.6%)	-	-	10.0%	Y
International Listed Infrastructure	2,208,282.4	2,256,046.4	2.5%	3.0%	(0.5%)	7.5%	-	10.0%	Y
Unlisted Infrastructure	-	-	2.2%	3.8%	(1.5%)	-	-	10.0%	Y
Total	**29,665,878.44**	**30,021,997.8**	**1.3%**	**1.4%**	**(0.1%)**	**100.0%**			

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	85,610.5	84,061.3				0.4%	-	20.0%	Y
Index Cash Portfolio	2,202,435.4	2,208,385.3	0.3%	0.3%	0.0%	9.9%	-	20.0%	Y
NZ Sovereign Bonds	3,082,213.6	2,997,851.2	(2.7%)	(2.9%)	0.2%	13.4%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,637,437.9	2,602,192.7	(1.3%)	(1.5%)	0.2%	11.6%	5.0%	25.0%	Y
Global Credit	1,981,085.4	1,994,256.7	0.8%	0.5%	0.2%	8.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,100,310.2	1,107,666.6	0.7%	0.3%	0.4%	5.0%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,311,902.6	1,388,641.1	6.0%	5.3%	0.7%	6.2%	-	18.0%	Y
Socially Responsible Overseas Shares	6,385,039.8	6,567,225.5	3.2%	4.1%	(0.9%)	29.4%	17.0%	37.0%	Y
International Listed Property	1,671,037.1	1,736,529.9	4.3%	3.1%	1.2%	7.8%	-	10.0%	Y
Unlisted Property	-	-	2.1%	2.8%	(0.6%)	-	-	10.0%	Y
International Listed Infrastructure	1,645,264.0	1,680,850.1	2.5%	3.0%	(0.5%)	7.5%	-	10.0%	Y
Unlisted Infrastructure	-	-	2.2%	3.8%	(1.5%)	-	-	10.0%	Y
Total	**22,102,336.48**	**22,367,660.5**	**1.3%**	**1.4%**	**(0.1%)**	**100.0%**			

Attachment 1

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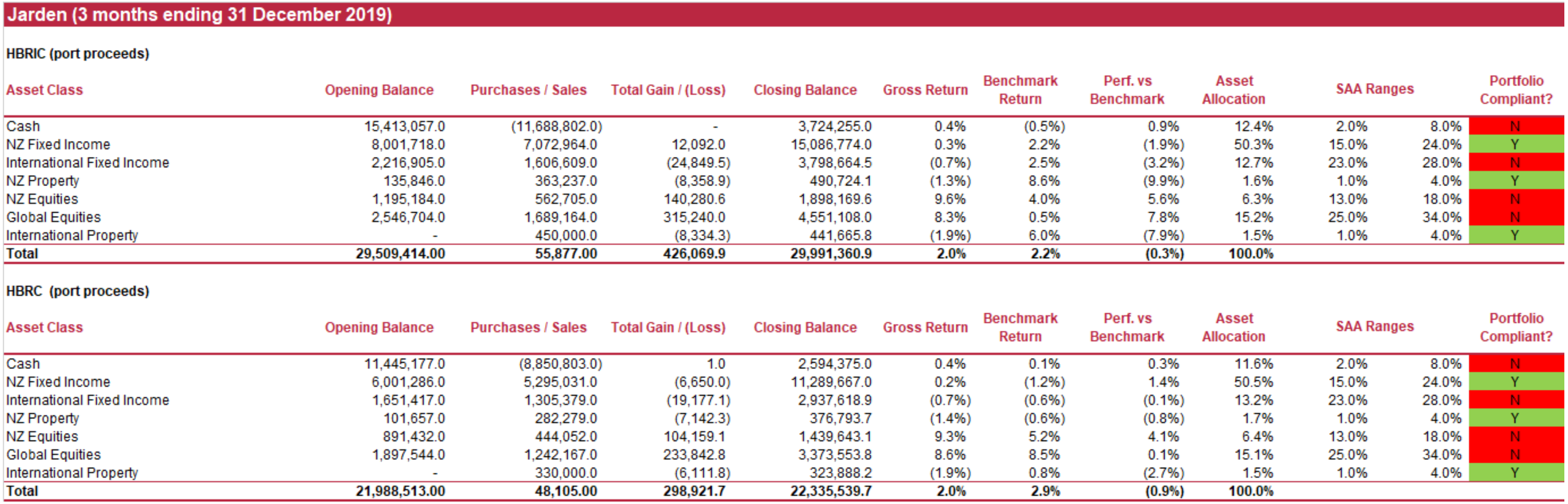


Jarden (3 months ending 31 December 2019)

HBRIC (port proceeds)

Asset Class	Opening Balance	Purchases / Sales	Total Gain / (Loss)	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	15,413,057.0	(11,688,802.0)	-	3,724,255.0	0.4%	(0.5%)	0.9%	12.4%	2.0%	8.0%	N
NZ Fixed Income	8,001,718.0	7,072,964.0	12,092.0	15,086,774.0	0.3%	2.2%	(1.9%)	50.3%	15.0%	24.0%	Y
International Fixed Income	2,216,905.0	1,606,609.0	(24,849.5)	3,798,664.5	(0.7%)	2.5%	(3.2%)	12.7%	23.0%	28.0%	N
NZ Property	135,846.0	363,237.0	(8,358.9)	490,724.1	(1.3%)	8.6%	(9.9%)	1.6%	1.0%	4.0%	Y
NZ Equities	1,195,184.0	562,705.0	140,280.6	1,898,169.6	9.6%	4.0%	5.6%	6.3%	13.0%	18.0%	N
Global Equities	2,546,704.0	1,689,164.0	315,240.0	4,551,108.0	8.3%	0.5%	7.8%	15.2%	25.0%	34.0%	N
International Property	-	450,000.0	(8,334.3)	441,665.8	(1.9%)	6.0%	(7.9%)	1.5%	1.0%	4.0%	Y
Total	**29,509,414.00**	**55,877.00**	**426,069.9**	**29,991,360.9**	**2.0%**	**2.2%**	**(0.3%)**	**100.0%**			

HBRC (port proceeds)

Asset Class	Opening Balance	Purchases / Sales	Total Gain / (Loss)	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	11,445,177.0	(8,850,803.0)	1.0	2,594,375.0	0.4%	0.1%	0.3%	11.6%	2.0%	8.0%	N
NZ Fixed Income	6,001,286.0	5,295,031.0	(6,650.0)	11,289,667.0	0.2%	(1.2%)	1.4%	50.5%	15.0%	24.0%	Y
International Fixed Income	1,651,417.0	1,305,379.0	(19,177.1)	2,937,618.9	(0.7%)	(0.6%)	(0.1%)	13.2%	23.0%	28.0%	N
NZ Property	101,657.0	282,279.0	(7,142.3)	376,793.7	(1.4%)	(0.6%)	(0.8%)	1.7%	1.0%	4.0%	Y
NZ Equities	891,432.0	444,052.0	104,159.1	1,439,643.1	9.3%	5.2%	4.1%	6.4%	13.0%	18.0%	N
Global Equities	1,897,544.0	1,242,167.0	233,842.8	3,373,553.8	8.6%	8.5%	0.1%	15.1%	25.0%	34.0%	N
International Property	-	330,000.0	(6,111.8)	323,888.2	(1.9%)	0.8%	(2.7%)	1.5%	1.0%	4.0%	Y
Total	**21,988,513.00**	**48,105.00**	**298,921.7**	**22,335,539.7**	**2.0%**	**2.9%**	**(0.9%)**	**100.0%**			

- The Future Investment Fund portfolios were implemented on the 16th of September and the above table therefore only represents a partial quarter of performance.
- The Mercer portfolios both 1.9% on a *net* basis. These correspond to annualised returns of 6.6%.
- The Jarden portfolios 1.7% and 1.6% on a *net* basis. These correspond to annualised returns of 5.9% and 5.7% respectively.
- The Mercer portfolios are both compliant with their respective SAA SIPO requirements.
  - Jarden are again adopting a staggered implementation approach, meaning both portfolios are not yet SIPO compliant with their target asset allocations. The Jarden portfolios had an allocation to growth assets of 25% at the end of December versus a target benchmark allocation of 50%.
  - The total size of the PFIF portfolio at the end of December was $104.7m, with approximately half invested with Mercer and Jarden respectively.

3.0 SIPO review

We have undertaken a review of the SIPO and requested comments from both PwC and the investment managers. This section highlights areas where the statement could be enhanced. PwC believe the SIPO remains fit for purpose.

PwC SIPO comments

Whilst PwC agree that Council's return target may be more difficult to achieve over coming years due to the historically low interest rate environment and extended investment markets, PwC do not believe it prudent to alter the portfolio's strategic asset allocation by moderating the risk profile. This would introduce a level of risk to the portfolio that is not congruent with Council's willingness and ability to take risk. It may also hinder Council's ability to achieve its investment objectives should a significant negative event occur in any period.

Comments 7 and 8 below refer to Jarden's inability to invest in illiquid assets under the current SIPO. PwC believe this should be reviewed to ensure it is fairly aligned with Mercer's ability to invest up to 10% of the portfolio in illiquid, 'unlisted property' and 'unlisted infrastructure'. PwC agree with Jarden's comment that as long as there is an expected accelerated return for the additional risk of investing in illiquid assets that are expected to be held over the medium term, an acceptable proportion of the Fund should benefit.

Comment 9 by Jarden refers to the minimum credit rating required for fixed income investments. PwC agree with Jarden's view that the minimum rating could be lowered to BBB- from BBB+. This would continue to maintain a minimum 'investment grade' credit rating across the portfolio, enhance the fixed income yield opportunity and diversification allowing access to a deeper issuance population. There have been minimal defaults in the global BBB credit rating space over the past four decades; the highest year was 1% of total BBB issuance in 2002 and has been close to 0% over the past decade.

Comment 11 by Mercer refers to a minor wording adjustment around hedging. PwC believe this is a suitable change.

Comment 13 by Mercer refers to a more formalised ethical investment policy as part of this SIPO review. Based on recent discussions with management, PwC believe this issue will become more important over the coming years and believe it would be appropriate to start formalising a policy at this juncture. PwC understand that a discussion with elected councillors to articulate this policy is to be undertaken.

Comments 12 and 14 by Mercer are minor administration points that Council may wish to update in the SIPO.

PwC also recommend updating the SIPO to reflect there are now three separate portfolios with each investment manager, including the capital amount invested into each one and the respective dates of inception.

Conclusion

PwC do not suggest any further changes to the SIPO to those mentioned above. PwC will wait for the above changes to be discussed by the Finance and Audit Risk Committee before formally updating the SIPO.

Jarden's SIPO comments

1. Is the asset allocation too conservative? Council have assessed the capacity to take risk as low to moderate noting: 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. This is unfortunate as it means they are focused on the near term despite the long time horizon and has to be the factor which limits risk in the portfolio to 50:50 Growth:Income.

2. The willingness to accept risk is interesting as it says Council is a risk averse entity. Consequently we feel there is a reluctance to accept risk even though the conclusion is Council's willingness to accept risk would characterised as moderate due to an acknowledgement of the impact of inflation.

3. Given we are looking at a low interest rate environment for some time the ability for Council to hit its return target in the short term will likely be challenged. Based on Jarden's long term forecasts we expect a 60% growth 40% income portfolio to deliver 6.8%pa and a 80% growth 20% income portfolio to deliver 7.5%pa.

4. If the portfolios are ahead of their target return with respect to the reserving policy, Council might consider a temporary shift in asset allocation to growth with the knowledge that they have a buffer, if in fact a buffer exists?

5. We are happy for International bonds to remain fully hedged, as currency fluctuation just boost risk without benefiting long term returns for bonds.

6. We are interested in more investigation on International Equities hedging. We see historically there has been a gain to be had by NZ investors hedging offshore currency exposures. Last time Jarden did the exercise there was zero gain, although admittedly not a cost either. Typically we see the allocation to global equities left unhedged due to the currency stabiliser if there is a large NZ specific event. We see some arguments that the best option is to have 50% hedged and 50% unhedged which means you are indifferent to changes in the currency. There is no strong reason to change, but worth another look.

7. Given the long term nature of the fund and its size, we question the need to invest only in liquid securities. Jarden's view is that as long as there is an expected extra return for the additional risk of investing in illiquid assets, we believe the fund should exploit this.

8. A limit should be imposed on the level of illiquid assets. This would require a review of 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.

9. The minimum BBB+ credit rating seems conservative. We think consideration should be given to reducing to BBB if not BBB-. If nothing else this broadens the range of investments available. To ensure the portfolio doesn't become over burdened with weaker credits we could set an average credit rating for the portfolio of say BBB+ and place lower limits on the holdings of weaker credits?

Mercer's SIPO comments

10. Investment Performance Objective: taking current expected returns per asset class into account, we believe the 5% real return target may be too ambitious. Our modelling indicates that the Council's current 50% Growth strategy has a very low (<10%) probability of achieving this objective over the long term.

11. Asset Class Guidelines (page 11): 4th bullet states a 50% lower bound for hedging, whereas the Foreign Exchange section on page 13 correctly notes a 30% bound. We suggest 30% is noted in both sections.

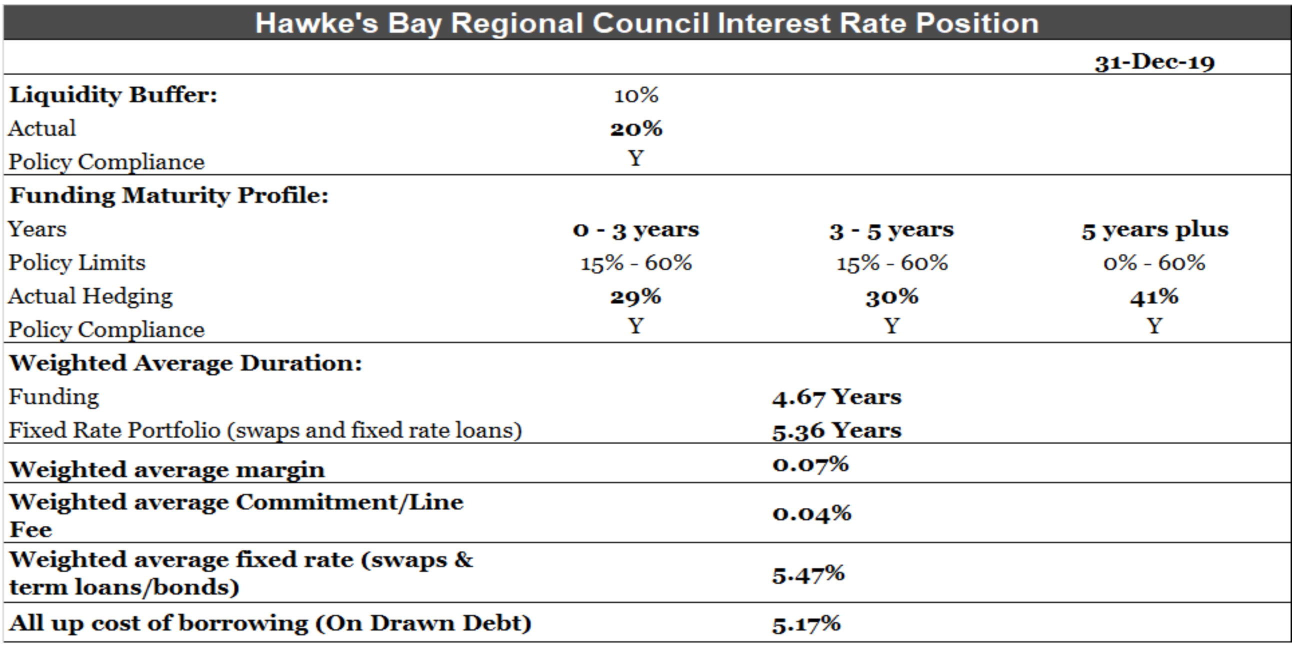
12. Rebalancing (page 12): the second paragraph may be interpreted to mean the Council needs to explicitly approve each rebalancing trade. In practice, this is carried out by Mercer on an ongoing basis. We would suggest the wording is amended to reflect the delegation of rebalancing activity.\

13. Ethical Investment (page 12): We understand the Council has given significant consideration to Ethical Investment issues but the SIPO reads fairly “light” in this regard. We would suggest formalising a more thorough RI Policy as part of the SIPO review.

14. Manager Performance (page 16): We would suggest adding SIPO compliance explicitly as one of the factors to be taken into account when reviewing the managers.

4.0 Liability Management Policy Compliance Checklist

The table below illustrates Council’s compliance with funding, interest rate and liquidity risk parameters set out within the Liability Management Policy. A snapshot of current funding in place (maturity term and pricing) as well as interest rate fixing is also provided.



Hawke's Bay Regional Council Interest Rate Position

			31-Dec-19
Liquidity Buffer:	10%		
Actual	**20%**		
Policy Compliance	Y		
Funding Maturity Profile:			
Years	**0 - 3 years**	**3 - 5 years**	**5 years plus**
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	**29%**	**30%**	**41%**
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding		**4.67 Years**	
Fixed Rate Portfolio (swaps and fixed rate loans)		**5.36 Years**	
Weighted average margin		**0.07%**	
Weighted average Commitment/Line Fee		**0.04%**	
Weighted average fixed rate (swaps & term loans/bonds)		**5.47%**	
All up cost of borrowing (On Drawn Debt)		**5.17%**	

New treasury transactions in the period are outlined in Appendix 1.

5.0 Borrowing Limits

Ratio	Hawke’s Bay Regional Council	LGFA Lending Policy Covenants	**Actual**
Net external debt as a percentage of total revenue	<150%	<175%	
Net interest on external debt as a percentage of total revenue	<15%	<20%	
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%	>10%	20%

6.0 Funding and Liquidity Risk Position

The chart below shows the spread of Council's current funding maturity terms and positioning within funding maturity limits set out within the Liability Management Policy. Council's liquidity buffer amount is also shown.

31-Dec-19

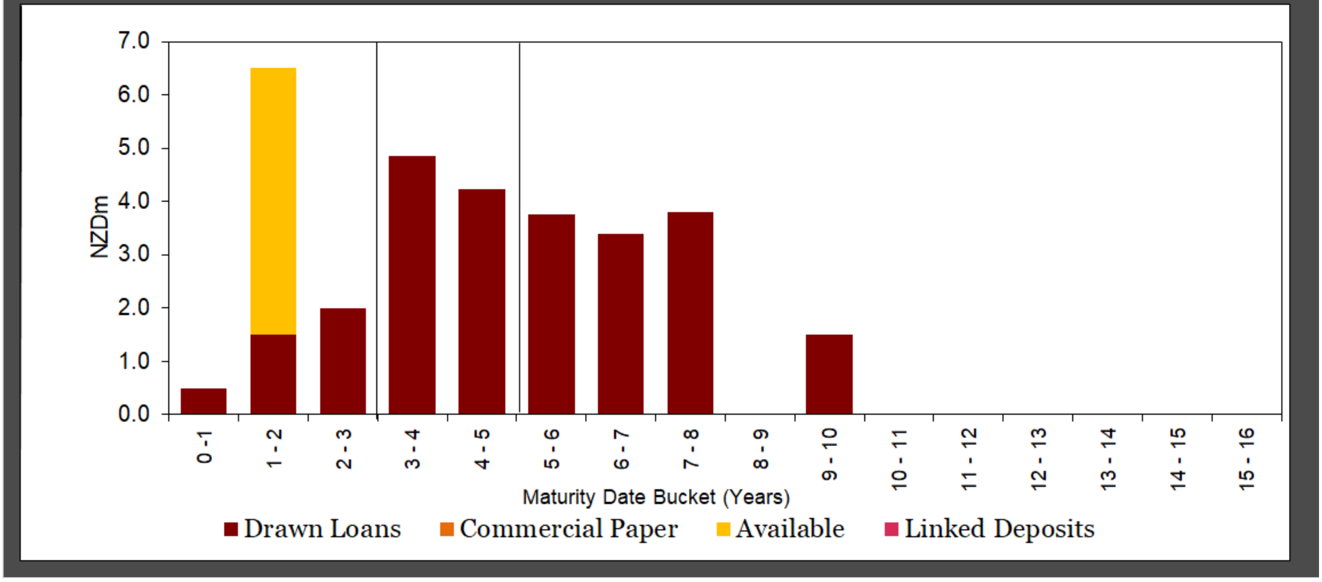
Hawke's Bay Regional Council

Funding & Liquidity Risk Position

Committed Loan/Stock/Facilities/Investments $30.5m
Current External Debt $25.5m
Current Net Debt $25.5m

Policy Liquidity Buffer >=10%
Actual Liquidity Buffer 20%

	0 - 3 years	3 - 5 years	5 years plus
Policy	15%-60%	15%-60%	0%-60%
Actual	29%	30%	41%
Actual (NZDm)	9.00	9.08	12.45



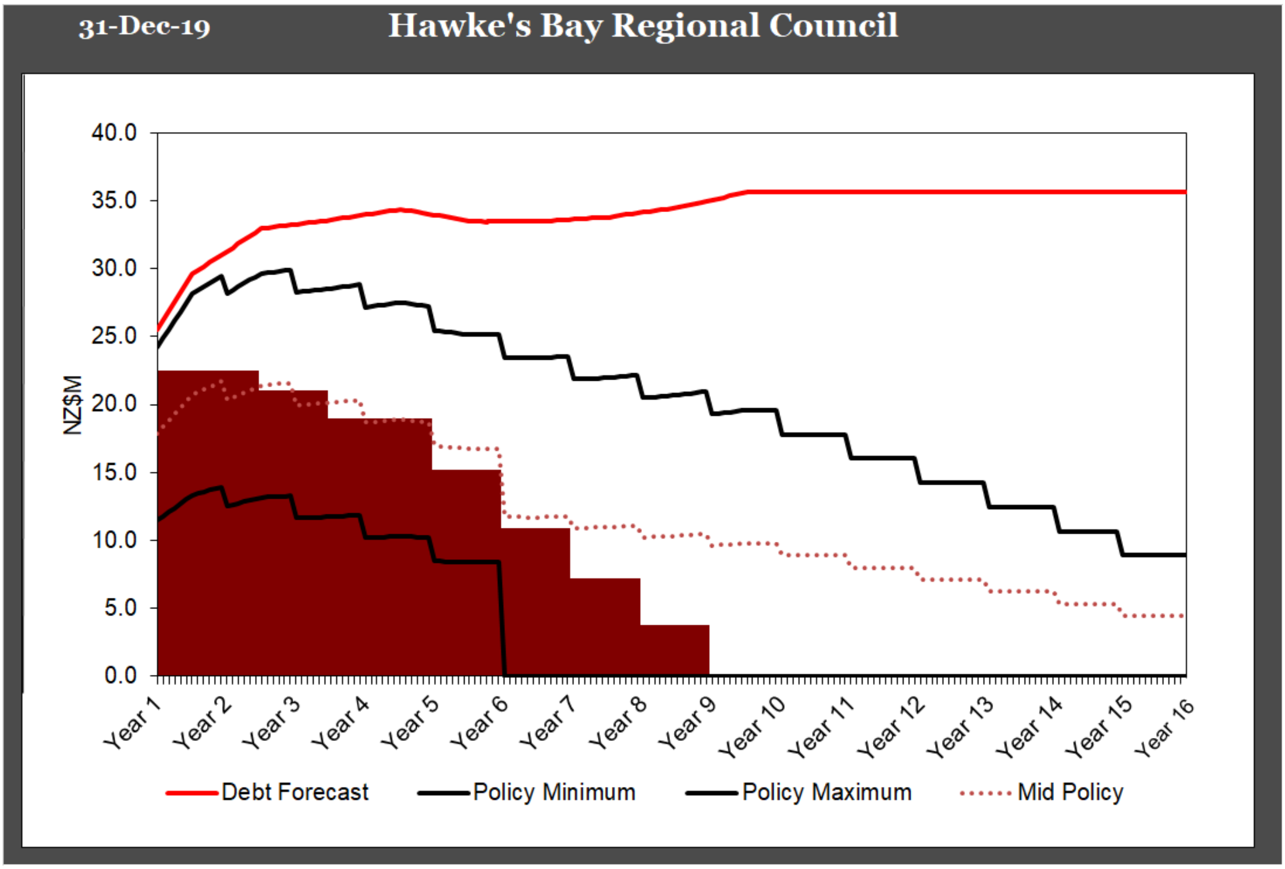
Debt Funding Strategy

Council's cash flow and debt forecast indicate a requirement for an additional $10 million of core borrowings during this financial year. This level of debt requirement is a function of FY19 borrowings being $2.5 million of the expected $7 million. The first tranche of new funding is anticipated to be required in the second quarter of FY20 (circa $5 million) and is proposed to be met via participation in upcoming LGFA tenders.

7.0 Interest Rate Risk Position

The interest rate profile below shows the level of Council's interest rate fixing within Liability Management Policy parameters. The shaded area represents fixed interest rate commitments (i.e. term loans and/or derivatives) and their maturity terms over the 15-year Policy period. The red line represents the current rolling debt forecast for the forward period with the maximum and minimum bands a function of the debt forecast.

As can be seen from the chart and table below, the interest rate risk position is fully compliant to all policy parameters.



Debt Interest Rate Policy Parameters

(calculated on rolling monthly basis)

	Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
0	Year 1	26	45%	95%	88%	Yes
12	Year 2	31	40%	90%	72%	Yes
24	Year 3	33	35%	85%	63%	Yes
36	Year 4	34	30%	80%	56%	Yes
48	Year 5	34	25%	75%	45%	Yes
60	Year 6	34	0%	70%	33%	Yes
72	Year 7	34	0%	65%	21%	Yes
84	Year 8	34	0%	60%	11%	Yes
96	Year 9	35	0%	55%	0%	Yes
108	Year 10	36	0%	50%	0%	Yes
120	Year 11	36	0%	45%	0%	Yes
132	Year 12	36	0%	40%	0%	Yes
144	Year 13	36	0%	35%	0%	Yes
156	Year 14	36	0%	30%	0%	Yes
168	Year 15	36	0%	25%	0%	Yes

Interest rate strategy

With short term interest rates expected to be lower for longer, as the RBNZ stimulates with loose monetary policy settings, the fixed rate position will progressively move towards minimum policy limits. The strategy is therefore to increase exposure to short-term floating rates (within policy limits) through issuing all new debt on a floating rate basis.

Long term interest rates are expected to remain around current levels as global central banks maintain their loose monetary policy requirements along with influencing low, longer term interest rates. The longer term interest rate risk position will be maintained around minimum policy limits through the use of interest rate swaps or fixed rate debt issuance.

8.0 Funding Facility

Bank (Facility maturity date)	Maturity Date	Drawdown Amount ($m)	Facility Limit ($m)
BNZ	15-Jan-21	0.00	5.00
TOTAL		0.00	5.00

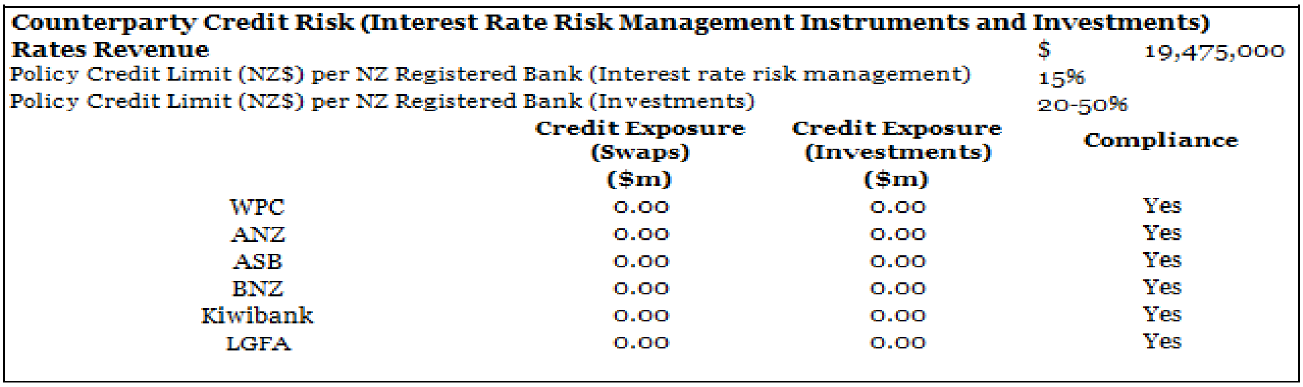
Available bank facility capacity (liquidity buffer)	This month ($m)	Last month ($m)
Gross amount	5.00	5.00
Policy liquidity buffer requirements	2.55	2.30
Excess amount	2.45	2.70

9.0 Cost of Funds vs Budget

Month		YTD	
Actual ($m)	Budget ($m)	Actual ($m)	Budget ($m)

10.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy.



Counterparty Credit Risk (Interest Rate Risk Management Instruments and Investments)

Rates Revenue			$ 19,475,000
Policy Credit Limit (NZ$) per NZ Registered Bank (Interest rate risk management)			15%
Policy Credit Limit (NZ$) per NZ Registered Bank (Investments)			20-50%
	Credit Exposure (Swaps) ($m)	**Credit Exposure (Investments) ($m)**	**Compliance**
WPC	0.00	0.00	Yes
ANZ	0.00	0.00	Yes
ASB	0.00	0.00	Yes
BNZ	0.00	0.00	Yes
Kiwibank	0.00	0.00	Yes
LGFA	0.00	0.00	Yes

11.0 Market Commentary

Investment markets

The last quarter of 2019 was a good news quarter, and in broad terms, financial markets responded accordingly. The monetary stimulus provided by central banks in earlier quarters has done its job with economic data generally improving. The improvement is particularly evident in the housing market (rising median sales prices and lower days to sell). In the US, the number of houses being built has increased, while in Australia and New Zealand house price inflation has picked up. This has supported an overall improvement in the economic outlook, which has bolstered equity markets.

Accompanying the rosier outlook has been waning expectations of further interest rate cuts, which is best illustrated by US Federal Reserve (Fed) Chair Jerome Powell's comment that "monetary policy is in a good place". Despite this, both the Bank of Japan and European Central Bank announced their intention for an open ended easing bias to deal with stubbornly low inflation. Adding to the good economic news was the positive progress towards resolving: 1) The US/China trade dispute, with the announcement of phase one of a trade agreement between the US and China announced in January 2020; and 2) Brexit, with a decisive election victory for Boris Johnson's Conservative Party, which should see an orderly exit of the United Kingdom from the European Union no later than 31 January 2020.

In this environment, investors were content to invest in riskier assets types such as equities. This resulted in the strong performance of New Zealand equities (+5.3%) and global equities (+7.8%) in local currency over the quarter.

Unfortunately, the global equity market return in New Zealand dollars (+1.5%) was significantly eroded by the rise in value of the New Zealand dollar at the end of December, which rose against all major currencies except GBP (GBP strengthened on the back of a more favourable Brexit outcome). The NZD benefited from expectations the Official Cash Rate would not be cut further, more optimistic investor sentiment and importantly stronger commodity prices.

Increased investor appetite for riskier assets meant that safe-haven asset values, such as gold and fixed interest securities/bonds declined.

The stellar performance of the New Zealand equity market over the quarter and year (+31.6%) warrants closer examination. Without doubt, there has been increased interest in the New Zealand equity market as bank term deposit interest rates tumbled from 3.3% in April 2019 (where they had been since the end of 2015) to the current six month deposit rate of 2.6%.

There has been an extraordinarily diverse performance of equities over the quarter – from Metlifecare (+53%, following a takeover offer) and Summerset (+34%) as outperformers, down to Sky Network Television (-37%) and Gentrack (-28%) as underperformers. While the weak performers reflect company specific issues, the outperformers, except for Fisher & Paykel Healthcare, are all in the aged care industry, which is benefiting from a reinvigorated housing market. The other group of companies worth commenting on are the electricity generation companies, which gave back a chunk of the gains achieved in early months on the back of investors chasing dividend yields. They fell in price, due to concerns around Rio Tinto's review of the Tiwai Point aluminium smelter's operation. The smelter consumes 10% of New Zealand's annual electricity production, so a decision to shut the smelter down would result in an electricity oversupply and subsequent drop in the electricity price.

Funding markets

A total of 21 local government borrowers raised $413 million in the fourth quarter (Q4) of 2019. 39 separate funding transactions occurred, of which all except two were conducted via the LGFA. The two debt issues transacted outside of the LGFA were from Dunedin City Treasury (not a LGFA member). Borrowing

Item 7

Attachment 1

volumes remained strong in Q4, slightly lower than Q3. A total of 54% of all borrowing in Q4 was undertaken on a floating rate basis. Over the fourth quarter, Councils borrowed for a weighted average term of 6.9 years.

Looking back on the full year, total issuance amounted to $2.40 billion; the highest level since 2014 ($2.55 billion). Prefunding ahead of the LGFA's April 2020 bond maturity ($1.03 billion) is expected to support borrowing volumes throughout the first quarter of 2020. We understand that, to date, approximately 35% of the 2020 bond maturity have been refinanced/prefunded. However, most councils are currently updating new debt forecasts and this may push out issuance demand to the second quarter of 2020.

LGFA credit spreads have continued to creep up since Q3 in the short end (three to five years) and held reasonably constant for the longer end (7-10 years).

Government bond yields remain at historically low levels reflecting global yield curves, supporting the attractiveness of LGFA bonds as a substitute investment to NZ Government bonds given the higher yields on offer. There was significantly less Kauri bond issuance in 2019 with a total of $1.4 billion of new issuance (relative to total issuance of $4.2 billion in 2018). LGFA bond demand (and pricing) benefits when there is less Kauri issuance competing for the investor dollar. With the expanded bond issuance program from Kāinga Ora (Housing NZ) in 2020 of $2.5 billion (up from $1.5 billion in 2019), we expect some impact on LGFA demand, thus increasing the risk that credit spreads widen gradually in 2020, primarily for longer-dated tenors. We believe that investor interest for LGFA bonds will however, remain robust for maturities up to 5 years and that there may be some upward movement on margins for longer dated issuance.

Interest rate markets

The RBNZ surprised financial markets in November by holding the OCR at 1.00%. The fundamental outlook no longer currently supports another cut to the OCR over the next six months, although we expect risks remain biased lower. RBNZ note while inflation remains below the 2 percent target, employment continues to sit around its maximum sustainable level and other economic developments since the August MPS “do not warrant a change to the already stimulatory monetary setting at this time.” However, risks remain “tilted to the downside.” Domestically, business confidence improved in December but remains weak overall. Businesses are reluctant to make hiring or investment decisions, and have struggled to raise prices, crimping sales margins. The housing market is now showing signs of growth, while inflation pressures are slightly stronger, however global risks (including the coronavirus) remain. ‘Lower for longer’ interest rate settings to prevail.

Long-term NZ swap rates are biased lower as global rates are likely to remain under structural pressure. Global growth remains tepid amid recent (but improving) trade tensions between US and China, as well as Brexit uncertainty (though easing following the election). There are signs of growth stabilising (rather than further weakness) but uncertainty remains. A soft growth outlook from our key export trading nations, Australia, China and Europe means that central banks will continue their ‘looser’ monetary policy settings. Underlying inflation around the globe remains benign. There remains no reason for structurally higher long-term swap rates over the next twelve months.

12.0 Policy exceptions

Date	Detail	Approval	Action to rectify
TBC	SIPO asset allocations non-compliant	Y	Gradual staggering into investment portfolio positions will see strategic asset allocation requirements met over coming months.

13.0 Appendix

13.1 New Treasury Transactions up to 31 December 2019

Borrowing activity

Bank/LGFA	Amount (NZDm)	Borrower notes (NZDm)	Deal Date	Start Date	Maturity Date	Commitment Fee	Margin

Interest Rate Borrower Swaps

Bank	Notional Amount (NZDm)	Deal Date	Start Date	Maturity Date	Swap Rate
n/a	n/a	n/a	n/a	n/a	n/a

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Item 8

Subject: BUSINESS CONTINUANCE PLAN

Reason for Report

1. This committee asked for an independent review of the Council's Business Continuance Plan in 2018 as it was due for an update. The plan is now completed and tested, and ready for the Committee's acceptance.

Executive Summary

2. The independent review was commissioned through Kestrel Group and a series of recommendations were provided. A copy of the original Kestrel review report is enclosed with this paper for your reference. Since the review the main recommendations have been implemented. There remain some additional mitigations which are in train.

3. The plan was tested during the recent Civil Defence exercise in October 2019 and was effective. Some areas for further improvement were identified and will be progressed.

4. The last Finance, Audit and Risk Sub-Committee (FARS) was on 21 August 2019 and the preference was to bring the Business Continuity Plan to the first FARS meeting following the regional Civil Defence exercise. Due to the recent election and re-establishment of committee structure, today's meeting is the first opportunity to bring this plan for your consideration.

Background

5. Hawke's Bay Regional Council has both local government statutory obligations and specific requirements under the CDEM Act 2002 to be able to fulfil their responsibilities albeit this maybe at a reduced level in any crisis event.

6. To ensure the organisation has a robust response to an event affecting its ability to manage business as usual, it is essential that it has a comprehensive business continuity management programme in place.

7. Hawkes Bay Regional Council's current Business Continuity Plan was last updated in September 2016 and recognised the need to review plans. Kestrel Group were engaged to review the current status, identify any gaps in the current business continuity planning, and to provide recommendations to ensure that Hawkes Bay Regional Council is aligned with international business continuity management standards and compliant with the Civil Defence Emergency Management Act 2002 (CDEM Act 2002)

8. These recommendations were received in late 2018, with recommendations implemented over the course of 2019 and put to the test in the regional civil defence exercise in October 2019.

9. Kestrel Group provided a series of recommendations with a way forward to implement a comprehensive business continuity management programme.

10. These recommendations have been concluded and are summarised as follows.

Governance – Develop Business Continuity Management Policy

11. Policy prepared, considered by Executive and adopted and approved by the Chief Executive in June 2019

Structure & activation - Review & develop activation checklist

12. Incident response structure was reviewed and updated, incident room designated and checklist included.

Business Continuity – Review contingency preparedness for foreseeable events and identify critical suppliers

13. All essential functions were reviewed by conducting a business impact assessment to confirm critical processes, maximum tolerable outages and critical suppliers. Identified risks/workarounds were assigned to designated staff to mitigate during business as usual, and to implement in any crisis event.

Documentation – Make fit for purpose with method of access and ease of retrieval and storage

14. Plan was reviewed and updated to make it easier to navigate, and once approved will be made available electronically and in hard copies for the Executive and designated staff responsible for essential functions to reference when required.

Implementation and operation – conduct crisis training and exercise

15. Business continuity training was provided for staff over May – June 2019, and the plan exercised successfully alongside the CDEM earthquake exercise in October 2019.

Testing & maintenance– Set schedule for testing and annual review

16. Ongoing maintenance & testing is to be managed by the Office of the Chief Executive and Chair.

Next Steps

17. As highlighted in 9.3 the review identified several risks for on-going mitigation, including some engineering design files missing electronic back-ups and some critical documents not available on share drives; the need to review contractual obligations to further minimize risks; the need to improve capabilities to account for employees and their status in a sudden on-set crisis; and the need to phase out the Mitel phone network within the Dalton Street building as if hardware damaged HBRC calls will not be answered and there are no replacements as Mitel system is too old. These tasks have been assigned to designated staff to resolve as soon as possible with oversight from Group Managers.
18. Once adopted by the Committee, the plan will be scheduled for an annual review by the Office of the Chief Executive and Chair (OCEC), along with ongoing maintenance and testing. Day to day management will sit with the Risk and Assurance Lead role within the OCEC team, which is currently under recruitment.

Decision Making Process

19. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and, as such, the updated Business Continuity Plan needs to be accepted by the Finance, Audit and Risk Sub-Committee.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and accepts the *“Business Continuity Plan”* staff report and associated plan.

Authored by:

Lisa Pearse
TEAM LEADER HAZARD REDUCTION

Approved by:

Joanne Lawrence
GROUP MANAGER OFFICE OF THE
CHIEF EXECUTIVE AND CHAIR

Attachment/s

⇩**1** HBRC Business Continuance Plan

⇩**2** Kestrel Group HBRC Business Continuity Management Review Report

HAWKES BAY
REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Business Continuance Plan

"To continue operating essential functions and services during and following an interruption"

FEBRUARY 2020

Accepted by Finance, Audit and Risk Committee resolution on 12 February 2020

Attachment 1

Item 8

CONTENTS

Executive Summary

Appendices

External References

Emergency Procedures Manual - Copies held by Senior Managers, Incident Room and on Herbi

HB CDEM Group Plan - Copies held by Chief Executive, Group Managers, Incident Room and on Website

Oil Spill Contingency Plan - Copies held by On-Scene Commanders, and in Incident Room

Information Services Disaster Recovery Plan - Copy held by ICT Manager and on Herbi

Contacts Database - Held in Computer Database

Executive Summary

Business continuance is a strategy for putting processes in place that an organisation requires to operate during and after an interruption. Business continuance plans not only reestablish full operations as swiftly and smoothly as possible, but also seek to prevent essential services from being interrupted through various annual maintenance tasks.

Even though the probability of a major regional crisis is not high, the effect of such a crisis may seriously affect the ability of the council to continue to fulfil its statutory obligations, and its obligations to the regional community. It is important to understand that our business can be disrupted by not just a national or regional disaster, but also by local and isolated events which can result in parts of our business becoming unworkable and not being able to meet our obligations. Therefore, it is necessary for the business to identify the essential functions that the business needs to operate and meet is statutory obligations.

The Executive team have identified our essential functions. Each of these functions are individual appendices at the back of this plan which prompt staff on how to re-establish full operations as swiftly and smoothly as possible. They outline; essential duties and requirements, alternative solutions and the positions responsible. It is important to note that staff wellbeing is paramount and as part of the Emergency Procedures the Safety Team are responsible for monitoring safety of staff, supporting welfare of staff and families, checking rosters and coordinating First Aid requirements (Reference Emergency Procedures Manual JD 3).

A member of the Executive team can activate this plan, when any of the essential functions or services are affected. Or more broadly when:

- serious physical damage has occurred, or threatens to occur, to our premises or our ability to effectively operate from our premises
- substantial event or activity has occurred, or threatens to occur, to interrupt our business.

The Executive will use the flow chart, checklist and the events record log (next two pages) in this document to execute the plan. The flowchart is used to follow the procedure until HBRC is operating all essential functions and services and meeting statutory obligations. The decisions made during this process will be recorded on the events record log.

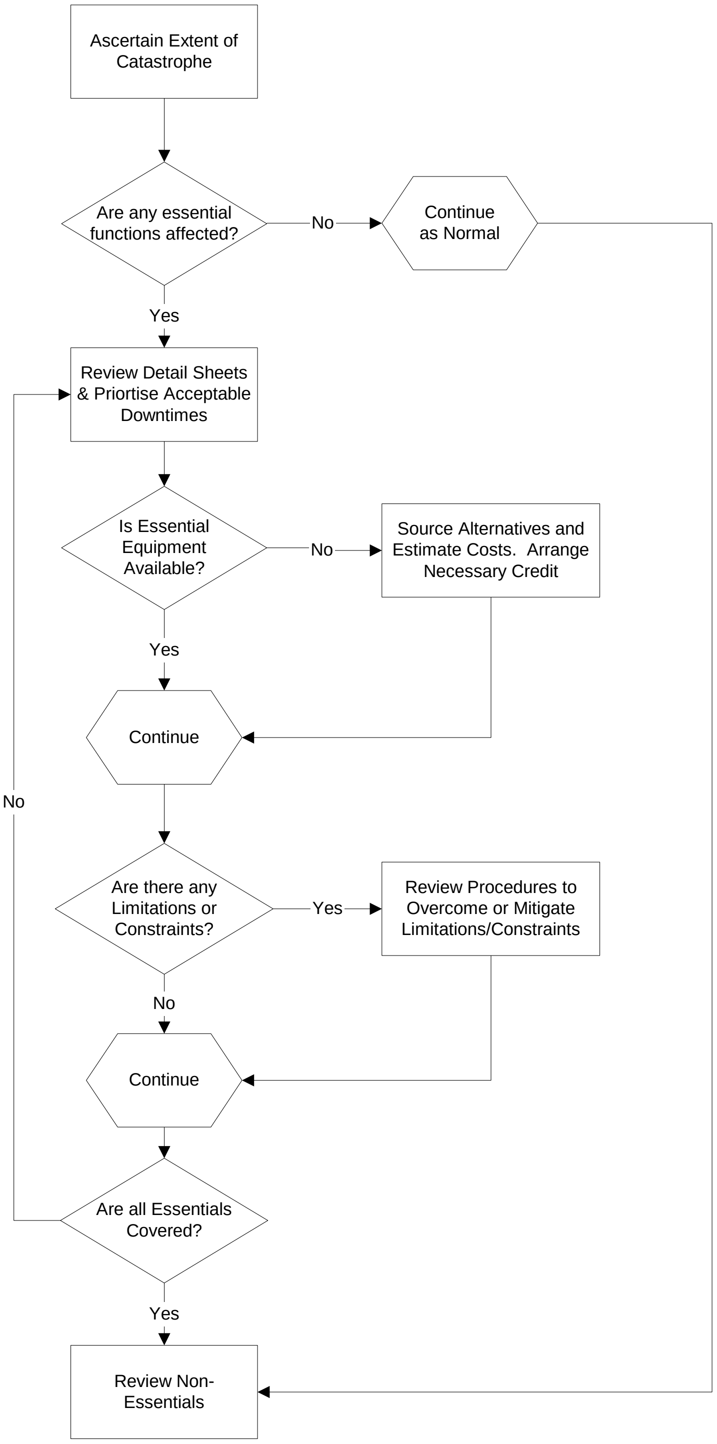
It is important staff understand:

1. By activating this plan, the business gives priority to functions and services that have been identified as **essential** and allocates these acceptable downtimes
2. Non-essential functions of the business will not be addressed until all essential functions and services have been re-established
3. Staff in non-essential functions and services will be deployed to other areas of the business as a priority to establish essential functions and services.

Attachment 1

Item 8

1. Procedure Flow Chart & Checklist


Ascertain Extent of Catastrophe
Are any essential functions affected?
No
Continue as Normal
Yes
Review Detail Sheets & Priortise Acceptable Downtimes
Is Essential Equipment Available?
No
Source Alternatives and Estimate Costs. Arrange Necessary Credit
Yes
Continue
No
Are there any Limitations or Constraints?
Yes
Review Procedures to Overcome or Mitigate Limitations/Constraints
No
Continue
Are all Essentials Covered?
Yes
Review Non-Essentials

Any member of the Executive Team can activate this plan (Refer to Section 7) if any of the essential functions* are affected:

- □ Identify an appropriate Incident Room with communication support
- □ Notify essential leads and/or other applicable staff of the nominated Incident Room.
- □ Account for employees and their status using HR, and maintain health and safety.
- □ Mobilise essential leads & Incident Management Team who can physically come to the Incident Room, and personnel that can provide support.
- □ Establish command structure with alternatives for all positions. (Ref Emergency Procedures Manual)
- □ Appoint responsible personnel to review essential function detail sheets*, and prioritise acceptable downtimes and report back to IMT

1. Pollution Response
2. Marine Oil Spill Response
3. Hydrology Flood Warning
4. Duty Management
5. Alt GECC & HBRC Incident Room
6. Asset Mgt Assessment
7. Managing Contractual Obligations
8. Public Transport
9. Coordinate Recovery incl HR, Health and Safety
10. Computer Services
11. Records Management Access
12. Finance (Payroll)
13. Vehicles & Generator
14. Radio Communications
15. Telecommunications
16. Harbours
17. Communications
18. Accommodation

- □ Source essential equipment required.
- □ Continue to manage response to event in accordance with this plan and the Emergency Procedures Manual until conclusion.
- □ Debrief (Ref Emergency Procedures Manual).

* Each essential function has a detail sheet in the Appendix to this plan which lists leaders, acceptable downtimes and what needs to happen to re-establish the function or service.

Item 8

Attachment 1

2. Events Record Log

Date: __________ Location: ____

Event Time (am/pm)	Type of Event / Comments	Source	Initials
: a/p	BCP activated and event record log started		
: a/p			
: a/p			
: a/p			
: a/p			
: a/p			
: a/p			
: a/p			
: a/p			
: a/p			
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: a/p			

Please record recovery events, decisions and milestones of the recovery operation

3. Essential Functions and Services

The HBRC Executive Leadership Team has defined the following management functions, resources and services as essential, requiring they be operational within two weeks of any interruption.

3.1 Management Functions

Description	Time for System Restoration	Group	Manager	Ref. to Data Sheet
Pollution Response	2-4 hrs	Regulation	Manager Compliance	A.1
Marine Oil Spill Response Team	2-3.5 hrs	Regulation	ROSC	A.2
Hydrology Flood Warning	2-12 hrs	Integrated Catchment Management	Manager Environmental Information	A.3
Harbour Master Function	1 – 3 hrs	Regulation	Harbour Master	A.16
Duty Management	Immediate – 2 hrs	CDEM	HBCDEM Team Leader Hazard Reduction	A.4
Alternate Group Emergency Coordination Centre & Incident Room (HBRC)	Immediate – 0.5 days	CDEM	HBCDEM EMA Coordination Centres & Equipment / HBCDEM Team Leader Hazard Reduction	A.5
Asset Disaster Assessment	0.5 – 2 weeks	Asset Management	Manager Regional Assets	A.6
Manage Contractual Obligations	3-20 days	Asset Management	Group Manager Asset Management	A.7
Public Transport	3 days	Strategic Planning	Transport Manager	A.8
Coordinate Recovery incl HR & Health & Safety	Immediate – 3 days	Executive	Chief Executive or Group Manager Office of CE & Chair	A.9
Communications & Web	2-4 hrs	Corporate Services	Marketing & Communications Manager	A.17

3.2 Information Needs

Description	Time for System Restoration	Group	Manager	Ref. to Data Sheet
Computer Services	3 days	Corporate Services	Info & Communications Technology Manager	A.10
Records Management/ Access	1 day	Corporate Services	Administrator Coordinator	A.11
Finance (Payroll)	1-5 days	Corporate Services	Corporate Accountant/Payroll Officer	A.12
Hydrology Flood Warning	2-12 hrs	Integrated Catchment Management	Manager Environmental Information	A.3
Digital Flood Prediction Computer Models	0.5 day	Asset Management	Manager Regional Assets	A.6

3.3 Resources

Description	Time for System Restoration	Group	Manager	Ref. to Data Sheet
Vehicles / Generator	30 mins – 1 day	Corporate Services/ Works Group	Facilities and Fleet Manager or Operations Contracts Manager	A.13
Radio Communications	2-6 hrs	Corporate Services	Facilities and Fleet Manager	A.14
Telecommunications	1 day	Corporate Services	Info & Communications Technology Manager	A.15
Accommodation	3 days	Corporate Services	Facilities and Fleet Manager	A18

4. Non Essential Functions and Services

The Executive Leadership Team has defined the following functions and services as non-essential. These would be reinstated after the reinstatement of the functions and services defined as essential above. The plan to reinstate these non-essential functions and services will be developed in the first two weeks following an interuption. Staff from these functions and services will be re-deployed where possible to ensure that the priorities are followed.

Description	Time for System Restoration Isolated	Group	Manager
Engineering: Rivers Mouth & Lagoon Opening	1-6 weeks	Asset Management	Group Manager Asset Management
GIS	1-6 weeks	Corporate Services	Group Manager Corporate Services
Survey	1-6 weeks	Asset Management	Group Manager Asset Management
Finance and Creditors	1-6 weeks	Corporate Services	Group Manager Corporate Services
Rates & Lease Management	6-12 weeks	Corporate Services	Group Manager Corporate Services
Transport Operations	6-12 weeks	Strategic Planning	Group Manager Strategic Planning
Engineering	6-12 weeks	Asset Management	Group Manager Asset Management
Engineering – Gravel Management	6-12 weeks	Asset Management	Group Manager Asset Management
Catchment Services	6-12 weeks	Intergrated Catchment Management	Group Manager Intergrated Catchment Management
Catchment Management	6-12 weeks	Intergrated Catchment Management	Group Manager Intergrated Catchment Management
Operations General	6-12 weeks	Asset Management	Group Manager Asset Management
Consents	6-12 weeks	Regulation	Manager Consents
Environmental Science	6-12 weeks	Intergrated Catchment Management	Manager Science
Community Engagement	6-12 weeks	Corporate Services	Marketing & Communications Manager
Compliance	12-20 weeks	Regulation	Manager Compliance
Roadsafe HB	12-20 weeks	Strategic Planning	Group Manager Strategic Planning
Animal Pest Control	12-20 weeks	Intergrated Catchment Management	Manager Catchment Services
Plant Pest Control	12-20 weeks	Intergrated Catchment Management	Manager Catchment Services
Policy and Planning incl Transport	12-20 weeks	Strategic Planning	Group Manager Strategic Planning
Strategy, Economics & Development	12-20 weeks	Strategic Planning	Group Manager Strategic Planning
Strategic Partnerships & Healthy Homes	12-20 weeks	Corporate Services	Manager Client Services
Water Information & Management	12-20 weeks	Intergrated Catchment Management	Group Manager Intergrated Catchment Management

5. Business Continunance Plan Overview

5.1 Purpose

This plan has been prepared to ensure that the Hawke's Bay Regional Council (HBRC) continues to effectively manage its business operations in the event of an interruption. An interruption may seriously affect the ability of Council to continue to fulfil its statutory obligations and its obligations to the regional community. It is, therefore, prudent that we have in place a plan to deal with interruptions.

These interuptions could be isolated or localised affecting our workplace, not neccesarily a civil defence emergency. It is important to note in the event of a civil defence emergency the Business Continuity Plan (BCP) is designed to take over after an acute emergency has been dealt with**.** So it’s important for the BCP to link effectively with the Emergency Response Plan.

This plan is to be used as a prompt or reminder when an interruption occurs. It:

- gives priority to services that have been identified as **essential** and allocates these acceptable downtimes
- identifies **non-essential** services and allocates these acceptable downtimes.

The procedure flow chart and checklist ensures that events follow a logical sequence towards re-establishment. The information relating to each essential function and service provides a starting point for assisting business continuance.

5.2 Responsibilities

The Group Manager Office of Chief Executive and Chair is the sponsor of this plan and is ultimately responsible for its implementation and maintenance. This includes project managing all aspects of its on-going development and maintenance as documented with the plan.

Activation of the response part of the plan to take action in the event of an interruption may be authorised by any one of the Executive Team.

5.3 Basis for the Plan

The plan is based on the information and procedures we use each working day. This reduces confusion at a time when the Council is operating under some stress. It also means that, by minimising special arrangements, the Council's operations can continue with minimal time loss and minimal additional expenditure.

In terms of risk assessment, the plan considers a worst-case scenario, such as earthquake, tsunami or fire, which results in the loss of the primary HBRC buildings in Napier. It then considers what needs protecting, what might disrupt it and how, and what happens if it gets disrupted.

Central to all management’s thinking through a disaster is that the Council is not in the business of merely recovering from a catastrophe, but is expected to assist other organisations to recover. The expression *disaster recovery* conjures up images of damage and its subsequent repair – the Council recovers back to the state it was immediately before the disaster. ***Business continuance***, on the other hand, is a much more positive notion – the Council, despite damage or other loss of functionality or resources, works through the adversity with the desire to be positively stronger when the emergency situation has subsided, having full regard to the need for normal operating efficiencies.

The HBRC numbers 257 staff, which includes 31 staff with the Works Group Business Unit at Guppy Road, Taradale, 6 staff in Wairoa and 7 staff based in Waipawa. This Plan is based on a staff resource of 40% (102 staff) of the Council’s available staff pool of 257 including part time and casual staff.

5.4 Objective of the Business Continunance Plan

‘To continue operating essential functions and services during and following an interruption.’

5.5 Aims

To describe the arrangements required for continuing Council's 'business operations' at a time of potential or actual interrutption. These arrangements include:

- Defining the control and co-ordination functions
- Identifying actions to be taken in response to a crisis event
- Identifying the preparatory tasks and projects to be completed to ensure the response actions are achievable

The Civil Defence Emergency Management Act 2002 makes it a requirement that every government department, all engineering lifelines utilities and all city, district, and regional councils are able to function to the fullest possible extent, even though this may be at a reduced level, during and after an emergency.

The Hawke's Bay Civil Defence Emergency Management Plan identifies one of the key measures of resilience as having effective business continuance planning for key Hawke's Bay employers.

This plan only relates to the Hawke's Bay Regional Council. It covers the protection of personnel, protection of assets and records, continuity of management, minimisation of losses and recovery time through to the resumption of normal operations.

5.6 Scope

Within the identified essential functions and services the scope of the plan covers:

- **Management Functions** – for ensuring that the Council's management structure and the major management tasks are continued through an interruption
- **Information Needs** – to ensure that the Council has continued access to all the information (electronic and hard copy) needed to continue operating
- **Resources** – to ensure that the Council has continued access to all the resources needed to continue operating, including accommodation.

5.7 Plan Activation

Trigger point for response activation:

- Serious physical damage has occurred, or threatens to occur, to our premises or our ability to effectively operate from our premises.
- Other substantial event or activity has occurred, or threatens to occur to interrupt our business.

Authority to activate the response – the Executive Team are individually authorised to activate the response part of this plan.

6. Preparation

This section outlines all maintenance and development activities that have been identified as necessary to ensure the overall effectiveness of this plan in achieving its Aims and Objectives. These activities are of two types.

Maintenance Tasks	Repetitive and routine activities with which to ensure that the plan remains effective over time. These activities generally relate to sustaining physical resources and improving the preparedness of staff.
Development Projects	One-off activities, which are necessary to bring the organisation up to the desired level of performance. Examples include the development of a procedure, and the purchase of equipment. Scheduling for the completion of each of these is dependent on a variety of inputs as appropriate, e.g. internal management/staff, specialist expertise and/or funding.

6.1 Plan Revision / Updates

This plan is to be reviewed annually. This is to ensure the plan documentation keeps pace with changing circumstances relating to:

- Achievements by way of completions of on-off preparatory tasks and projects
- Organisational structures, staff movements and details
- Physical environment (buildings and facilities)
- Council's services and their operational processes
- External linkages with suppliers, contractors and other stakeholders

6.2 Risk Minimisation

Procedures have been implemented that increase the security of our vital records, fittings, and equipment. Also potential simulations have been identified to test these procedures and our staff.

To minimise risk to our business we complete the following maintenance tasks and identifiy any mitigations:

Maintenance Tasks

Description	Action Required	Responsible / Timing
Earthquake hardening	All fixtures and fittings require stabilising to reduce the amount of movement during any earthquake – especially important in areas where damage may be caused to equipment vital to our continued operation.	Facilities and Fleet Manager: Stacey Rakiraki Annually
Telecommunications	Staff training on Mitel Phone System. What happens in the event of an interruption.	David Fulton - ICT Annually
Emergency Power	Staff training on emergency power .	Facilities and Fleet Manager: Stacey Rakiraki Annually
BCP review	To preserve the integrity of this document it will be reviewed annually and audited every 5 years. This document and its previous versions are recorded on the Council doucment system on Herbi	Group Manager Office of the Chief Executive & Chair Annually
Insurance policies	A review of existing insurance is required to ascertain that coverage is adequate and also that there are no duplications between insurance and computer maintenance and support agreements.	Financial Accountant Trudy Kilkolly Annually
Plan testing	A review of the adequacy of the plan may be necessary from time to time. Evaluation of all testing undertaken is necessary on the 'Test Evaluation Checklist' at the end of this plan.	Group Manager Office of the Chief Executive & Chair Annually

Mitigation Tasks

Description	Action Required	Responsible/ timing
Back up of Design Plans (A6)	There are still only some electronic back-ups for design plans stored at Guppy Road (See Appendix A-6 and A-7). • 2/3's of vital plans had been scanned into Alchemy previously but they were not properly profiled. • All hard copy plans are now stored at Guppy Road, but have not been organised to easily retrieve. Has the facility got smoke alarms and other appropriate protections? • 1/3 need to be sorted and scanned. Depending upon the volume, IT will be able to provide advice on the best way to carry out scanning. Compromises Council's ability to provide adequate asset disaster assessment should entry to premises be constrained or records be destroyed. Profiling/Labelling and final scanning work is required. April 2016 update: still in progress and supposed to be addressed as an outcome of IaaS migration, ETA was 30 November 2016. July 2019 update – matter remains unresolved, and compounded with move to new electronic storage systems which require metadata. Issue to be resolved as part of corporate record management, with Asset Mgt assisting Corporate Services.	Group Manager Corporate Services/Group Manager Asset Management

Description	Action Required	Responsible/ timing
Asset Mgt (A6)/ Contractual Obligations (A7)	A-6 Asset Management Assessment. Requires a significant review by Asset Management through a collaborative workshop. A6 Refers to asset management inspection but also refers to operations – propose to separate functions with an individual BCP Appendix. While Operations General under Asset Management has been deemed non essential in section 4 of the BCP report, operations and maintenance of our schemes is essential. It should be noted that the incident operations roster provided by Works Group is only operable for several days and this needs to be explored thoroughly as part of the BCP. A-7 Managing Contractual Obligations to be reviewed. For Asset Management essential functions 90% of our contracted maintenance and minor capital is through Works Group and is essentially cost plus, well managed and low commercial risk. Risk sits with larger capital construction projects of which we only have a small number. An assessment of critical contracts for the organisation should be made upfront and not during an incident response. Although Asset Management hold a high level of competence in managing construction and maintenance contracts it may not necessarily have the highest risk contracts of the organisation. Hold a collaborative workshop to review across the business and provide resolution to these issues. We also have a number of informal arrangements with NCC which should be formalised to avoid doubt during a incident scenario.	Group Manager Asset Management October 2019 November 2019
Account of employee status (A9)	When activating the plan, Exec need to account for employees and their status, yet it will be difficult to account for 250 staff, many of whom work across the region, within half a day. The review identified the need to improve capabilities to carry out this duty. ITC was asked to investigate options and identified Whispir. With support from the CDEM team, Office of the Chief Executive and Chair to work with Whispir on solution with ITC support to ensure setup integration. This project is currently underway.	Group Manager Office of the Chief Executive and Chair
Critical documents missing on Share drives (A11)	There are some critical documents, particularly engineering files only available on share drives. Some have backups in Rivera or in Vdaas but some do not. A solution should be found to mitigate this risk particularly for asset management.	Group Manager Corporate Services
Internal Phone Network a risk (A15)	Mitel Phone Network at risk in Dalton Street Building, as if hardware damaged there is no replacement available as Mitel system too old. 80% of HBRC staff now have Smart-phones which increasingly reduces the reliance on an internal phone network, but if hardware damaged 20% of staff without means of communication. Also more importantly if Mitel fails, HBRC calls will not be answered and a diversion needs to be urgently put in place with Spark Managed Customer Centre 0800 482 296	Group Manager Corporate Services / Info & Comms Technology Manager

Simulations

To enable staff to be better prepared for any future interruptions we have listed potential scenarios to use as simulations that could kick off at any time.

We aim to cover one or essential functions and services a year, dependant on resources.

Event Simulation	Test	Group
Significant fire at HBRC office:	To assess Executives (plan initiation, prioritisation and following plan) and staff response. Also how employees will continue working and be productive during an unforeseen interruption that prevents them from going to the workplace.	All Departments
Significant fire at Guppy Road	To test Managers response and review of BCP. Also how employees will continue working and be productive during an unforeseen interruption that prevents them from going to the workplace	Asset Management
Cyber-attack on HBRC systems: Hydrotel is down	To test our ICT DRP and staff that use Hydrotel. How do staff manage without the tool. Do they know what alternative measures are and the steps they need to follow.	Intergrated Catchment Management
Unavailability of HerBi due to internet access issues	To test our ICT DRP and staff that use this tool. How do staff manage without the tool. Do they know what has been identified as a replacement tool and the steps they need to follow	Corporate Services - ICT
Public protesting at 'significant rates increase', forcing entry and subsequently occupying HBRC offices	To test Executives (plan initiation, prioritisation, following plan) and staff response.	Executive
Cyber-attack on HBRC website – it's rates payment week.	To test our ICT DRP and staff that use this tool. How do staff manage without the tool. Do they know what plan B is?	Group Manager Office of the Chief Executive & Chair and Group Manager Corporate Services

6.3 Essential References

Specific specialist information will be required to assist with the recovery of essential functions and services. Refer to each of the references listed.

Key External Contacts

- Maintained on staff devices, all of which have cloud back-ups
- CDEM Contacts List or the Intranet (Herbi) for contact lists
- Telephone Book

Action Requirements

- See Appendix A for Essential Functions: By time frames of immediate, 2 hrs, 0.5 days, 1 day etc.

Alternative Location Specifications

- See individual appendices for alternative Essential Function locations Appendix A
- See Essential Function: Accommodation Appendix A-17
- See Hawke's Bay Civil Defence Emergency Management Group Plan for alternative Emergency Operations Centre locations

Back-up Power Supply

- See Emergency Procedures Manual SOP R4 Generator
- Includes details of estimated capacity and other alternatives

Information Services Disaster Recovery Plan

- Including computer equipment and software, vital records and supplies, telephone equipment and services. Plan held by Information & Communications Technology Manager. Copy on Herbi https://herbi.hbrc.govt.nz/site/it/busmngt/HBRC%20Disaster%20Recovery%20Plan%202008.pdf#search=Information%20Services%20Disaster%20Recovery%20Plan

Contacts Database

- Staff Contact Database is on the Active Directory - Maintained by ICT

Item 8

Attachment 1

Simulation Exercise - Test Evaluation Checklist

Purpose: Verify the viability of the business continuation plan. Identify areas that need to be modified to allow for miscalculations that may be discovered through the testing process.

Key position responsibilities: Complete this questionnaire. Add additional information pertinent to the effective modification of testing procedures.

Essential Service / Function ____

Are the procedures clearly defined? YES NO

If no, explain: ____

____

____

____

____

How long did it take to perform the test? ____

Are you comfortable with how long the test took? YES NO

If no, explain: ____

____

____

____

Do you feel that your team was adequately prepared? YES NO

If no, explain: ____

____

____

____

What areas do you feel you and your team need to improve in order to effectively execute your responsibilities? ____

____

____

____

____

Were there any other difficulties encountered? YES NO

If yes, explain: ____

____

____

____

____

Did you discover any critical information
missing from the business continuation plan? YES NO

If yes, explain: ____

____

____

____

____

What other recommendations do you have?

____

____

____

____

____

____

What comments or recommendations do you have on test content?

____

____

____

____

What comments or recommendations do you have on plan execution?

____

____

____

____

____

7. Response

7.1 Activating the Business Continuance Plan

It is important for a member of the Executive Team to be informed at the time of the first alert of a catastrophe. They can then make an assessment of the situation and declare the activation of this plan.

As soon as the plan activation is made, the Events Records Log should be maintained or something equivalent at 'zero hour' and all significant events; decisions and milestones are recorded in the log. It may be necessary to evacuate any affected areas and arrange a recorded telephone message if the reception desk is not available.

Once the plan is activated the Executive Team or representative will:

1) Identify an appropriate **Incident Room** with communication support. The Council maintains a designated Incident Room at the Dalton Street office which can be expanded into the associated Mohaka Room. This room has briefing tools, and emergency communication equipment including Fleetlink, CDEM radio network, simplex radio, marine radios and satellite communications. If the Dalton street offices are not habitable, an alternative Incident Room will be established at the Works Group office in Guppy Road, Taradale, or at the most appropriate location depending on circumstances.
2) Notify the Incident Management Team and essential leads and/or applicable staff of the nominated Incident Room for HBRC crisis management.
3) Take a thorough account of employees and their status using HR, and maintain health and safety.
4) Mobilise essential leads & the HBRC Incident Management Team who can physically come to the Incident Room, and personnel that can provide support.
5) Establish command structure with alternatives for all positions. Reference the HBRC Emergency Procedures Manual. All executive staff hold a hard copy and copies also available on Herbi.
6) Appoint responsible personnel to review their essential functions (detail sheets (7.4) held as an appendix to this plan), to ensure functions are operational and if not prioritise acceptable downtimes and report back to IMT with restoration plans.
7) Source essential equipment required to support these functions.
8) Continue to manage response to event in accordance with this plan and the Emergency Procedures Manual until conclusion.
9) Run a hot and cold debrief of the crisis as appropriate (Ref Emergency Procedures Manual SOP R11).

7.2 Recovery and Restoration

In the event of building evacuation, initial instructions will come from the Emergency Response Team (refer to the Emergency Procedures Manual, Section 3.4) to ensure the rescue and safety of all personnel and the notification of medical and emergency services.

The situation will be assessed and as far as practical secured from further loss and damage. Efforts will be co-ordinated to consider staff and equipment options.

Special attention will be given to setting up liaison and enquiries response to staff, media and customers.

7.3 Procedural Flow Chart & Check List

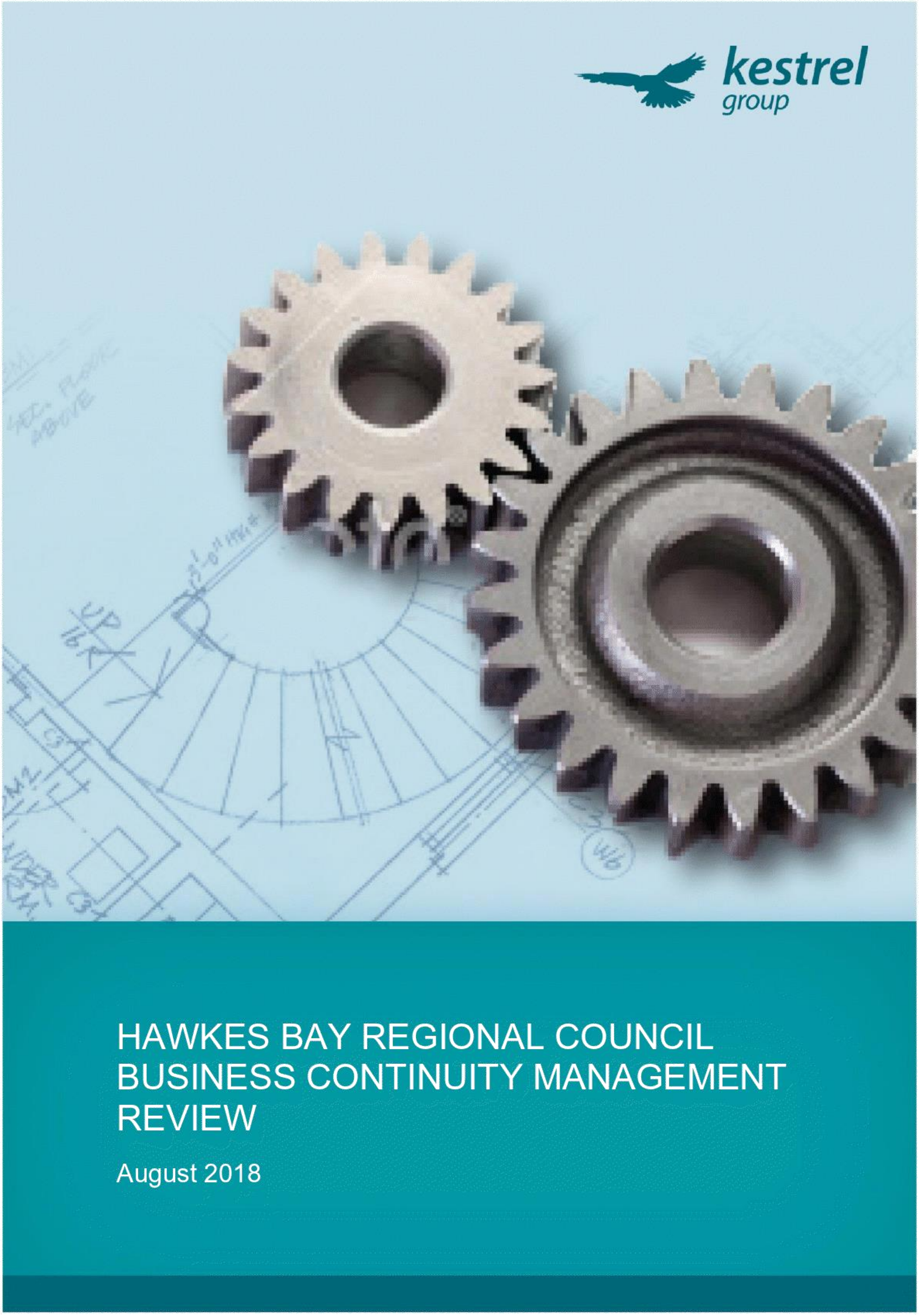
The procedural flow chart and Check List is on Page 4. This flow chart and checklist provides a sequence to the steps that are required for recovery. It will ensure that the approach taken is logical. The flow chart & check list provides a quick reference to the response activities to be actioned as appropriate to the circumstances. The tasks to be done have priorities and responsibilities allocated, and where appropriate, notes or references to other Council documentation are provided.

7.4 Detail Sheets

The detail sheets for each of the essential functions and services are arranged in order of priority and are contained in Appendix A. Refer to Page 6 of this Plan for a summary of all the defined essential functions and services. The detail sheets are to be used as guidance and for prompting. They have been kept relatively general in order to provide information that will be useful over a range of interruptions. The responsible position holders will be able to provide more specific information, but if they are unavailable, the details sheets will provide sufficient information for other staff to initiate recovery.

Item 8

Attachment 2



kestrel group

HAWKES BAY REGIONAL COUNCIL BUSINESS CONTINUITY MANAGEMENT REVIEW

August 2018

Attachment 2

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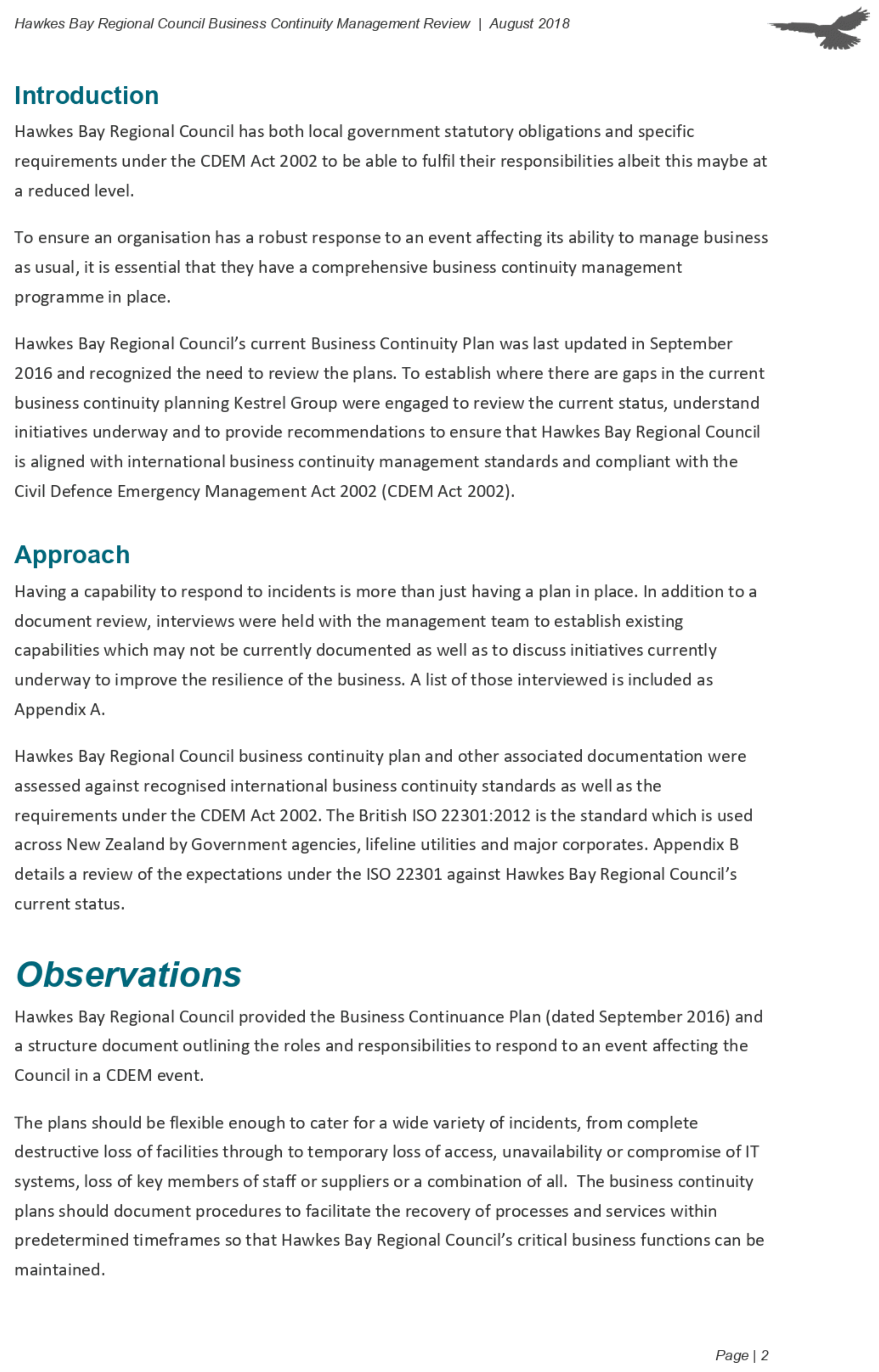


Introduction

Hawkes Bay Regional Council has both local government statutory obligations and specific requirements under the CDEM Act 2002 to be able to fulfil their responsibilities albeit this maybe at a reduced level.

To ensure an organisation has a robust response to an event affecting its ability to manage business as usual, it is essential that they have a comprehensive business continuity management programme in place.

Hawkes Bay Regional Council's current Business Continuity Plan was last updated in September 2016 and recognized the need to review the plans. To establish where there are gaps in the current business continuity planning Kestrel Group were engaged to review the current status, understand initiatives underway and to provide recommendations to ensure that Hawkes Bay Regional Council is aligned with international business continuity management standards and compliant with the Civil Defence Emergency Management Act 2002 (CDEM Act 2002).

Approach

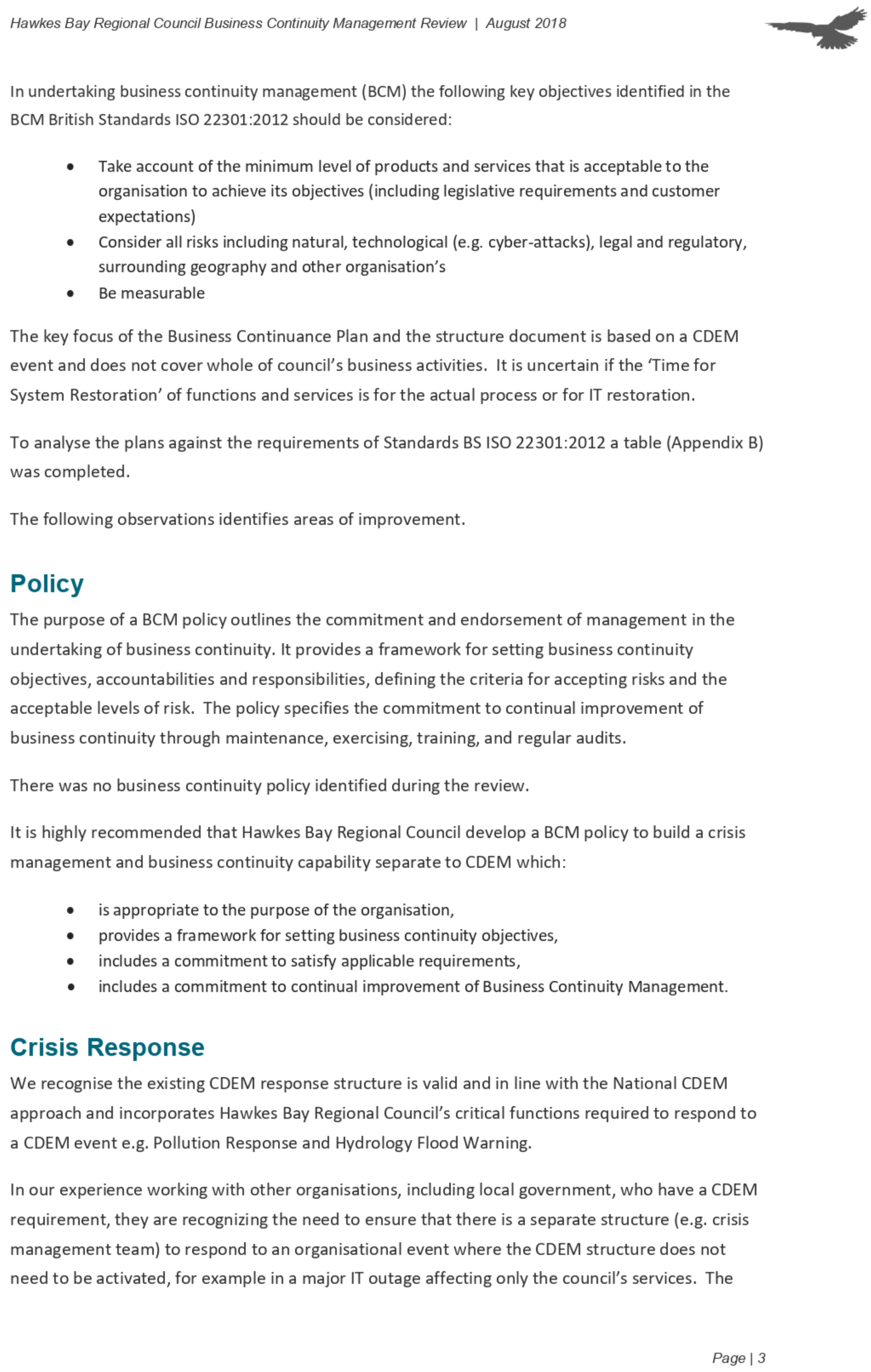
Having a capability to respond to incidents is more than just having a plan in place. In addition to a document review, interviews were held with the management team to establish existing capabilities which may not be currently documented as well as to discuss initiatives currently underway to improve the resilience of the business. A list of those interviewed is included as Appendix A.

Hawkes Bay Regional Council business continuity plan and other associated documentation were assessed against recognised international business continuity standards as well as the requirements under the CDEM Act 2002. The British ISO 22301:2012 is the standard which is used across New Zealand by Government agencies, lifeline utilities and major corporates. Appendix B details a review of the expectations under the ISO 22301 against Hawkes Bay Regional Council's current status.

Observations

Hawkes Bay Regional Council provided the Business Continuance Plan (dated September 2016) and a structure document outlining the roles and responsibilities to respond to an event affecting the Council in a CDEM event.

The plans should be flexible enough to cater for a wide variety of incidents, from complete destructive loss of facilities through to temporary loss of access, unavailability or compromise of IT systems, loss of key members of staff or suppliers or a combination of all. The business continuity plans should document procedures to facilitate the recovery of processes and services within predetermined timeframes so that Hawkes Bay Regional Council's critical business functions can be maintained.



In undertaking business continuity management (BCM) the following key objectives identified in the BCM British Standards ISO 22301:2012 should be considered:

- Take account of the minimum level of products and services that is acceptable to the organisation to achieve its objectives (including legislative requirements and customer expectations)
- Consider all risks including natural, technological (e.g. cyber-attacks), legal and regulatory, surrounding geography and other organisation's
- Be measurable

The key focus of the Business Continuance Plan and the structure document is based on a CDEM event and does not cover whole of council's business activities. It is uncertain if the 'Time for System Restoration' of functions and services is for the actual process or for IT restoration.

To analyse the plans against the requirements of Standards BS ISO 22301:2012 a table (Appendix B) was completed.

The following observations identifies areas of improvement.

Policy

The purpose of a BCM policy outlines the commitment and endorsement of management in the undertaking of business continuity. It provides a framework for setting business continuity objectives, accountabilities and responsibilities, defining the criteria for accepting risks and the acceptable levels of risk. The policy specifies the commitment to continual improvement of business continuity through maintenance, exercising, training, and regular audits.

There was no business continuity policy identified during the review.

It is highly recommended that Hawkes Bay Regional Council develop a BCM policy to build a crisis management and business continuity capability separate to CDEM which:

- is appropriate to the purpose of the organisation,
- provides a framework for setting business continuity objectives,
- includes a commitment to satisfy applicable requirements,
- includes a commitment to continual improvement of Business Continuity Management.

Crisis Response

We recognise the existing CDEM response structure is valid and in line with the National CDEM approach and incorporates Hawkes Bay Regional Council's critical functions required to respond to a CDEM event e.g. Pollution Response and Hydrology Flood Warning.

In our experience working with other organisations, including local government, who have a CDEM requirement, they are recognizing the need to ensure that there is a separate structure (e.g. crisis management team) to respond to an organisational event where the CDEM structure does not need to be activated, for example in a major IT outage affecting only the council's services. The crisis management team (based on the functions in the organisational structure) should link to the CDEM response structure to ensure co-ordination across the whole of council in a regional CDEM event. The crisis management team responsibility is to ensure that the business of council is kept operating for both a council only event and also whilst responding to a CDEM event.

For example: a local authority responded well to managing a major flood event under their CDEM structure. However, the council building was flooded and they recognised that they did not have the provision to deal with their own event whilst managing the CDEM response.

It is essential that a clear crisis management capability is established and implemented to ensure escalating events or major events are managed at the senior level. The main objectives of the crisis management team are:

- to provide strategic guidance and decision making,
- ensure staff and contractor safety,
- manage communications (internal and external),
- manage reputation and financial implications, and
- to set business recovery timelines.

There should be a clear delineation between crisis management (strategic) and incident management (CDEM response).

The procedure flow chart in the plan (page 4), offers only a high level of actions that should be undertaken and does not identify who would be doing them and by when.

Clear processes and procedures for the activation, operation, coordination of the response to an event and well-defined communications to staff and key stakeholders need to be developed and consistent in all plans.

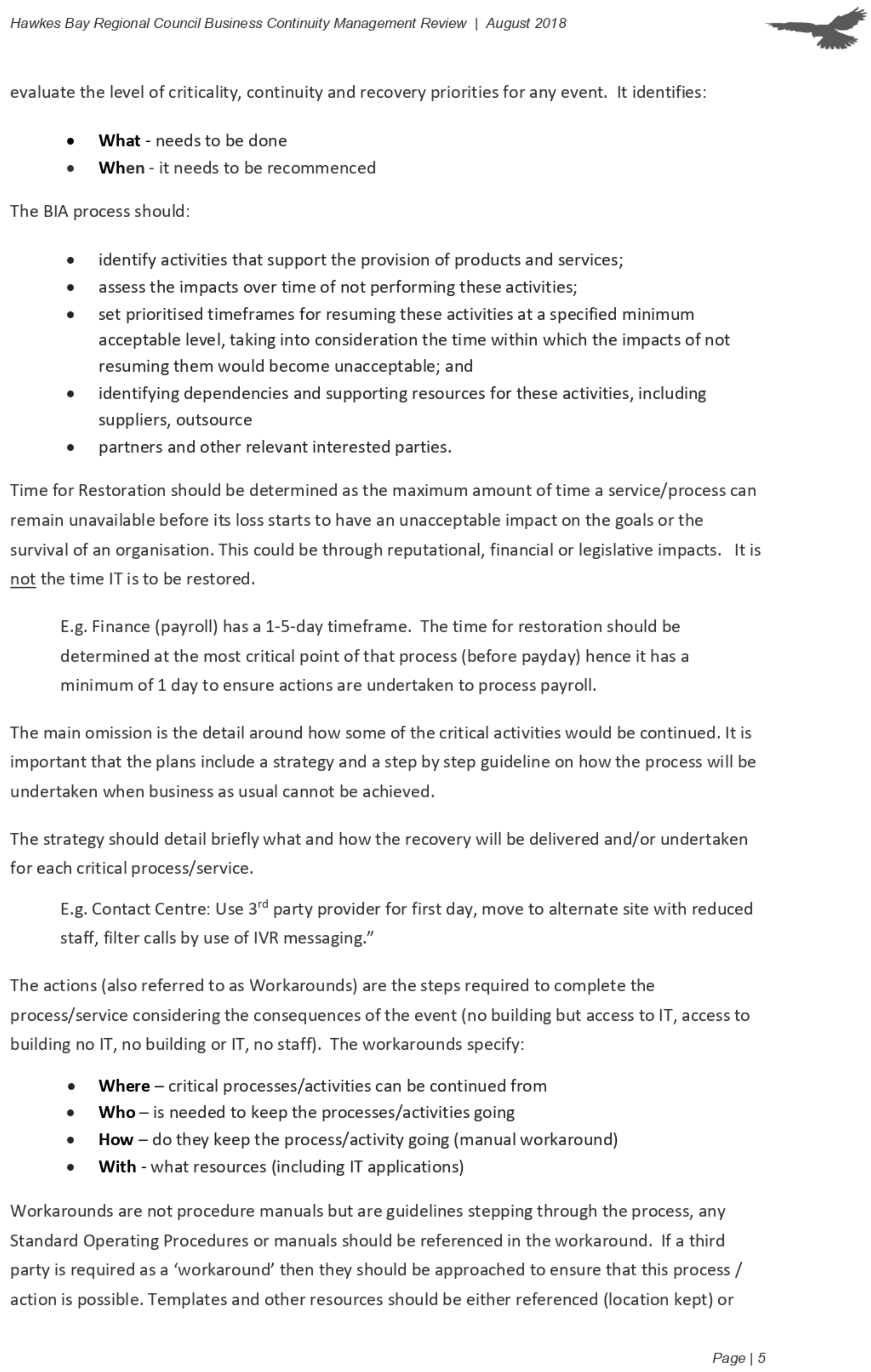
Business Continuity

The business continuity plan identifies 17 essential functions and services defined within three headings: Management Functions, Information Needs and Resources based on the first two weeks of any interruption. Non-essential functions and services are based on timeframes from between 1-20 weeks.

The reviewer was uncertain what process was completed to identify the essential functions and timeframes for restoration as there are a number of discrepancies in the essential and non-essential functions for example:

- GIS (1 – 6 weeks) versus Computer Services essential duties GIS (0.5 days)
    - This indicates that the GIS team function is not required for 1 – 6 weeks whereas IT GIS is required in .5 days. This is looking at essential service for a CDEM response only.

A business impact analysis (BIA) is the key process in any business continuity management programme. It is a process which identifies Council's business processes/services to determine and



evaluate the level of criticality, continuity and recovery priorities for any event. It identifies:

- **What** - needs to be done
- **When** - it needs to be recommenced

The BIA process should:

- identify activities that support the provision of products and services;
- assess the impacts over time of not performing these activities;
- set prioritised timeframes for resuming these activities at a specified minimum acceptable level, taking into consideration the time within which the impacts of not resuming them would become unacceptable; and
- identifying dependencies and supporting resources for these activities, including suppliers, outsource
- partners and other relevant interested parties.

Time for Restoration should be determined as the maximum amount of time a service/process can remain unavailable before its loss starts to have an unacceptable impact on the goals or the survival of an organisation. This could be through reputational, financial or legislative impacts. It is not the time IT is to be restored.

> E.g. Finance (payroll) has a 1-5-day timeframe. The time for restoration should be determined at the most critical point of that process (before payday) hence it has a minimum of 1 day to ensure actions are undertaken to process payroll.

The main omission is the detail around how some of the critical activities would be continued. It is important that the plans include a strategy and a step by step guideline on how the process will be undertaken when business as usual cannot be achieved.

The strategy should detail briefly what and how the recovery will be delivered and/or undertaken for each critical process/service.

> E.g. Contact Centre: Use 3rd party provider for first day, move to alternate site with reduced staff, filter calls by use of IVR messaging."

The actions (also referred to as Workarounds) are the steps required to complete the process/service considering the consequences of the event (no building but access to IT, access to building no IT, no building or IT, no staff). The workarounds specify:

- **Where** – critical processes/activities can be continued from
- **Who** – is needed to keep the processes/activities going
- **How** – do they keep the process/activity going (manual workaround)
- **With** - what resources (including IT applications)

Workarounds are not procedure manuals but are guidelines stepping through the process, any Standard Operating Procedures or manuals should be referenced in the workaround. If a third party is required as a 'workaround' then they should be approached to ensure that this process / action is possible. Templates and other resources should be either referenced (location kept) or depending on size readily available as a hard copy in a grab bag or soft copy kept on a 'memory stick'.

An example of this is for payroll with the strategy being: bank to re-run previous pay batch. The workaround should include what requirements/documents the bank requires, who has financial authority within Hawkes Bay Regional Council to approve payment of previous pay, what communications to staff, how will the pay run be reconciled etc.

Training, Testing and Maintenance

Plans should be exercised and tested on a regular basis to ensure that the information in the plans is verified as well as providing experiential training for staff.

A training programme as well as detailed requirements on maintaining, reviewing and testing incident/emergency management, crisis management, business continuity and IT disaster recovery plans needs to be in place, reviewed annually and included in annual business plans.

The current plan details maintenance tasks and simulation examples.

Recommendations

The recommendations in the table below provide Hawkes Bay Regional Council with the way forward to implement a comprehensive business continuity management programme.

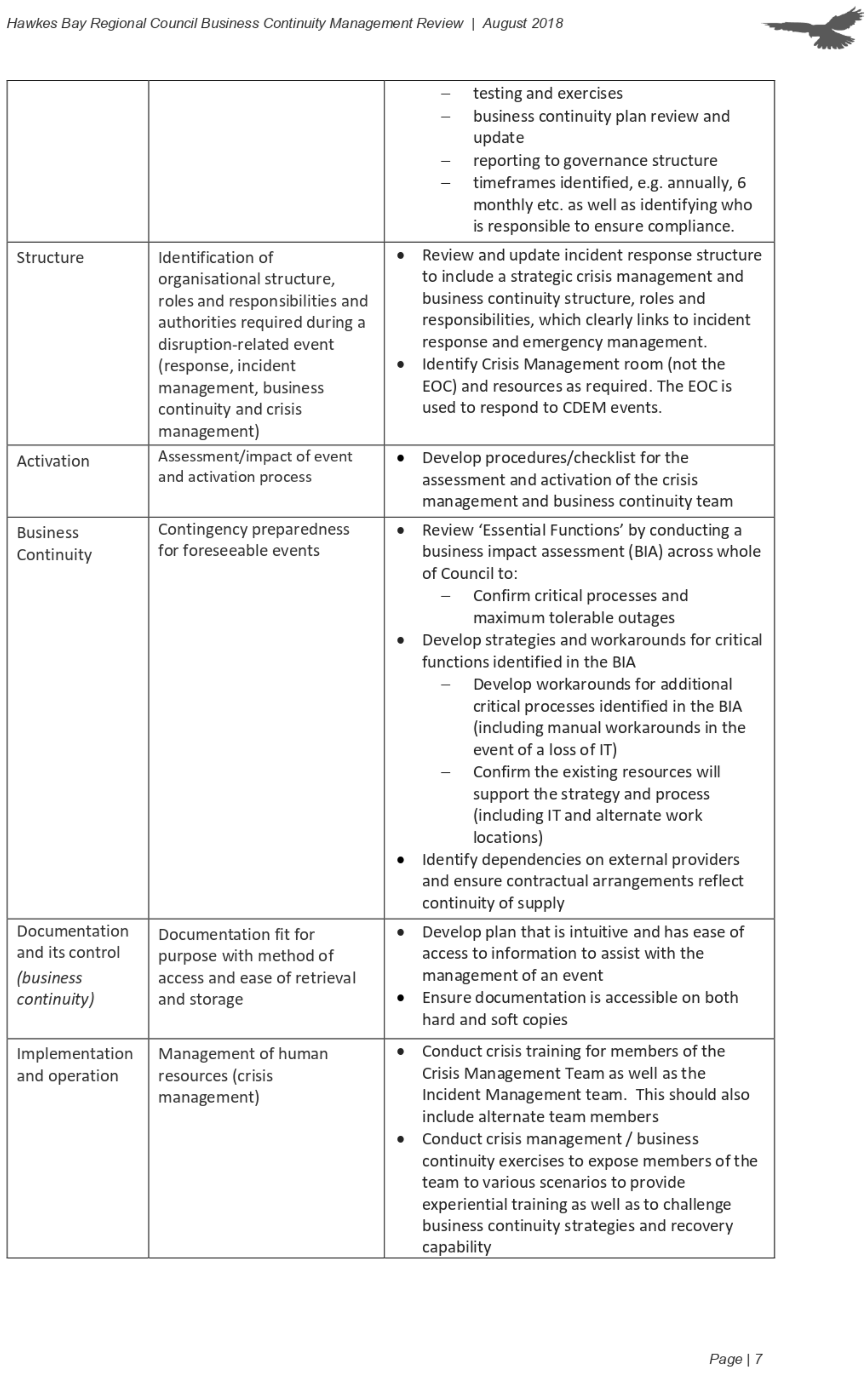
To undertake this programme of work it is recommended that Hawkes Bay Regional Council consider engaging a third party to develop and assist with the implementation of a work programme.

Use of a third party with experience in crisis management and business continuity to facilitate and/or develop a comprehensive business continuity management programme will minimise cost and time taken to produce a quality outcome.

In our experience caution is necessary when producing detailed documentation as it becomes cumbersome in a practical situation. The document will need to act as a reference and guide to responding to a situation impacting on Hawkes Bay Regional Council.

The following recommendations are based on the analysis in Appendix Two.

Main Subject	Elements	Recommendations
Governance	Business Continuity Management (BCM) Policy	Development of BCM Policy, to include: • Objectives • Crisis management and business continuity responsibilities • Reporting, maintenance and compliance to cover: – training requirements (crisis response and team leaders)



		– testing and exercises – business continuity plan review and update – reporting to governance structure – timeframes identified, e.g. annually, 6 monthly etc. as well as identifying who is responsible to ensure compliance.
Structure	Identification of organisational structure, roles and responsibilities and authorities required during a disruption-related event (response, incident management, business continuity and crisis management)	• Review and update incident response structure to include a strategic crisis management and business continuity structure, roles and responsibilities, which clearly links to incident response and emergency management. • Identify Crisis Management room (not the EOC) and resources as required. The EOC is used to respond to CDEM events.
Activation	Assessment/impact of event and activation process	• Develop procedures/checklist for the assessment and activation of the crisis management and business continuity team
Business Continuity	Contingency preparedness for foreseeable events	• Review 'Essential Functions' by conducting a business impact assessment (BIA) across whole of Council to: – Confirm critical processes and maximum tolerable outages • Develop strategies and workarounds for critical functions identified in the BIA – Develop workarounds for additional critical processes identified in the BIA (including manual workarounds in the event of a loss of IT) – Confirm the existing resources will support the strategy and process (including IT and alternate work locations) • Identify dependencies on external providers and ensure contractual arrangements reflect continuity of supply
Documentation and its control *(business continuity)*	Documentation fit for purpose with method of access and ease of retrieval and storage	• Develop plan that is intuitive and has ease of access to information to assist with the management of an event • Ensure documentation is accessible on both hard and soft copies
Implementation and operation	Management of human resources (crisis management)	• Conduct crisis training for members of the Crisis Management Team as well as the Incident Management team. This should also include alternate team members • Conduct crisis management / business continuity exercises to expose members of the team to various scenarios to provide experiential training as well as to challenge business continuity strategies and recovery capability

		- Provide awareness training on crisis management and business continuity to all staff - Include crisis management and business continuity awareness as part of induction process
	Testing	- Review and update testing schedule for business continuity plans including operating from alternate location(s)
	Maintenance	- Review and update annual maintenance programme for crisis management and business continuity to include review, updating of plans and testing
Third party suppliers	Relationship with suppliers and contractors (business continuity)	- Identify critical suppliers (through BIA) Where relationships with suppliers are required to ensure a business continuity capability or for the provision of specific resources to support business continuity, discuss expectations and contractual arrangements with suppliers

Conclusion

The reviewers consider that with the current plans Hawkes Bay Regional Council does not demonstrate that it will be able to function to the fullest possible extent in the event of an incident affecting the Council as an organisation e.g. building fire or major IT event (cyber).

It is the reviewer’s recommendation for Hawkes Bay Regional Council to put in place a work programme to develop a comprehensive business continuity management capability.

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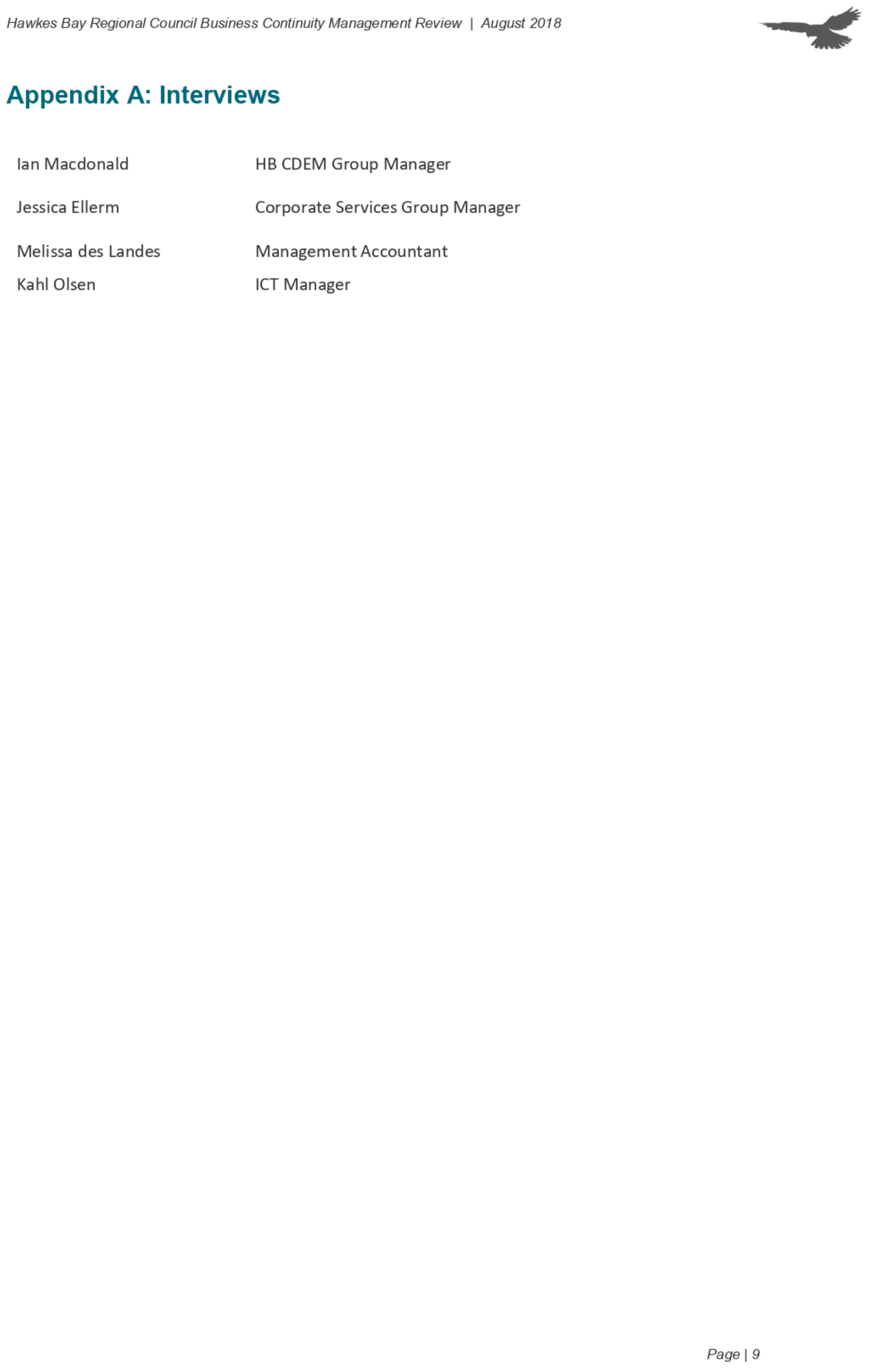
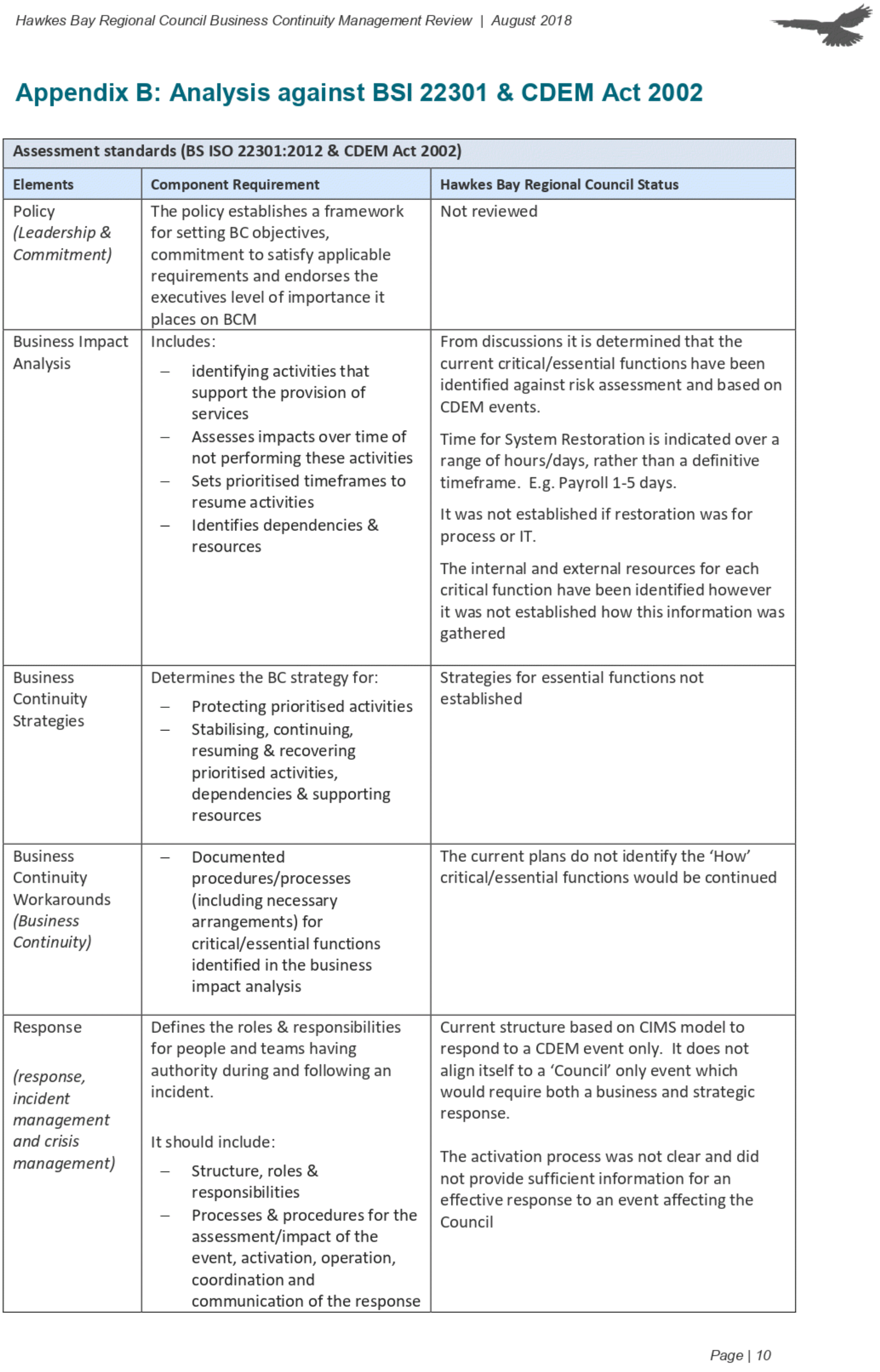


Appendix A: Interviews

Ian Macdonald	HB CDEM Group Manager
Jessica Ellerm	Corporate Services Group Manager
Melissa des Landes	Management Accountant
Kahl Olsen	ICT Manager

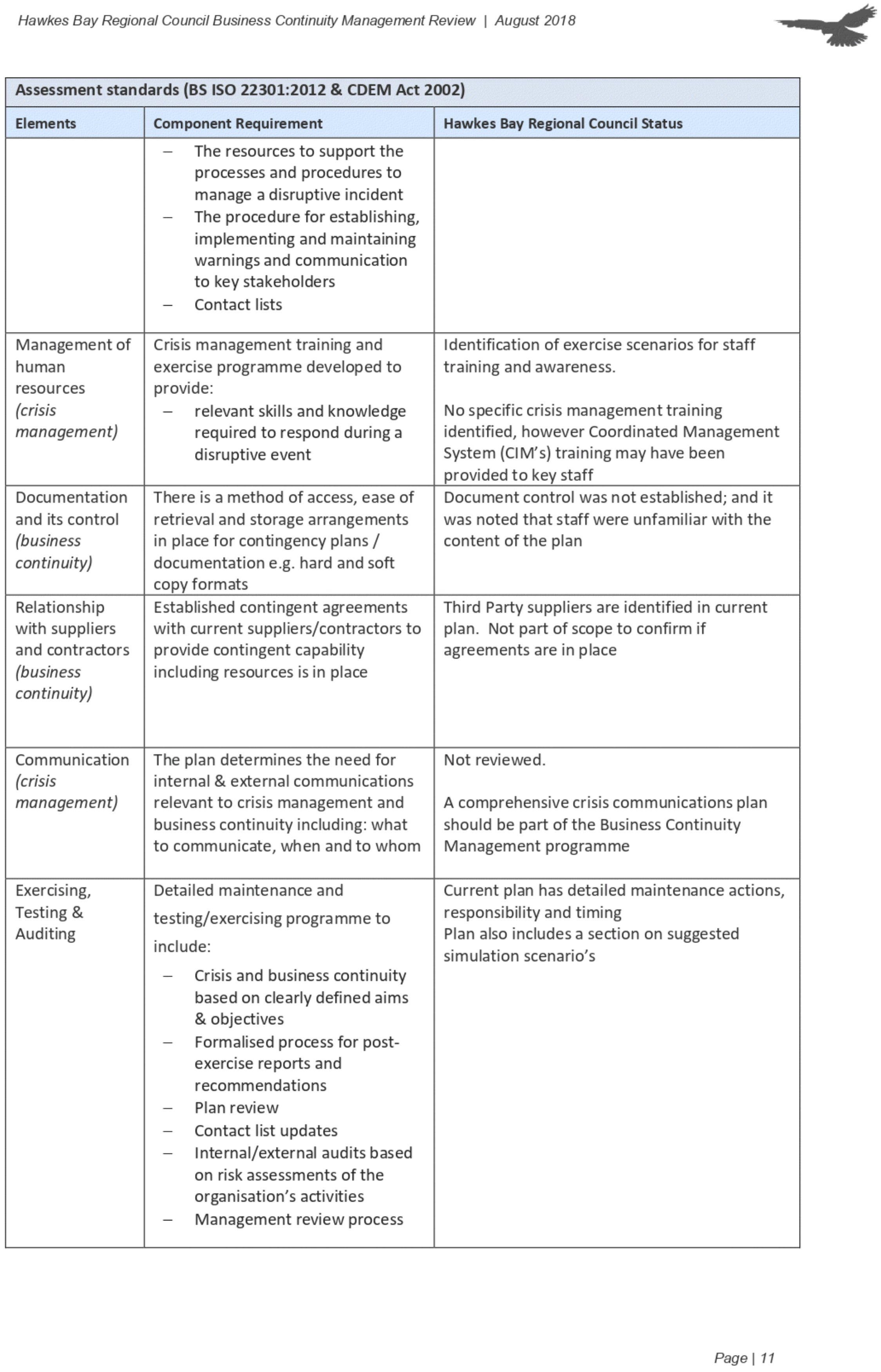
Attachment 2

Item 8



Appendix B: Analysis against BSI 22301 & CDEM Act 2002

Assessment standards (BS ISO 22301:2012 & CDEM Act 2002)		
Elements	**Component Requirement**	**Hawkes Bay Regional Council Status**
Policy *(Leadership & Commitment)*	The policy establishes a framework for setting BC objectives, commitment to satisfy applicable requirements and endorses the executives level of importance it places on BCM	Not reviewed
Business Impact Analysis	Includes: – identifying activities that support the provision of services – Assesses impacts over time of not performing these activities – Sets prioritised timeframes to resume activities – Identifies dependencies & resources	From discussions it is determined that the current critical/essential functions have been identified against risk assessment and based on CDEM events. Time for System Restoration is indicated over a range of hours/days, rather than a definitive timeframe. E.g. Payroll 1-5 days. It was not established if restoration was for process or IT. The internal and external resources for each critical function have been identified however it was not established how this information was gathered
Business Continuity Strategies	Determines the BC strategy for: – Protecting prioritised activities – Stabilising, continuing, resuming & recovering prioritised activities, dependencies & supporting resources	Strategies for essential functions not established
Business Continuity Workarounds *(Business Continuity)*	– Documented procedures/processes (including necessary arrangements) for critical/essential functions identified in the business impact analysis	The current plans do not identify the 'How' critical/essential functions would be continued
Response *(response, incident management and crisis management)*	Defines the roles & responsibilities for people and teams having authority during and following an incident. It should include: – Structure, roles & responsibilities – Processes & procedures for the assessment/impact of the event, activation, operation, coordination and communication of the response	Current structure based on CIMS model to respond to a CDEM event only. It does not align itself to a 'Council' only event which would require both a business and strategic response. The activation process was not clear and did not provide sufficient information for an effective response to an event affecting the Council



Assessment standards (BS ISO 22301:2012 & CDEM Act 2002)		
Elements	**Component Requirement**	**Hawkes Bay Regional Council Status**
	– The resources to support the processes and procedures to manage a disruptive incident – The procedure for establishing, implementing and maintaining warnings and communication to key stakeholders – Contact lists	
Management of human resources *(crisis management)*	Crisis management training and exercise programme developed to provide: – relevant skills and knowledge required to respond during a disruptive event	Identification of exercise scenarios for staff training and awareness. No specific crisis management training identified, however Coordinated Management System (CIM's) training may have been provided to key staff
Documentation and its control *(business continuity)*	There is a method of access, ease of retrieval and storage arrangements in place for contingency plans / documentation e.g. hard and soft copy formats	Document control was not established; and it was noted that staff were unfamiliar with the content of the plan
Relationship with suppliers and contractors *(business continuity)*	Established contingent agreements with current suppliers/contractors to provide contingent capability including resources is in place	Third Party suppliers are identified in current plan. Not part of scope to confirm if agreements are in place
Communication *(crisis management)*	The plan determines the need for internal & external communications relevant to crisis management and business continuity including: what to communicate, when and to whom	Not reviewed. A comprehensive crisis communications plan should be part of the Business Continuity Management programme
Exercising, Testing & Auditing	Detailed maintenance and testing/exercising programme to include: – Crisis and business continuity based on clearly defined aims & objectives – Formalised process for post-exercise reports and recommendations – Plan review – Contact list updates – Internal/external audits based on risk assessments of the organisation's activities – Management review process	Current plan has detailed maintenance actions, responsibility and timing Plan also includes a section on suggested simulation scenario's

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: CYBER SECURITY INTERNAL AUDIT

Reason for Report

1. To provide the Committee with the report on the Cyber Security internal audit undertaken by Crowe Horwath.

Background

2. The Finance, Audit and Risk Sub-committee (FARS) agreed at its meeting on 22 May 2019 as part of the internal audit work programme, to engage Crowe Horwath to conduct an internal audit of Council's cybersecurity controls.
3. The agreed scope and purpose of the audit was to evaluate the maturity of cybersecurity processes, policies, procedures, governance and other controls.
4. The audit identified four high risk findings, six medium risk findings and two low risk findings.
5. Following a review of findings and recommendations, commentary has been provided in the audit document describing management actions that have been undertaken or that are planned for the future.
6. Key areas for improvement are summarised below and further detail can be found in section 2 of the report.
7. Further reporting will be provided to this committee in the future to provide status updates on the planned management actions outlined in the audit report.

Report Analysis

8. The following comments summarise the management actions and map to the summary of findings in section 1.3 of the attached report.
9. IDENTIFY – Improve management of legacy software risks.
    - 9.1. A project is underway to renew the financial management system.
    - 9.2. The HBRC software inventory has been updated.
    - 9.3. Software dependencies are being documented and their risks assessed.
10. IDENTIFY – Improve the definition of ICT security roles and responsibilities.
    - 10.1. A recent review of the ICT section identified the team and role with primary responsibility for cybersecurity.
    - 10.2. Further work planned includes:
        - 10.2.1. A review of the ICT Policy framework.
        - 10.2.2. Adding a reference to the ICT acceptable use policy in the job description template for all staff.
        - 10.2.3. Develop a RACI matrix for specific cybersecurity roles and responsibilities.
        - 10.2.4. Adding a reference to cybersecurity responsibilities in third party software support contracts.
11. PROTECT – Improve control and review processes for access permissions.
    - 11.1. An annual review of access permissions is performed by Audit NZ to assess access to financial systems.

11.2. The ICT department will perform an annual review of access to other systems that contain confidential data (HR and Regulatory systems) at the same time as the Audit NZ review.

11.3. Third party access to Council systems has been restricted to ‘enable on demand’.

12. DETECT – Improve visibility of alerting systems.

12.1. A central mailbox for alerts has been setup and is actively monitored by key personnel.

12.2. Cybersecurity alerts will be added to the ICT dashboard that is being developed – and is displayed on a screen in the ICT work area.

13. RESPOND AND RECOVER – Develop ICT Disaster Recovery Plans and Incident Management Processes.

13.1. Funding has been requested in the annual plan for the development and implementation of an ICT Disaster Recovery Plan.

13.2. Incident Management processes and templates will be developed.

Decision Making Process

14. 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 Finance, Audit & Risk Sub-Committee Committee receives and notes the *“Cyber Security Internal Audit”* staff report.

Authored by:

Andrew Siddles
ACTING ICT MANAGER

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** Hawke's Bay Regional Council Internal Audit - IT Security, August 2019

Crowe

Hawkes Bay Regional Council

Internal Audit – IT Security

August 2019

Contents

Crowe

1. Executive Summary

1.1 Objective and scope

The objective of the assignment was to evaluate the maturity of cybersecurity processes, policies, procedures, governance and other controls.

We identified the key areas of cyber risk that exist for the organisation and considered the policies, procedures and controls designed to mitigate those risks over the three primary security and control areas:

- Protection of networks to which multiple information resources are connected
- Responsibility and accountability for the device and information contained on it
- Protection of sensitive data and intellectual property

We evaluated the maturity of the Council's processes, policies, procedures, governance and other controls relative to the US National Institute of Standards and Technology (NIST) Cybersecurity Framework. This framework consists of standards, guidelines and good practices to manage cybersecurity-related risk.

We evaluated the Council's cyber maturity across the following five cyber functions:

- **Identify:** An understanding of how to manage cyber security risks to systems, assets, data and capability.
- **Protect:** The controls and safeguards necessary to protect or deter cyber security threats.
- **Detect:** Continuous monitoring to provide proactive and real-time alerts of cyber security related events.
- **Respond:** Incident response activities.
- **Recover:** Business continuity plans to maintain resilience and recover capabilities after a cyber breach.

RECOVER
IDENTIFY
CYBERSECURITY FRAMEWORK VERSION 1.1
RESPOND
PROTECT
DETECT

The assessment relied on primarily discussion techniques, review of documetation and other operational audits that have been recently completed to identify security and control issues. The assessment did not include a evaluation of the operating effectiveness of controls which would require detailed testing and was beyond the scope of this assignment.

1.2 Audit conclusion

Our assessment identified a number of gaps between the NIST Cybersecurity Framework and current IT Security practices. The current state reflects a decentralised management approach to information technology (IT) with limited centralised control and oversight and this is typical of Councils.

The following are overall observations from our review:

- Efforts are underway to better understand the security risks to systems, assets, data and capability.

Including this review, vulnerability scanning (a technical review was completed by Spark), cyber awareness training and testing (a social engineering test completed by Quantum IT Security), business continuity planning, a review of skills and capability, review of IT strategy and projects and the formulation of a data strategy. Continuous improvement processes should inform a risk-based approach to IT Security and broader security considerations (physical security, personnel security, information security).

- We reviewed existing BCP documentation (completed prior to the current project), the existing documentation reflects limited engagement between IT and the business to document critical functions, services, systems and data. IT staff can play lead role in disaster recovery through effective engagement with senior management and system owners to ensure the level of service is risk based (cost versus service). There is a current project at the Council to review business continuity planning.
- There appears to be a disconnect between the Council's IT policies and existing practice. The policy framework requires review to achieve a risk-based approach. An effective policy framework should have senior management support, identify areas of risk, outline practical steps to minimise risk and be supported by security plans.

1.3 Summary of findings

Our review identified 4 high risk findings, 6 medium risk findings and 2 low risk findings. More detail on the rating scale is provided in the table in Appendix 5.

Indicator	Risk ratings	Findings
🟥	High risk	4
🟧	Medium risk	6
🟩	Low risk	2
🟦	Process improvement opportunity	-

The following table provides a summary of high and medium risk findings relative to the 5 critical cybersecurity activities in the NIST Cybersecurity Framework.

Activity	Processes	Key areas for improvement [High and medium risk findings]
Identify	▪ Asset Management ▪ Business Environment ▪ Governance ▪ Risk Assessment ▪ Risk Management Strategy	▪ Software and applications are not centrally controlled increasing the risk of inadequate maintenance (patching and updates), legacy systems (potentially unused, unsupported and insecure systems) and duplication of licences. ▪ IT security roles and responsibilities are not well defined for the various cybersecurity functions.

Activity	Processes	Key areas for improvement [High and medium risk findings]
Protect	▪ Access Control ▪ Awareness Training ▪ Data Security ▪ Information Protection Processes and Procedures ▪ Maintenance ▪ Protective Technology	▪ Access permissions are not controlled effectively to enforce the principle of least privilege. Periodic review of permissions is required, with a focus on access to critical systems and confidential information. ▪ The extent of Software As A Service (SAAS) products (cloud) accessed by users is not catalogued. As the Council progresses towards SAAS, authentication should be centralised and multifactor to manage information security risks. ▪ Third party responsibilities for cybersecurity are not well defined in agreements. ▪ Third parties accessing the Council's systems are not authenticated effectively. Individuals accessing the Council's systems should be identified rather than generic logons and multifactor authentication should be used.
Detect	▪ Anomalies and Events ▪ Security Continuous Monitoring ▪ Detection Processes	▪ There is limited visibility of alerts from existing protection systems and documented monitoring, investigation and reporting.
Respond & Recovery	▪ Response Planning ▪ Communications ▪ Analysis ▪ Mitigation ▪ Improvements	▪ IT Disaster Recovery Plans and Incident Management Plans have not been documented and tested. Plans should be documented, reviewed and tested, to ensure an effective response when incidents occur. ▪ No incidents have occurred in the past 12 months.

We have provided, in Sections 2 detailed findings and practical recommendations for improvement across the identified areas.

We identified a number of effective practices and these are included in Appendix 1.

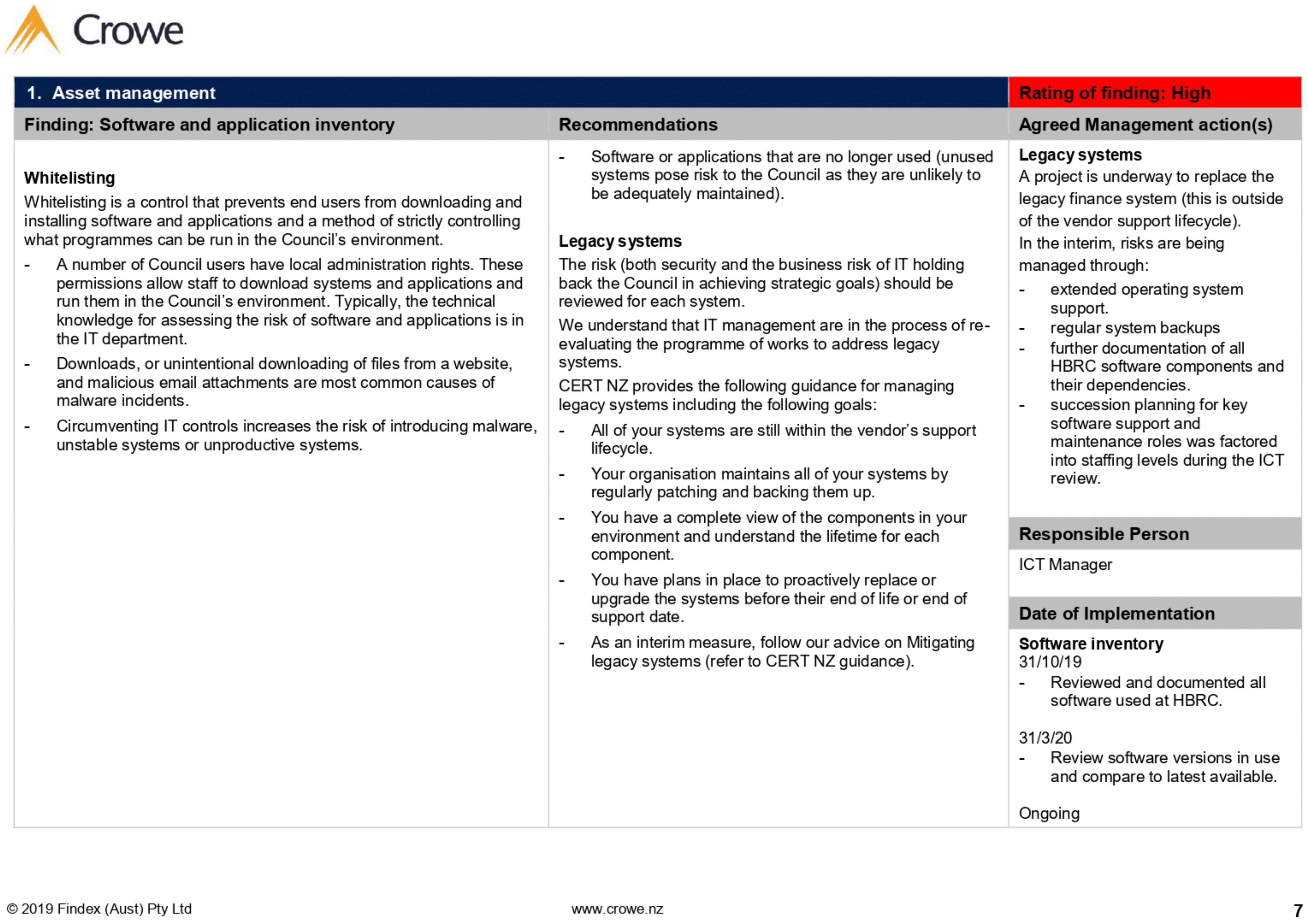
CERT NZ is a government agency that was setup to improve cyber the security resiliency of government agencies and other organisations. CERT NZ provide guidance on cyber security good practice including 10 critical controls. We have summarised our findings against the 10 critical controls to benchmark the Council's cyber resiliency against New Zealand standards in Appendix 2.

1.4 Basis and Use of this Report

This report has been prepared in accordance with our Scoping Document dated April 2019 and subject to the limitations set out in Appendix 5 - Basis and Use of the Report. The report is written on an exceptions basis and therefore only areas requiring management consideration and action are included in this report.

2. Findings and Recommendations

1. Asset management		Rating of finding: High
Finding: Software and application inventory	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Software platforms and applications within the organisation are inventoried. **Completeness of inventory - Software platforms and applications** The Council does not have a current inventory of software (version, system, vendor and owner etc.). Without central oversight of software there is increased risk of inadequate maintenance (patching and updating) and duplication of licences across the Council. **Legacy systems** The Council has identified in the IT Strategy (currently under review) 40 legacy systems: - As per CERT NZ (a New Zealand Government agency for improving cyber security in New Zealand), legacy systems often require legacy network protocols or hardware, which means that a legacy system can place modern systems at risk. The longer a legacy system is in place, the more likely it becomes that the people who understand how it works are no longer available, and replacing or changing the system becomes more difficult and expensive. - The IT Strategy document describes similar risks to those above including single person dependency, end of life software and a significant programme of work improve the resilience of software. - The programme of work to address legacy systems is currently under review. The IT department is behind on the initial programme and management are in the process of reviewing approach and timeframes.	**IT oversight and value as a service** IT can deliver value to the business through: - Pro-actively working with system owners to ensure systems are patched and updated on a timely basis. - Review software and application requests during the procurement process from a security perspective, to ensure that systems do not pose undue risk to the Council. - Implementing whitelisting to control the software and applications that run in the Council's environment (see below). The risk of centralising control is that if the change is not managed effectively (communication of the reasons for the change) and IT is not well enough resourced to provide effective service, business units will become frustrated with IT if they experience delays and the value of IT will not be realised. **Inventory** At a minimum, software and applications should be inventoried and reviewed by IT on an annual basis to: - Identify duplicate licences and systems; - Identify software or applications that pose undue security risk; - Identify software or applications that do not support the business objectives of the Council (unproductive systems); and	**IT oversight & value** The ICT team are now proactively engaging with system owners, building trust so that ICT are involved during software selection discussions. We've added an ICT risk assessment to the Procurement Plan Template. We've updated the software inventory and are now checking software patching and version levels. This inventory will be maintained and reviewed annually. We believe the additional overhead costs and restrictions of whitelisting out-weigh the risks arising from decentralised control of applications and staff with local administration rights. **Software inventory** 1. Inventory all software installed on HBRC systems 2. Compare installed software versions with latest available versions. 3. Review licensing entitlements. 4. Review the list and address outliers. 5. Repeat this process annually



Crowe

1. Asset management		Rating of finding: High
Finding: Software and application inventory	**Recommendations**	**Agreed Management action(s)**
Whitelisting Whitelisting is a control that prevents end users from downloading and installing software and applications and a method of strictly controlling what programmes can be run in the Council's environment. - A number of Council users have local administration rights. These permissions allow staff to download systems and applications and run them in the Council's environment. Typically, the technical knowledge for assessing the risk of software and applications is in the IT department. - Downloads, or unintentional downloading of files from a website, and malicious email attachments are most common causes of malware incidents. - Circumventing IT controls increases the risk of introducing malware, unstable systems or unproductive systems.	- Software or applications that are no longer used (unused systems pose risk to the Council as they are unlikely to be adequately maintained). **Legacy systems** The risk (both security and the business risk of IT holding back the Council in achieving strategic goals) should be reviewed for each system. We understand that IT management are in the process of re-evaluating the programme of works to address legacy systems. CERT NZ provides the following guidance for managing legacy systems including the following goals: - All of your systems are still within the vendor's support lifecycle. - Your organisation maintains all of your systems by regularly patching and backing them up. - You have a complete view of the components in your environment and understand the lifetime for each component. - You have plans in place to proactively replace or upgrade the systems before their end of life or end of support date. - As an interim measure, follow our advice on Mitigating legacy systems (refer to CERT NZ guidance).	**Legacy systems** A project is underway to replace the legacy finance system (this is outside of the vendor support lifecycle). In the interim, risks are being managed through: - extended operating system support. - regular system backups - further documentation of all HBRC software components and their dependencies. - succession planning for key software support and maintenance roles was factored into staffing levels during the ICT review. **Responsible Person** ICT Manager **Date of Implementation** **Software inventory** 31/10/19 - Reviewed and documented all software used at HBRC. 31/3/20 - Review software versions in use and compare to latest available. Ongoing

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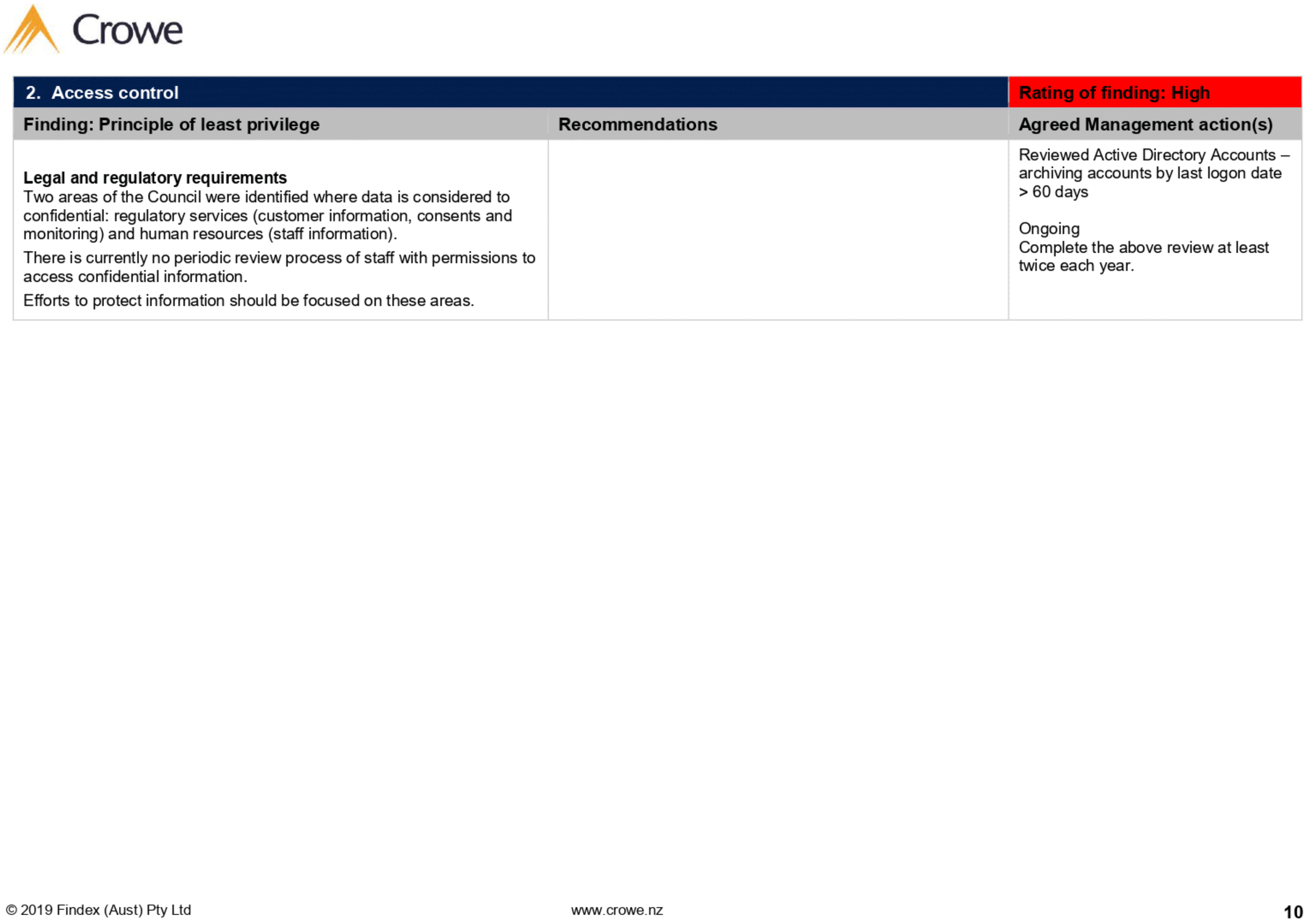
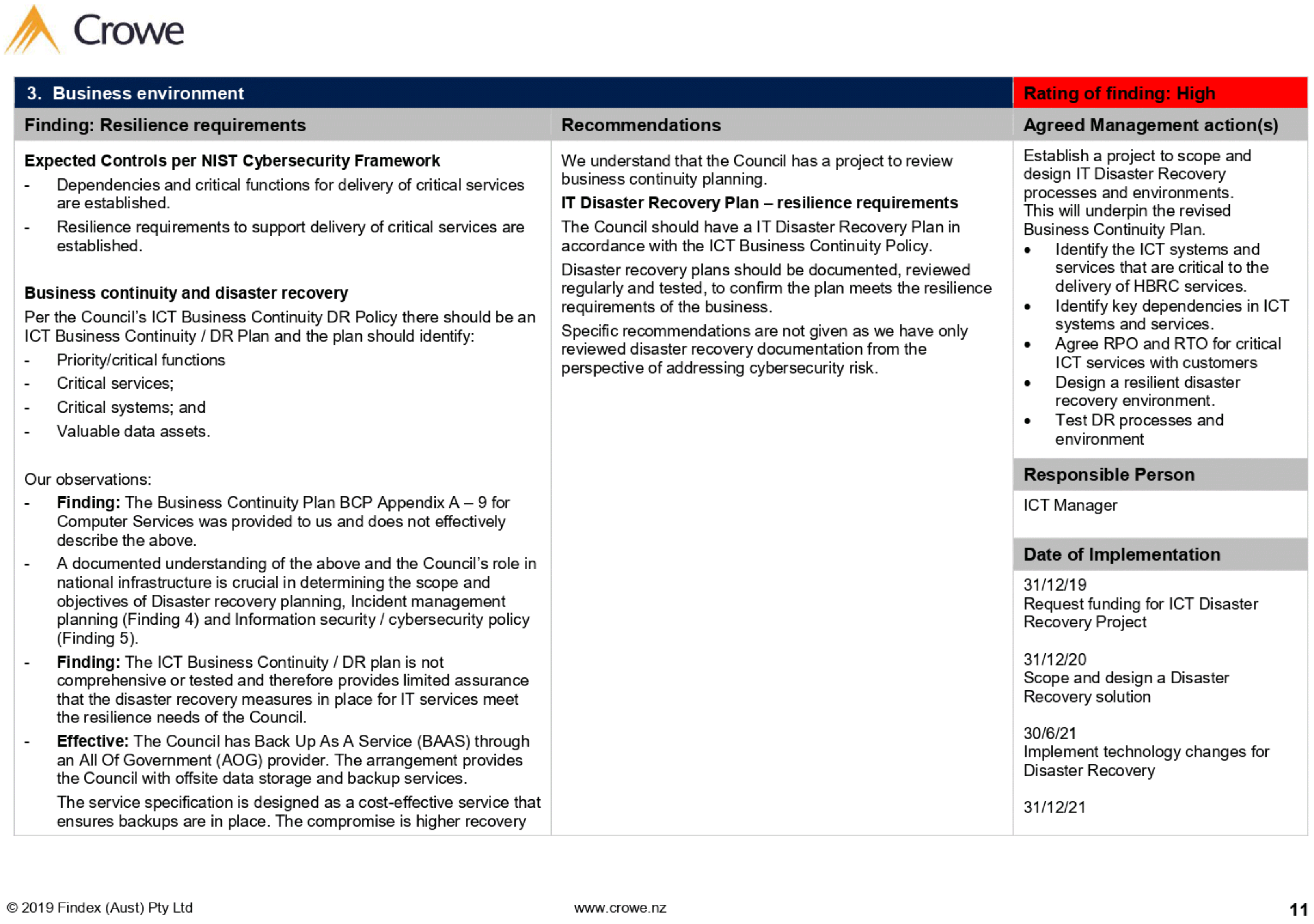
1. Asset management		Rating of finding: High
Finding: Software and application inventory	**Recommendations**	**Agreed Management action(s)**
		- Automate as many software updates as possible. - Update and review software list annually (alongside the annual with AuditNZ review). **Legacy systems** 31/8/19: - Review ICT roles to ensure legacy system support. 31/12/19: - High-level documentation of software components. 30/6/21: - Finance System Replacement Ongoing: - Detailed documentation of legacy software components and their dependencies. - Replacement of other legacy systems

2. Access control		Rating of finding: High
Finding: Principle of least privilege	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Identities and credentials are managed for authorised devices and users. - Access permissions are managed, incorporating the principles of least privilege and separation of duties. - Legal and regulatory requirements regarding cybersecurity, including privacy and civil liberties obligations, are understood and managed. **Access controls** The Principle of Least Privilege is a critical control (per NIST and CERT NZ frameworks). According to CERT NZ, the majority of reported incidents are credential harvesting and unauthorised access. The risk is exacerbated when users have excessive administrative permissions, as once hackers have ceased one client device they can use this device to access more data and systems. The following practices limit the effectiveness of the Council's permissions management: - When a staff member leaves and a new staff member arrives, the permissions of the outgoing employee are given to the new employee. Employees accumulate permissions overtime as they mature in their role. These permissions may be in excess of the permissions required for new employee's role (violating the principle of least privilege). - There is currently no periodic review of permissions to ensure that users have the least amount of permissions needed to effectively undertake their role. - There is no periodic review to remove accounts that are no longer needed (user accounts, remote user accounts and system administration accounts). - A number of users have local administration rights. Such rights allow users to circumvent security policies.	**Enforce the principle of least privilege** At a minimum, review user permissions for critical systems (critical systems should be defined in the IT Disaster Recovery Plan, Finding 3) on an annual basis to ensure users have only the minimum permissions necessary to carry out their role. Specifically, review should be focused on: - Users with access to confidential information (data assets containing confidential information should be identified); and - Users with privileged access (local administration rights, system administration accounts or domain administration accounts) and whether the elevated permissions are necessary to perform their role. **Periodic review** Access should be reviewed on a periodic basis (at least annually) to identify user accounts in Active Directory that are no longer required. Including: - Matching accounts to payroll records to identify user accounts that remain active despite employees having left; - Using last logon dates to identify users (employees, contractors, third parties) that have not accessed the system for more in more than a set number of days.	Local administrator access for users: we accept this risk as we believe the usability benefits outweigh the risk. Other actions outlined below. **Responsible Person** ICT Manager **Date of Implementation** **Principle of least privilege** 31/10/19 - Reviewed and reduced domain administrator access. - Identified systems containing confidential data. - Tightened up processes for assigning access rights for new users. Ongoing We will perform an annual review of access to HR and Regulatory systems (adding this to the current AuditNZ reviews of core and finance systems). **Periodic review** 31/10/19



2. Access control		Rating of finding: High
Finding: Principle of least privilege	**Recommendations**	**Agreed Management action(s)**
Legal and regulatory requirements Two areas of the Council were identified where data is considered to confidential: regulatory services (customer information, consents and monitoring) and human resources (staff information). There is currently no periodic review process of staff with permissions to access confidential information. Efforts to protect information should be focused on these areas.		Reviewed Active Directory Accounts – archiving accounts by last logon date > 60 days Ongoing Complete the above review at least twice each year.



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3. Business environment		Rating of finding: High
Finding: Resilience requirements	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Dependencies and critical functions for delivery of critical services are established. - Resilience requirements to support delivery of critical services are established. **Business continuity and disaster recovery** Per the Council's ICT Business Continuity DR Policy there should be an ICT Business Continuity / DR Plan and the plan should identify: - Priority/critical functions - Critical services; - Critical systems; and - Valuable data assets. Our observations: - **Finding:** The Business Continuity Plan BCP Appendix A – 9 for Computer Services was provided to us and does not effectively describe the above. - A documented understanding of the above and the Council's role in national infrastructure is crucial in determining the scope and objectives of Disaster recovery planning, Incident management planning (Finding 4) and Information security / cybersecurity policy (Finding 5). - **Finding:** The ICT Business Continuity / DR plan is not comprehensive or tested and therefore provides limited assurance that the disaster recovery measures in place for IT services meet the resilience needs of the Council. - **Effective:** The Council has Back Up As A Service (BAAS) through an All Of Government (AOG) provider. The arrangement provides the Council with offsite data storage and backup services. The service specification is designed as a cost-effective service that ensures backups are in place. The compromise is higher recovery	We understand that the Council has a project to review business continuity planning. **IT Disaster Recovery Plan – resilience requirements** The Council should have a IT Disaster Recovery Plan in accordance with the ICT Business Continuity Policy. Disaster recovery plans should be documented, reviewed regularly and tested, to confirm the plan meets the resilience requirements of the business. Specific recommendations are not given as we have only reviewed disaster recovery documentation from the perspective of addressing cybersecurity risk.	Establish a project to scope and design IT Disaster Recovery processes and environments. This will underpin the revised Business Continuity Plan. • Identify the ICT systems and services that are critical to the delivery of HBRC services. • Identify key dependencies in ICT systems and services. • Agree RPO and RTO for critical ICT services with customers • Design a resilient disaster recovery environment. • Test DR processes and environment **Responsible Person** ICT Manager **Date of Implementation** 31/12/19 Request funding for ICT Disaster Recovery Project 31/12/20 Scope and design a Disaster Recovery solution 30/6/21 Implement technology changes for Disaster Recovery 31/12/21

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3. Business environment		Rating of finding: High
Finding: Resilience requirements	**Recommendations**	**Agreed Management action(s)**
point objectives (time between backups and potential data loss) and recovery time objective (time to restore). The RPO and RTO should be explicit in the IT Disaster Recovery Plan and reviewed on an ongoing basis with senior management (representing the needs of the business). Specific findings/recommendations on business continuity and disaster recovery planning are out of the scope of this engagement. We understand there is a current project to review business continuity planning underway at the Council.		Test Disaster Recovery processes and environment.

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4. Information protection processes and procedures		Rating of finding: High
Finding: Response and recovery	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework – planning - Response plans (incident response and business continuity) and recovery plans (incident recovery and disaster recovery) are in place and managed. - Response and recovery plans are tested. - Personnel know their roles and order of operations when a response is needed. - Incident alert thresholds are established. - Senior management understand their roles and responsibilities. **Expected Controls per NIST Cybersecurity Framework – communications** - Events are reported consistent with established criteria. - Information is shared consistent with response plans. - Coordination with stakeholders occurs consistent with response plans. - Voluntary information sharing occurs with external stakeholders to achieve broader cybersecurity situational awareness. **Incident management – procedures** The Council policy Cyber Crime and Security Incident Policy states that procedural documentation must be developed to ensure that the Council can recover from incident – this documentation has not been developed. - The Council does not have a response plan for a cybersecurity incident. - There are no testing procedures or plans. - No tests have been completed to provide training to staff or verify the effectiveness of response and planning and preparation. Management noted there have been no recorded cybersecurity incidents in the past 12 months.	**Incident management – procedures** As per the Council's Cyber Crime and Security Incident Policy, to ensure a quick, effective, and orderly response to an incident, documented procedures, including escalation procedures, should be prepared. Given that the Council has outsourced a number of critical systems the incident response requires effective coordination between internal stakeholders (staff and system owners) and third parties. Formalising roles and ensuring that procedures are in place and agreed between the Council and third parties will ensure the response is effective. Incident management procedures should address the following requirements (per NIST guide): - Incident planning: - Incident response policy (complete, requires review). - Incident management plan (mission, strategies & goals, senior management approval, organisation approach, communication, metrics, roadmap for maturing capability). - Incident management procedures, including: ▪ Standard operating procedures; ▪ sharing information with outsiders (media, law enforcement, incident reporting orgs for example CERT NZ); and ▪ Incident response team structure. - Incident handling: - Detection and analysis (monitoring and indicators, incident analysis, incident documentation, incident notification). - Containment, eradication, and recovery.	As below **Responsible Person** ICT Manager **Date of Implementation** 31/3/20 - Develop cybersecurity incident management processes based on CERT NZ guidelines.

4. Information protection processes and procedures		Rating of finding: High
Finding: Response and recovery	**Recommendations**	**Agreed Management action(s)**
	- Post-incident Activity (lessons learned, using collected incident data, evidence retention). - Coordination and information sharing: - Coordination. - Sharing agreements and reporting requirements. CERT NZ provide additional guidance on incident management procedures. Plans should be evaluated and updated at least annually and following testing or an incident (to reflect lessons learned).	

Crowe

5. Governance

Rating of finding: Medium

Finding: Information security policy framework

Expected Controls per NIST Cybersecurity Framework

- Organisational information security policy is established.

Policy framework

The Council has an extensive list of IT policies. These policies require review (expected review date was in 2014). Existing policies:

- ICT Cyber Crime and Security Incident Policy
- ICT Hardware Management Policy
- ICT Laptop And Tablet Security Policy
- ICT Password and Authentication Policy
- ICT Remote Access Policy
- ICT Software Management Policy
- ICT Business Continuity DR Policy
- ICT Acceptable Use Policy

Observations:

- The Acceptable Use Policy has been socialised to the business and includes policy requirements that relate to end users. The remaining policies have been communicated to IT staff.
- There is limited monitoring of compliance against the policies or evidence of the policies being translated into standards, procedures and practices.
- While the polices appear comprehensive, with no review, communication to all staff, monitoring controls or supporting procedures, they are of limited value in achieving an effective security culture.

Specific findings are included in relevant sections of this review.

Recommendations

Policy review required

The Council’s IT policies should be reviewed (last review was in 2014).

The policy review should identify areas (including those identified in this review) where the policy should inform a review of procedures and processes to improve practices.

Risk based policy requirements

The Council’s Information Security / Cybersecurity Policy should be based on:

- Understanding of the Council’s place in critical infrastructure and the environment (data collection and monitoring roles etc.);
- Understanding of critical functions and services;
- Detailed Business Impact Analysis (“BIA”) and risk assessment; and
- Clearly expressed risk tolerance.

Protective Security Requirements (protectivesecurity.govt.nz) provides guidance on a developing an effective risk-based approach to security (encompassing governance, personnel security, information security and physical security).

The requirements are mandatory for Government departments, however state that they should be considered as good practice for other organisations to follow.

Agreed Management action(s)

As below

Responsible Person

ICT Manager

Date of Implementation

31/10/19

- Identified all ICT Policy documents and check their review dates and the review process.

30/6/20

- Assess the quality of Councils ICT policy framework against good practice eg ‘Protective Security Requirements’

Further work may be required depending on the outcome of the above assessment.

6. Governance		Rating of finding: Medium
Finding: Roles and responsibilities	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Information security roles and responsibilities are coordinated and aligned with internal roles and external partners. - Senior executives understand roles and responsibilities. - Physical and information security personnel understand roles and responsibilities. **NZISM guidance** The New Zealand Information Security Manual provides guidance on the following information security roles that should be in place: - Chief Information Security Officer “CISO” (sets the strategic direction for information security within the Council, does not have to be a dedicated position). - IT Security Manager (“ITSM”) (provide information security leadership and management within the Council); - System owners (obtain and maintain accreditation of their systems, including directly related services such as cloud). - System users (comply with security policies and procedures). **Our observations** The Council has policies, organisational charts and job descriptions to communicate roles and responsibilities. We reviewed the job descriptions of key roles with respect to cybersecurity and responsibilities were not well defined. - The Corporate Services Manager has executive level responsibility for IT. We reviewed the job description to identify whether the role includes specific cybersecurity responsibilities. Responsibilities with respect to cybersecurity in relation to the role of CISO are not defined. - ITSM role is split between: - Contract CIO – the previous role of IT Manager is currently filled by a contractor (CIO to Go). Roles and responsibilities are defined and the contractor is delivering	**Roles and responsibilities** The roles and responsibilities with respect to the below cybersecurity functions, should be included in the job descriptions and/or defined in the recommended Information Security / Cybersecurity policy (Finding 5): Cybersecurity functions: - Reporting; - Security programmes; - Ensuring compliance; - Coordinating security across business units; - Working with vendors; - Budgeting; - Information security incidents; - Disaster recovery; - Training; and - Providing security knowledge. The relevant role (Responsible, Accountable, Consulted and Informed “RACI”) should be identified for each of the above functions for: - IT Steering Committee; - Group Manager Corporate Services; - Contract CIO; - IT Team Leaders; - Privacy officer; - Quality officer; and - System owners. Refer to the New Zealand Information Security Manual (“NZISM”) for additional clarity on information security roles. **Segregation** Using the RACI model above can assist with managing segregation risks inherent in small IT teams. Staff have roles that may be considered incompatible including production activities (day to day business of the Council), development (coding), privileged access, security responsibilities,	As outlined below **Responsible Person** ICT Manager **Date of Implementation** 30/6/20 - Review all cybersecurity roles and develop a RACI matrix for responsibilities. 31/12/20 - Amend the JD template to reference the ICT acceptable use policy.

6. Governance		Rating of finding: Medium
Finding: Roles and responsibilities	**Recommendations**	**Agreed Management action(s)**
strategic level advice to management on IT. However, cybersecurity roles and responsibility are not defined; and - The IT Team Leader has responsibility for security primarily from a system and architecture perspective. We reviewed the job description and cybersecurity functions (see recommendation) are not defined while “Cybersecurity” is included as a one-line item in the responsibility section.	managing vendors and monitoring and reporting on vulnerabilities. **Responsibilities – Users** Job descriptions should refer to the responsibilities per the Acceptable Use policy.	

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7. Access controls		Rating of finding: Medium
Finding: External information systems	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Identities and credentials are managed for authorised devices and users. - External information systems are catalogued. **Access controls** The extent of reliance on information systems hosted by third parties (primarily Software As A Service "SAAS") is not centrally understood. Cloud systems so not require the involvement of IT as the systems are accessed via the Internet. The use of third party hosted systems without IT involvement raises a number of risks including: - The security and data protection standards and guidelines followed by the provider. - The location/legal jurisdiction where the data resides and who ownership of the data. - Service availability levels provided. - Continuity plans in place for recovering data, infrastructure and applications. - Levels of service resilience and back up provided. - Service desk functions provided. - Metrics and performance reporting provided. - Scalability of the service and change management processes. - Use of further third parties in the service and controls over them. - Termination procedures and the ownership, return or destruction of data. Generally, the skills to understand these risks reside in the IT department and should be managed by IT.	The Council's ICT Password and Authentication Policy requires review (Finding 5) as was last reviewed in 2014 and does not address cloud authentication. **Cloud authentication** Centralising authentication gives greater control and visibility over access to systems and information and can be achieved through cloud authentication services that provide Singe Sign On access to SAAS and web applications. SSO allows users to access multiple applications with a single set of credentials providing a better user experience as well as allowing IT to authenticate users effectively using Multi Factor Authentication. **Password managers** Password managers can be used as a SSO tool and can be used to authenticate systems hosted on the Council's infrastructure and SAAS. The Council should consider implementing or promoting a password management solution. CERT NZ recommends the use of password managers to store and protect passwords allowing users to have strong and unique passwords for all their accounts. A Password Manager allows users to have strong passwords across all their accounts (whether the system is cloud or hosted on HBRC infrastructure). A user gains access to their login credentials with one master password. Password Managers typically improve end user experience as they don't have to remember their passwords for each system and passwords are automatically logged into a service while also enhancing security. From a security perspective, a password manager allows IT administration control and improved security through strong passwords, encrypted storage and multi-factor authentication.	As outlined below **Responsible Person** ICT Manager **Date of Implementation** 30/6/20 - Investigate and evaluate solutions for single sign-on / password management. Further work will depend on the outcome of the above scoping and evaluation.

8. Anomalies and events, Security Continuous Monitoring and Detection Processes		Rating of finding: Medium
Finding: Monitoring / Detection	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - The network is monitored to detect potential cybersecurity events. - Malicious code is detected. **Detection** We observed the following with respect to monitoring and detection: - The Council has anti-malware system software (ESET) on client devices and servers. We confirmed the system was up to date. **Finding:** It was unclear whether alerts were being generated, reviewed and reported on from the system, as staff could not recall an alert in the past 12 months. - The Council relies on third parties providing Firewall As A Service (FAAS) to protect the Councils network and storage systems from attack. **Finding:** Reports are not currently received from the FAAS providers on service performance. - Other third-party monitoring is in place for specific systems. For example, SQL Services monitor two of the Council's key database servers (others are monitored by other third parties). **Finding:** We reviewed the quarterly report reported 4/6/2019. The report raised a number of findings (potential vulnerabilities). It was unclear whether the issues raised were resolved. No incidents have been detected in the past 12 months. **Limitations** The Council has limited detection capability (technology and dedicated resource) in place. In some cases, third parties monitor aspects of the Council's systems (specific servers) primarily from a performance perspective. The cost of additional capability may be disproportion to the risk as	**Alerts** There is limited visibility of alerts and a risk that alerts are lost in staff email boxes without being actioned, escalated or followed up. Monitoring could be improved through the use of a central mailbox. Standard processes should be in place for managing: - Alerts from the Council's protection and detection systems (ESET antivirus system). - Operating system alerts; - Server monitoring alerts; - Third-party monitoring reports; and - Application alerts (particularly, cloud based systems). **Documentation** The response to an event including post incident review should be documented. Per NISTS Incident Management guidance, incident documentation should include: - A summary of the incident; - Indicators related to the incident (how it was detected); - Actions taken by all incident handlers on the incident; - Chain of custody, if applicable; - Impact assessments related to the incident; - Contact information for other involved parties; and - A list of evidence gathered during the incident investigation. The use of a project management tool could improve documentation and tracking of alerts, vulnerabilities identified, status updates, reporting and closure. Incident documentation could be maintained through a workflow within a project management tool (such as Jira already used by the IT team).	**Documentation** Due to the low number of incidents, existing project management processes are deemed acceptable. Other actions as outlined below **Responsible Person** ICT Manager **Date of Implementation** 31/10/19 - Setup a central mailbox for system alerts. 31/3/20 - Add critical alerts to our monitoring dashboard. - Develop templates for Incident Response tracking and Post Incident Reviews.

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8. Anomalies and events, Security Continuous Monitoring and Detection Processes		Rating of finding: Medium
Finding: Monitoring / Detection	**Recommendations**	**Agreed Management action(s)**
detection technology requires significant upfront investment and continuous resourcing to investigate anomalies and events that may be false positives. **Documentation / project management** There is no central reporting mail box or project management tool for handling vulnerabilities identified, alerts, impact assessment, actions, status, closure etc. and therefore visibility of incident management processes is limited and documentation is ad hoc.	**Continuous improvement** Detection capability should be reviewed as part of the ongoing risk assessment process and review of the incident management plan (Finding 4) as the threat environment and risk appetite changes.	

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9. Information Protection Processes and Procedures

Rating of finding: Medium

Finding: Third parties

Expected Controls per NIST Cybersecurity Framework

- Third-party stakeholders (e.g., suppliers, customers, partners) understand roles and responsibilities.
- Legal and regulatory requirements regarding cybersecurity, including privacy and civil liberties obligations, are understood and managed.

Contractors – responsibilities

The scope of the Council's Acceptable Use Policy is not defined, though appears to only apply to staff. Contractors also access the Council's systems and should be subject to the same security policies as staff.

Third party service providers - responsibilities

The Council's template contract terms and conditions do not currently include specific cybersecurity responsibilities.

As part of this review we reviewed a sample of third party service level agreements for IT services. Our observations:

- **Finding:** The Council's standard terms do not include clauses relating to cybersecurity, only nondisclosure of information and general liability clauses.
- **Finding:** The agreement with Eagle Technology for the GIS software (critical system) does not include service levels for problem management and incident response, security controls or responsibilities for compliance with the Council's security policies.
- **Effective:** The Service Level Agreement with SharePoint Support Services includes specific services levels for incident resolution, incident logging, compliance with Council security policies, targets and reporting.
- **Effective:** The Service Level Agreement with Intergen for Dynamics NAV support (finance ERP system) includes clauses regarding immediate notification of data security compromise, compliance with Council security policies and specific service

Recommendations

Contractors – responsibilities

The scope of the Acceptable Use Policy should be defined and broadened to include any ICT user. For example, employee, contractor, other third party, elected member, volunteer and those people with honorary or unpaid staff status.

Specifically, contractors, who will be provided access to the Council's Information Systems, should be required to sign the Acceptable Use Policy.

Third party service providers – responsibilities

The Council's standard terms and conditions should be reviewed, and cybersecurity responsibilities should be included. For example:

- Notify the Council as soon as possible of any known or suspected cybersecurity event.
- Notify the Council as soon as possible of termination of any employee who possesses credentials to access the Council's systems or facilities.
- Implement security controls equivalent to or exceeding the level of security required of the organisation.
- Compliance with the Council's security policies.

The above responsibilities are for example purposes only and the Council should consider the governance requirements for each relationship on a case by case basis.

Contracts for critical services should be reviewed by legal experts.

Third party service providers – service management

The Council has a number of outsourcing arrangements in place and there is a general trend towards outsourcing to

Agreed Management action(s)

As outlined below

Responsible Person

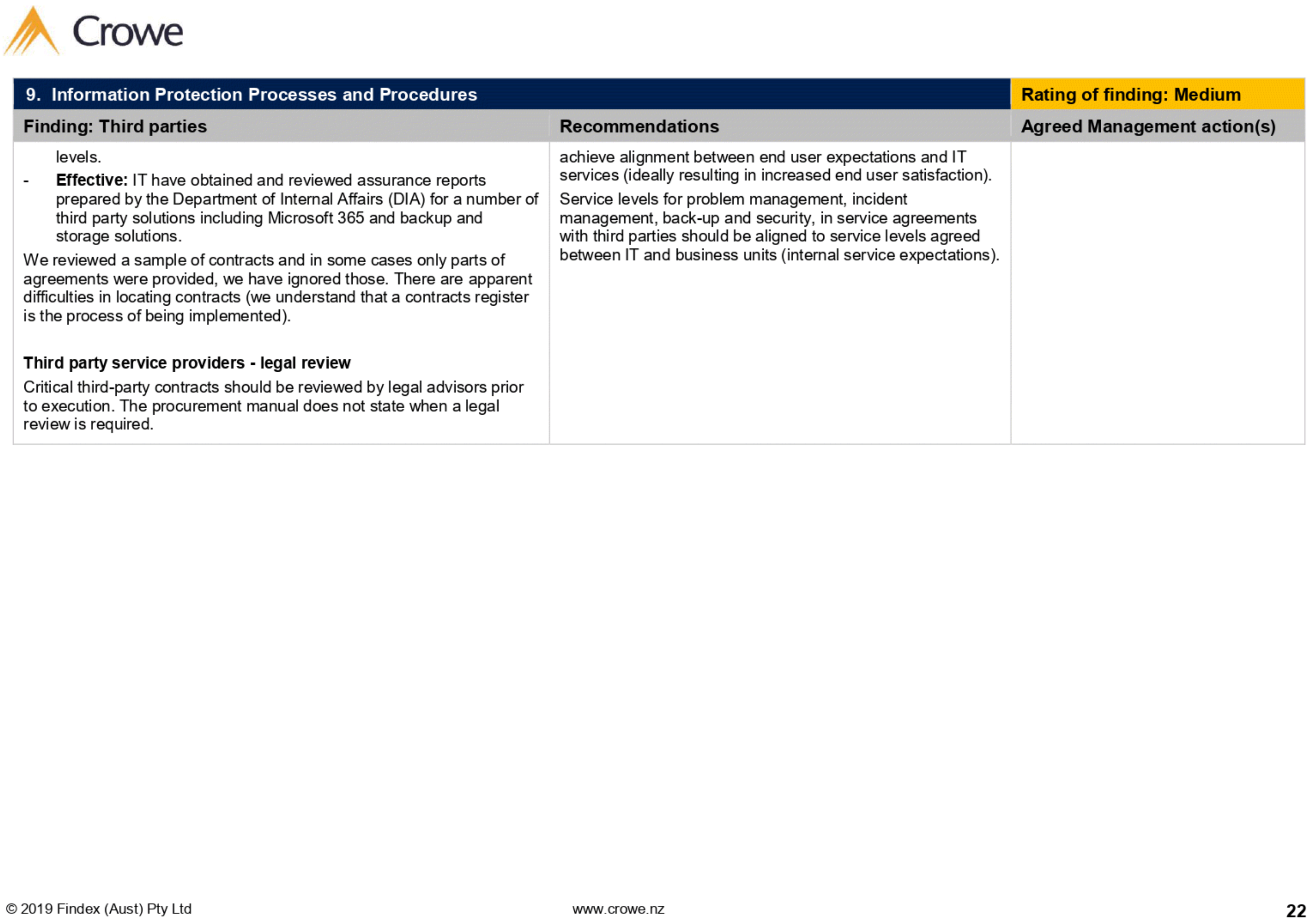
ICT Manager

Date of Implementation

30/6/20

- As part of policy review (rec 5), ensure system access by contractors and third parties are covered by policy.

Attachment 1



9. Information Protection Processes and Procedures		Rating of finding: Medium
Finding: Third parties	**Recommendations**	**Agreed Management action(s)**
levels. - **Effective:** IT have obtained and reviewed assurance reports prepared by the Department of Internal Affairs (DIA) for a number of third party solutions including Microsoft 365 and backup and storage solutions. We reviewed a sample of contracts and in some cases only parts of agreements were provided, we have ignored those. There are apparent difficulties in locating contracts (we understand that a contracts register is the process of being implemented). **Third party service providers - legal review** Critical third-party contracts should be reviewed by legal advisors prior to execution. The procurement manual does not state when a legal review is required.	achieve alignment between end user expectations and IT services (ideally resulting in increased end user satisfaction). Service levels for problem management, incident management, back-up and security, in service agreements with third parties should be aligned to service levels agreed between IT and business units (internal service expectations).	

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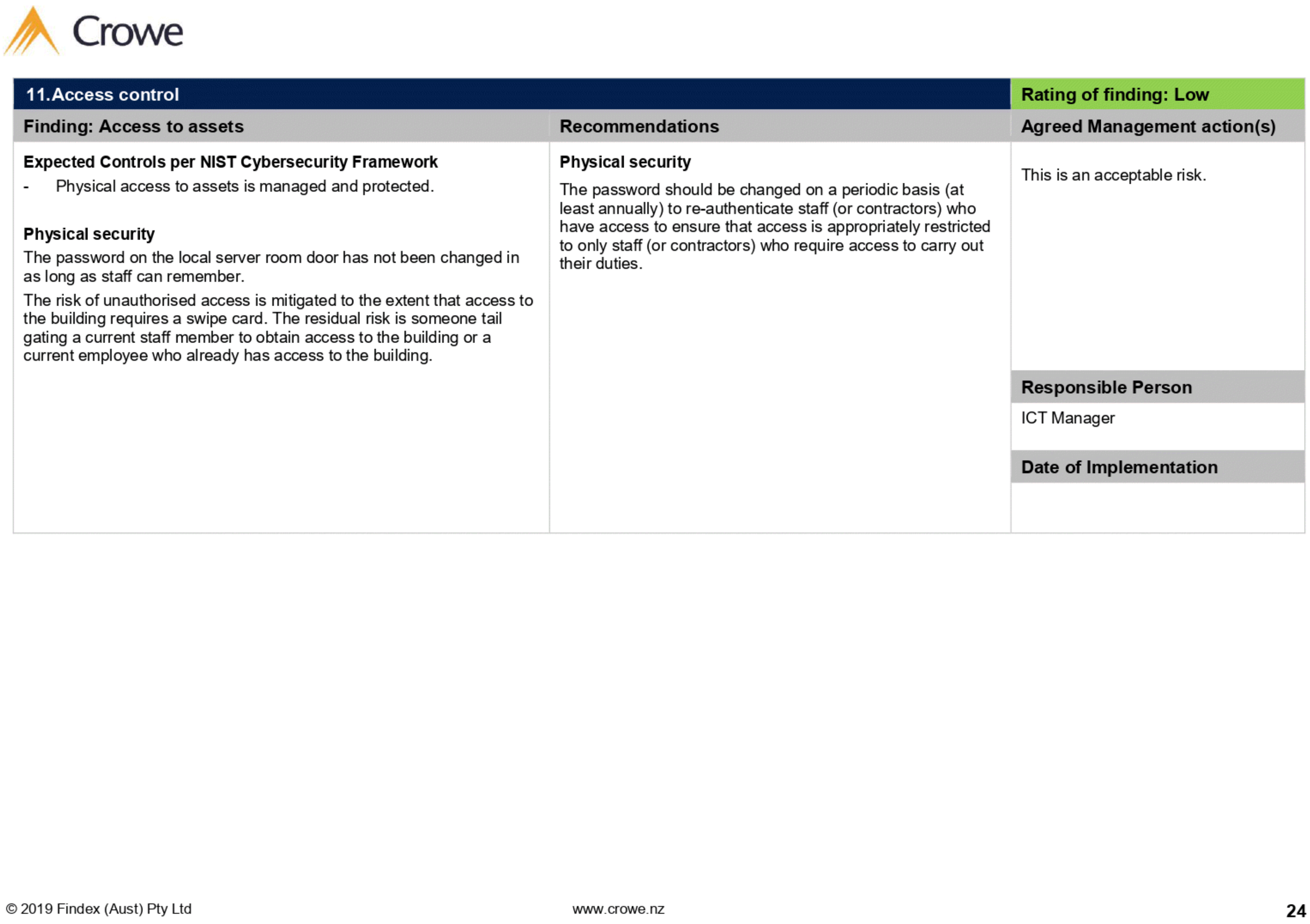
10. Maintenance		Rating of finding: Medium
Finding: Remote access is managed (third parties)	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Remote access is managed. **Maintenance** Remote access is a preferred attack method for cyber criminals. Authenticating users is the primary defence to ensuring only authorised personnel access the Council's network. - **Finding:** Third parties are provided generic logons to the Council's network to provide support services. Where generic logons are used with a remote connection the Council does not know who is accessing the Council's systems. - **Finding:** 2 factor authentications is not employed on the VPN connections. 2 factor authentication is a critical control in preventing a hacker, who may have gained logon credentials, accessing the Council's systems. - **Effective:** The Council has an ICT Remote Access Policy and access is limited to the specific resources required (specific IP addresses of servers and devices required).	**Maintenance** Authentication requirements should be improved for remote maintenance activities to require individuals to be identified (as opposed to generic logons) and multifactor authentication.	Generic logons are an acceptable fit for the risk profile. We will implement a procedure where third party accounts are disabled by default, and enabled on demand for specific tasks and time frames. **Responsible Person** ICT Manager **Date of Implementation** 31/10/19 Implement 'enable on demand' access for third party providers.



11.Access control		Rating of finding: Low
Finding: Access to assets	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Physical access to assets is managed and protected. **Physical security** The password on the local server room door has not been changed in as long as staff can remember. The risk of unauthorised access is mitigated to the extent that access to the building requires a swipe card. The residual risk is someone tail gating a current staff member to obtain access to the building or a current employee who already has access to the building.	**Physical security** The password should be changed on a periodic basis (at least annually) to re-authenticate staff (or contractors) who have access to ensure that access is appropriately restricted to only staff (or contractors) who require access to carry out their duties.	This is an acceptable risk.
		Responsible Person
		ICT Manager
		Date of Implementation

12.Access control		Rating of finding: Low
Finding: Remote access is managed (mobile devices)	**Recommendations**	**Agreed Management action(s)**
Expected Controls per NIST Cybersecurity Framework - Remote access is managed. **Mobile device management** Staff noted that an incident occurred of a staff member returning a device without the Apple ID. The Council has no control over the device (ability to access the data, remote wipe or re-deploy the device). Following the incident, devices are now being deployed with Apple Business Manager. This service ensures the Council retains control of the device (while still protection the privacy of the user). **Finding:** The Apple device management system has only been deployed on a limited number of existing devices. **Effective:** The Council's prior deployment process ensures that devices are required to have passwords.	**Mobile device management** Apple Business Manager has been implemented to a limited number of devices following a recent change in deployment practice. The Apple Business Manager should be implemented on all Council devices to ensure the Council has effective control over the asset.	Continue the planned deployment of asset management tools for mobile devices.
		Responsible Person
		ICT Manager
		Date of Implementation

Attachment 1

Item 9

Appendices

Appendix 1 – Summary findings and recommendations and effective practices

The following table provides a high-level summary of the findings and recommendations, effective practices and risk ratings with respect to the audit objectives. Detailed findings and recommendations are included in Section 2 for findings with a risk rating.

	Audit objectives	Overall risk rating		Summary findings
	IDENTIFY			
1.1	**Asset Management** Identifying physical and software assets within the organisation to establish the basis of an Asset Management program	High risk	🟥	**Software and application inventory – High risk** - Finding 1, page 6. **Legacy systems – High risk** - Finding 1, page 6. **Whitelisting – High risk** - Finding 1, page 6. **External information systems – Medium risk** - Finding 8, page 18.
1.2	**Business environment** Identifying the business environment the organisation supports including the organisation's role in the local government sector	High risk	🟥	**IT Disaster Recovery Plan** - Finding 3, page 10.
1.3	**Governance** Identifying cybersecurity policies established within the organisation to define the governance program as well as identifying legal and regulatory requirements regarding the cybersecurity capabilities of the organisation	Medium risk	🟨	**Policy framework** - Finding 5, page 14. **Roles and responsibilities** - Finding 6, page 15.

1.4	**Risk Assessment** Identifying asset vulnerabilities, threats to internal and external organisational resources, and risk response activities as a basis for the organisations Risk Assessment	Satisfactory		- The Council's Risk Management Register includes ICT Failure due to cybersecurity attack, intentional and malicious behaviour by staff or a significant hardware failure. - The inherent risk of ICT failure is noted as "Extreme" and the residual risk (taking into consideration the Council's avoidance and mitigation measures) is "High".
1.5	**Risk Management Strategy** Identifying a Risk Management Strategy for the organisation including establishing risk tolerances	Satisfactory		**Risk framework** - **Effective:** The Council has a risk framework and risk register in place. The risk ICT failure includes the vulnerability management activities in place to manage the risk of ICT failure including: - Awareness training; - Improved incident reporting and assessment; - Independent audits (including penetration testing / internal vulnerability scanning); - Improving understanding of ICT backup plans; - Programme to reduce the risk of hardware failure; and - Reduce single person dependency. **ICT Governance** - **Effective:** The Council has an ICT Steering Committee to oversee ICT risk and investments, review progress on and prioritise projects. The purpose of the committee is to align ICT initiatives and operations with the Council's wider, current and future strategic objectives. - **Effective:** IT strategy, operations and plans are currently being reviewed.
	PROTECT			
2.1	**Access control** Protections for Identity Management and Access Control within the organisation including physical and remote access	High risk	🟥	**Principle of least privilege – High Risk** - Finding 2, page 8. **External information systems – Medium risk** - Finding 7, page 17. **Mobile device management – Low Risk** - Finding 123, page 24. **Physical security – Low Risk**

Attachment 1

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			🟥	- Finding 11, page 24.
2.2	**Awareness Training** The organisation's personnel and partners are provided cybersecurity awareness education and are adequately trained to perform their information security-related duties and responsibilities consistent with related policies, procedures, and agreements.	Satisfactory		- **Effective:** Users undertake awareness training during onboarding. - **Effective:** Users have recently been required to complete compulsory training and management noted a 96% completion rate. - **Effective:** A social engineering test was recently completed. The test resulted in one employee giving the attacker (staged) their credentials over the phone. Management were in the process of evaluating the awareness training given the result and identifying further opportunities to raise awareness.
2.3	**Data Security** Establishing Data Security protection consistent with the organisation's risk strategy to protect the confidentiality, integrity, and availability of information	Satisfactory		**Confidentiality** - **Effective:** Data storage is procured through an All of Government providers and the Council has obtained and reviewed security reviews undertaken on the providers (undertaken on behalf of the Department of Internal Affairs). **Integrity** - **Effective:** we observed that a data strategy is being progressed on a whole of council basis. As per Finding 5, the role of the Council in national infrastructure in collecting data and aggregating data for use by various customers/agencies, should be defined and reflected in the Council's continuity and cyber strategies. **Availability** - **Effective:** The Council has Back Up As A Service (BAAS) through an All Of Government (AOG) provider. The arrangement provides the Council with offsite data storage and backup services. - The service specification is designed as a cost-effective service that ensures backups are in place. The compromise is higher recovery point objectives (time between backups and potential data loss) and recovery time objective (time to restore). The RPO and RTO should be explicit in the IT Disaster Recovery Plan and reviewed on an ongoing basis with senior management (representing the needs of the business).
2.4	**Information Protection Processes and Procedures**	Medium risk	🟧	**Contractor's responsibilities** - Finding 9, page 20.

	Implementing Information Protection Processes and Procedures to maintain and manage the protections of information systems and assets		🟨	**Third party service provider's responsibilities** - Finding 9, page 20.
2.5	**Maintenance** Protecting organisational resources through Maintenance, including remote maintenance, activities	Medium risk	🟨	**Remote access** - Finding 10, page 22. **Patching** - **Effective:** Operating systems on client devices and servers are patched and up to date.
2.6	**Protective Technology** Managing Protective Technology to ensure the security and resilience of systems and assists are consistent with organisational policies, procedures, and agreements	Satisfactory		**Protective technology** - **Effective:** The Council has anti-malware system software (ESET) on client devices and servers. We confirmed the system was up to date. - **Effective:** There are firewalls between the Council's network and high-risk environments including the internet. The firewall technology is application level (able to respond to malicious code), and rules have been recently reviewed to remove redundant protocols and ports (unnecessary risk). - **Effective:** The Council has appropriate technology in place for the email system. - **Effective**: The Council has anti-spoof software on the email system specific to hackers spoofing an employee's email address (the system will identify if an email is sent with the same address as an employee where the email originates from an unknown IP address). **Network design** - **Effective:** The Council has segmented high risk areas of the network including the webserver (that hosts the public facing website) and public WIFI from the Council's production systems using appropriate technologies and network design. - **Effective:** The Council's Wide Area Network and Internet service provider and network design has redundancy, diverse routing, application firewalls, to minimise single points of failure and increase resilience.
	DETECT			

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3.1	**Anomalies and Events** Ensuring Anomalies and Events are detected, and their potential impact is understood	Medium risk	🟧	- Finding 8, Page 18.
3.2	**Security Continuous Monitoring** Implementing Security Continuous Monitoring capabilities to monitor cybersecurity events and verify the effectiveness of protective measures including network and physical activities	Medium risk	🟧	- Finding 8, Page 18.
3.3	**Detection Processes** Maintaining Detection Processes to provide awareness of anomalous events	Medium risk	🟧	- Finding 8, Page 18.
	RESPOND			
4.1	**Response Planning** Ensuring Response Planning process are executed during and after an incident	High risk	🟥	**Incident management – procedures** - Finding 4, page 12.
4.2	**Communications** Managing Communications during and after an event with stakeholders, law enforcement, external stakeholders as appropriate	No finding		- Refer to section 4.1.
4.3	**Analysis** Analysis is conducted to ensure effective response and support recovery activities including forensic analysis, and determining the impact of incidents	No finding		- Refer to section 4.1.
4.4	**Mitigation** Mitigation activities are performed to prevent expansion of an event and to resolve the incident	No finding		- Refer to section 4.1.
4.5	**Improvements**	No finding		- Refer to section 4.1.

	The organisation implements Improvements by incorporating lessons learned from current and previous detection / response activities			
	RECOVER			
5.1	**Recovery Planning** Ensuring the organisation implements Recovery Planning processes and procedures to restore systems and/or assets affected by cybersecurity incidents	High risk	🟥	**Business continuity and disaster recovery** - Finding 3, page 10.
5.2	**Improvements** Implementing Improvements based on lessons learned and reviews of existing strategies	No finding		- Refer to section 5.1.
5.3	**Communications** Internal and external Communications are coordinated during and following the recovery from a cybersecurity incident	No finding		- Refer to section 5.1.

Appendix 2 – Benchmarking against CERT NZ’s critical controls 2019

CERT NZ is a government agency that was setup to improve cyber the security resiliency of government agencies and other organisations. CERT NZ provide guidance on mitigation and cyber security good practice, including the below 10 critical controls. We have summarised our findings against the 10 critical findings:

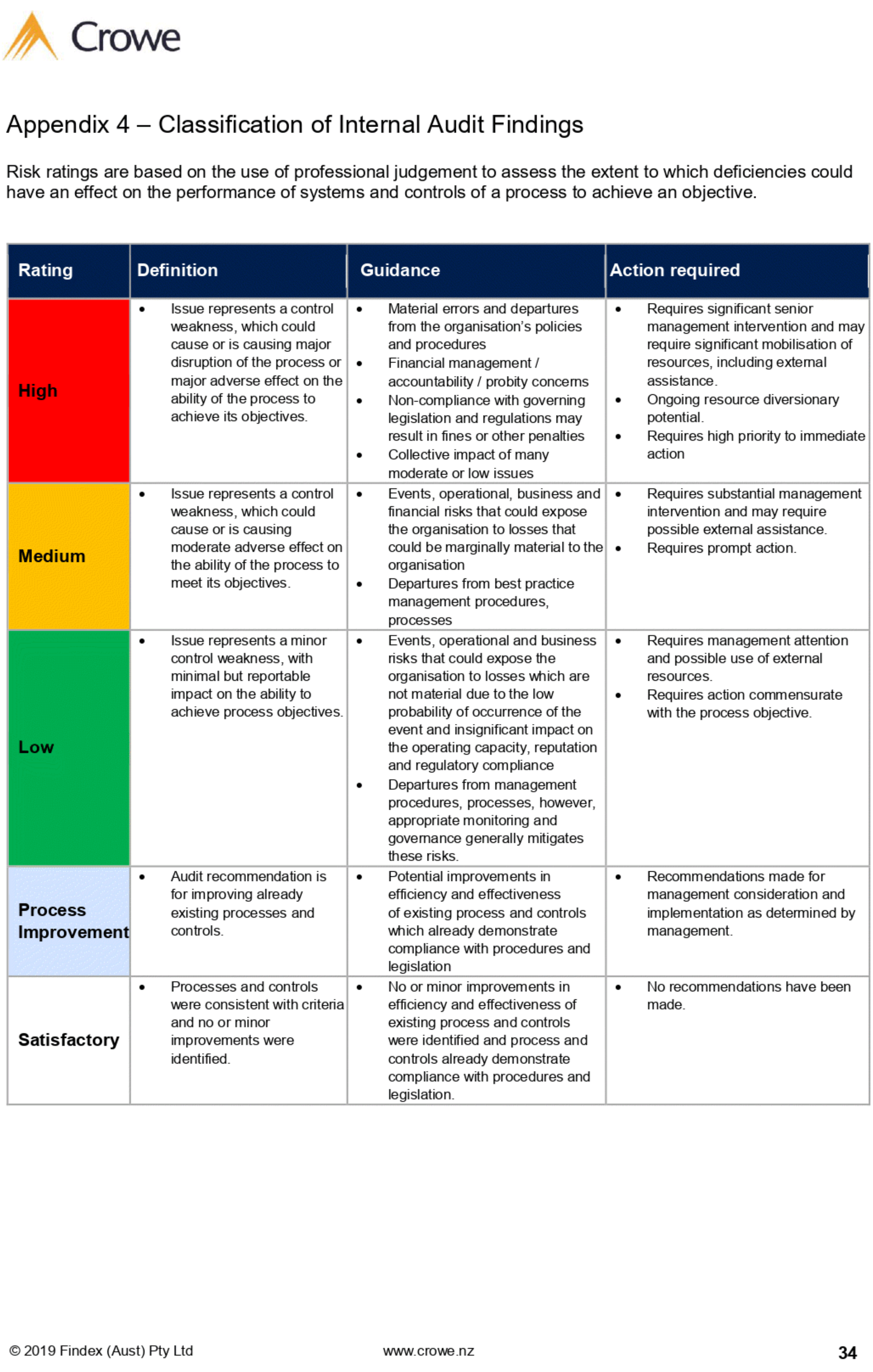
	CERT NZ 10 CRITICAL CONTROLS	SUMMARY FINDINGS	
1	Enforce multi-factor authentication (MFA)	🟨	- **Effective:** Implemented for Virtual Desktop Infrastructure (VDI) connections – staff working remotely. - **Finding:** Not configured for third party access through VPN (Finding 10, page 22).
2	Patch your software	🟨	- **Effective:** Operating systems client devices and servers are patched. - **Finding:** Limited central oversight of IT of software (Finding 1, page 6) and therefore extent of unpatched software is unknown.
3	Disable unused services and protocols	🟩	- **Effective:** Vulnerability scanning underway by Spark (will identify unused services and protocols). - **Effective:** Protocols and ports of firewalls have been reviewed.
4	Change default credentials	🟩	- **Effective**
5	Implement and test backups	🟨	- **Effective:** Offsite backup services are in place through a Backup As A Service agreement. - **Finding:** Testing only currently at a file level (restoring deleted files) and not application, server and database restore tests (Finding 3, Page 10).
6	Implement application whitelisting	🟥	- **Finding:** Software and applications are not controlled (Finding 1, Page 6)
7	Enforce the principle of least privilege	🟥	- **Finding:** Principle of least privilege not enforced (Finding 2, Page 8).
8	Configure centralised logging and analysis	🟨	- Logs are not centralised and monitored by IT staff using System and Event Management software. Logging and analysis requires investment in technology and ongoing resourcing. Organisations use centralised logging to identify anomalies in traffic etc. that may indicate an attack. While the Council has limited logging and analysis capability and technology, some systems (applications and servers) are monitored by third-party providers primarily from a performance perspective (Finding 7, Page 17). - Logs are not backed up to a secure server. Securing logs is a good control to avoid

		🟨	manipulation of logs by staff with elevated access privileges. In the Council context there is limited gain/opportunity for developers to benefit from their privileged access and consequently no finding was raised.
9	Implement network segmentation	🟩	- **Effective**
10	Manage cloud authentication	🟨	- **Finding:** Cloud authentication is not centralised (Finding 7, Page 17).

Appendix 3 – Interviews

Staff interviewed during the review:

Name	Role
Andrew Siddles	CIO To Go (Contractor)
Rob Simpson	Team Leader, ICT Operations
Tash Drew	Service Desk Officer
David Fulton	Senior Application Specialist
Yao-cheng Teng	Analyst/Developer
Nick Cooley	ICT Project Manager
Mark Heany	Manager Client Services



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Appendix 4 – Classification of Internal Audit Findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Rating	Definition	Guidance	Action required
High	• Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives.	• Material errors and departures from the organisation's policies and procedures • Financial management / accountability / probity concerns • Non-compliance with governing legislation and regulations may result in fines or other penalties • Collective impact of many moderate or low issues	• Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. • Ongoing resource diversionary potential. • Requires high priority to immediate action
Medium	• Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.	• Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation • Departures from best practice management procedures, processes	• Requires substantial management intervention and may require possible external assistance. • Requires prompt action.
Low	• Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	• Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance • Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks.	• Requires management attention and possible use of external resources. • Requires action commensurate with the process objective.
Process Improvement	• Audit recommendation is for improving already existing processes and controls.	• Potential improvements in efficiency and effectiveness of existing process and controls which already demonstrate compliance with procedures and legislation	• Recommendations made for management consideration and implementation as determined by management.
Satisfactory	• Processes and controls were consistent with criteria and no or minor improvements were identified.	• No or minor improvements in efficiency and effectiveness of existing process and controls were identified and process and controls already demonstrate compliance with procedures and legislation.	• No recommendations have been made.

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Appendix 5 – Basis and Use of this Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 February 2020

Subject: PROCUREMENT POLICY AND PROCUREMENT MANUAL UPDATE

Item 10

Reason for Report

1. This report:

   1.1. provides an update on the progress made to implement recommendations from the 2018 internal audit review findings to improve the HBRC Procurement Policy and Procurement Manual

   1.2. provides an update on the development and implementation of a centralised Procurement Hub

   1.3. seeks the Sub-committee's feedback on what information would be usefully incorporated in future Procurement update reports.

Officers' Recommendation

2. Staff recommend that the FARS reviews the information presented and provides feedback on any additional information it would find useful in future reports.

Executive Summary

3. A regular report on progress made in developing a centralised procurement function for HBRC will be made to the Finance Audit and Risk Sub-Committee

4. This report also provides information on contracts issued in the reporting period July 2019 to December 2019, the value and risks associated, and significant contracts due to expire in the next three months.

Background

5. From a business perspective, the most obvious benefits of an effective procurement process are financial, via upfront cost savings by procuring items, services, and contracts at the best price available. Effective procurement also ensures that projects are delivered to time and budget, with reduced exposure to commercial risk by way of a consistent and appropriate process, which aligns with HBRC procurement principals.

6. In September 2018 The Office of the Auditor General (OAG) and Ministry of Business Innovation and Employment (MBIE) made new recommendations for best practice in procurement.

7. Further, HBRC also commissioned an internal audit review in 2018 by Crowe Horwath to evaluate the existing policy and to make recommendations to align with current best practice guidelines. A revised HBRC Procurement Policy and supporting Operational Manual were approved and adopted by Council in June 2019.

8. The revised policy and manual are consistent with national procurement principles and guidelines and are compliant with relevant Government procurement rules. The Policy details what HBRC is required to do to meet national guidelines and the Manual details how to apply policy principles, to deliver the benefits of best practice procurement.

   8.1. Key Audit findings from 2018 were that while the existing policy was fit for purpose, HBRC would benefit from a central Procurement and Contract resource

   8.2. There was a lack of evidence to support procurement decisions (Procurement plans)

   8.3. There are inconsistent templates and de-centralised systems for contract management, with inherent risk.

9. Contract register was incomplete and contained expired contracts.

Audit recommendations

10. *Recommendation* - Procurement structure should be centralised to ensure consistency in the application and training for best practice*.*

    10.1. Response - A procurement hub has now been established as a central procurement management resource. 'Contract Central' was originally established for the Resource Management Group and then extended to other groups. It was confirmed by Council's Sharepoint Administrators that Contract Central could not be migrated to match the new 2018 organisational structure (due to metadata editing), so the decision was made to archive that database and develop a new database reflecting the new structure - called the 'Procurement Hub'. The new procurement hub provides resources to manage the whole procurement life cycle from planning to evaluation, rather than being just a contract register.

    10.2. For an organisation of HBRC's size and scale, MBIE informally recommended 1x procurement FTE to be at Executive Leadership Team level given the level of work likely to be involved and the requirement for that person to have sufficient stature within the organisation to drive results. This role was not budgeted for in the 2018-28 Long Term Plan, but it was proposed at the Finance Audit and Risk Sub-committee meeting in June 2018 to be explored in 2020, existing resource being utilised in the interim.

11. *Recommendation* - Regular reporting to the Executive team should include high value, high risk or complex procurement and notice of upcoming significant tenders.

    11.1. Response – A template report has been available since from June 2019

12. *Recommendation* - A procurement planning template be included in the procurement manual

    12.1. Response - Plan templates are included for simple and complex procurements

13. *Recommendation* - Training should be provided to staff engaged in procurement practice and contract management

    13.1. Response - Training has been cascaded from the Hub to selected subject matter experts in each executive team member group. Each group will include (where relevant) training for existing staff and new staff as part of the induction process, on both a team and individual support basis.

14. *Recommendation* - Tools and templates should be implemented to ensure policies and procedures are followed.

    14.1. Response - Procurement NZ, OAG and MBIE templates have been introduced as standard across all HB councils, currently being led by HBRC and HDC. These are detailed in the revised procurement manual. As part of the evaluation criteria for supplier selection HBRC will also give consideration to the benefits of sustainable purchasing, local supply and supplier adoption of the living wage as part of the selection process.

15. The 2019 revised Procurement Policy and Manual are published on the HBRC website and attached.

Progress and Reporting update

16. Since July 2018 Council's Contract Central, 'current' contracts (655) have been cleansed group by group. The number of contracts has been reduced to 475, with expired or complete contracts archived.

17. From January through July 2019, development, building and testing of the Procurement Hub was undertaken.

18. The procurement hub was 'soft launched' in July 2019 and training is being cascaded by group (high volume first), with presentations by Hub staff, as an advice and guidance

resource. To date, presentations have been made to the Executive Leadership Team, ICM, Corporate Services and Asset Management groups. Where required, 1:1 training is being provided as contracts are generated, ahead of presentations being made to the Strategy and Planning and the office of the Chief Executive.

Reporting

19. A presentation will be given at the meeting, of the overview of the Power BI dashboard and 'live' drill down of the 1 July 2019 – 31 December 2019 (six months) results.

20. Procurement reporting to FARS will include:

    20.1. The number of contracts created in the reporting period

    20.1.1. For the period 1 July- 31 December 2019 - 127 contracts were created

    20.2. A breakdown of contracts issued by value in the reporting period, specifically those valued over $50,000

    20.2.1. For the period 1 July- 31 December 2019 - 5 Contracts valued at $100k+, 3 contracts valued at $75k-$100k, and 3 contracts valued at $50-$75k were awarded

    20.3. An analysis of the assessed risk for all contracts issued in the reporting period

    20.3.1. For the period 1 July- 31 December 2019 - 88 contracts (69%) were assessed as being Low Risk, 36 contracts (28%) were assessed as being Medium Risk, and 3 contracts (3%) assessed as High Risk

    20.4. Details of contracts awarded to local suppliers and those paying the living wage

    20.4.1. For the period 1 July- 31 December 2019 – of the 11contracts with a value greater than $50,000 5 completed an RFP/RFQ process, 7 were awarded to local suppliers, and 4 confirmed living wage payments.

    20.5. A list of significant or high value contracts due to expire in the next three months

    20.5.1. There are no significant or high value contracts expiring in the next three months. There are 25 contracts expiring in the next three months that will be subject to post contract evaluation.

21. Procurement information is now available 'live' at organisation and group level utilising the Power BI Dashboard. Further levels of drill down detail are available at group, service and contract manager levels.

22. So far, on average, one contract is being generated across the organisation every day, with the contract being one part of a three stage (planning, sourcing and managing including evaluation) process.

23. A contract expiring triggers an automated evaluation process with the contract owner, collecting data on advisability of supplier future use based on timeliness, budget performance, meeting specification, health and safety performance, shared HBRC environmental vision, professionalism and any learnings from the project/contract delivery.

Next Steps

24. Procurement monitoring will continue to develop as an iterative process with the procurement team applying a continuous improvement ethos to meet organisational need.

25. The Procurement manager is seeking feedback from FARS regarding information it would be useful to incorporate into a regular reporting format.

26. Over the next six months there will be a review to increase the use of 'All of Government' contracts – which provides an opportunity for cost savings.

27. The development of an ongoing internal training and communications programme.

28. The design and implementation of an internal procurement audit programme.

29. Crowe Horwath (Findex) will be invited to check adherence, completeness and currency of the revised policy and manual in June 2020.

Decision Making Process

30. 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 Finance, Audit and Risk Sub-committee receives the "*Procurement and Contract Management Update*" staff report

Authored by:

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Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** HBRC Procurement Policy

⇩**2** HBRC Procurement Manual

HAWKE'S BAY
REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Hawke's Bay Regional Council

Procurement Policy

Updated May 2019

Document Control

Purpose of this document

The Procurement Policy is a formal statement of principles that outline how the Hawke's Bay Regional Council (HBRC) will manage the procurement life cycle.

The Procurement Policy is supported by the Procurement Manual which details how to apply the policy principles. The revised procurement policy and procurement manual are consistent with national procurement principles and guidelines and are compliant with relevant legislation. The Policy details what HBRC is required to do to meet national guidelines and the Manual details of how to apply the policy principles to deliver benefits of best practice procurement.

Intended Audience

This document is intended for internal HBRC staff who administer and manage procurement. Communications information will be developed and made publicly available for external audiences, anticipating a launch following policy approval, in July 2019. Following the relaunch, this policy may be refined in the light of experience over time with any changes to be approved by Council before implementation. The next scheduled review is 2022.

Document Information

Name	**Position**
Document Owner	Jessica Ellerm – Group Manager
Issue Date	14.5.19
File Name	Procurement Policy – Revised May 2019

Document History

Version	Issue Date	Changes
VO1	13.5.19	Add environmental principle

Document Review

Name	Role	Review Status
Mark Heaney	Manager, Client Services	Draft Complete

Document Sign-off

Name	Role	Sign-off date
Jessica Ellerm	Group Manager – Corporate Services	15.5.19

1. Introduction

The HBRC procurement policy was last reviewed in 2015 with the intent to review within three years. In September 2018 OAG and MBIE made new recommendations for best practice in procurement. HBRC commissioned a review in 2018 by Crowe Horwath to evaluate our existing policy and make recommendations to align with current best practice guidelines. This policy and the accompanying procurement manual reflect HBRC progress to adopt those and other recommendations to achieve best practice.

1.1 Context and alignment

Procurement covers all the business processes associated with buying the goods, services and works we use to run our business, and deliver our organisational objectives. It starts with identifying our needs, then planning the best way to meet them, continues through sourcing the goods, services and works, then managing the contract, and ends with expiry and evaluation of the contract or the end of the assets life.

The purpose of this policy is to establish and document the principles and practices that should guide and inform Hawke's Bay Regional Council (HBRC) and its employees when making procurement decisions and undertaking processes for the purchasing of assets, goods, works and services.

This procurement policy gives a high level view of the rules and guidelines governing HBRC procurement. It is meant to be read in conjunction with HRBC's procurement manual and the approved list of financial delegations. Together, these documents will assist HBRC and its employees undertaking procurement activities in the following ways:

- **Procurement Policy** – provides the grounds and principles for making procurement decisions.
- **Procurement Manual** – provides direction on the processes to follow and tools to use when undertaking a procurement or purchase.
- **Financial Delegations** – list of those in the organisation with authority to make procurement decisions or approve expenditure and to what level. Please refer to: https://herbi.hbrc.govt.nz/site/corpmgt/Lists/FinancialDelegations/AllItems.aspx

2. Procurement governance, capability and oversight

Governance of the HBRC procurement policy is provided by the Corporate Services Group Manager, responsible for the oversight and high-level management. They will provide the strategic direction, resources and the decision making necessary to support and deliver the policy.

Monitoring will be reported through the Finance Audit and Risk Committee.

HBRC will assign appropriately experienced employees to manage its procurement activities. HBRC will provide training and supervision to employees to support good practice in procurement and purchasing activities. Where required for specific procurement activities, additional specialist expertise may also be employed by HBRC. Any specialist experts employed must also comply with the HBRC's procurement policy.

3. Policy Principles

The Office of the Auditor General (OAG) established a set of principles in September 2018 that provide guidance for the conduct of local government organisations and its employees while exercising procurement activities. HBRC recognises that these principles underpin best practice procurement. HBRC has adopted the principles as part of its procurement policy.

1. **Environmental considerations** – HBRC will as part of its product procurement and supplier selection consider minimising the impact on the environment, reflecting the organisation's role and responsibilities to the community it serves.

2. **Transparency** – *Procurement processes, from developing a procurement strategy to signing a contract, should be well defined and documented*. Without compromising commercial confidentiality, HBRC will be transparent in its administration of its external expenditure and supplier agreements. This supports HBRC's accountability to its ratepayers and community and ensures that the roles and obligations in agreements between HBRC and its suppliers are clear and well understood by all parties.

3. **Fairness and impartiality** – *All interested suppliers should be encouraged to participate in a tender, without advantage or disadvantage. Processes should be applied lawfully and consistently, without fear or favour. Unfair advantages, including those arising from incumbent arrangements, should be identified and addressed.* HBRC and its employees will act fairly and reasonably and will be *visibly* impartial in their decision-making.

4. **Honesty and integrity** – *Individuals and organisations should act appropriately and professionally. Public sector standards of conduct must be met.* HBRC will support, always encourage and expect its employees to conduct themselves with the utmost integrity . HBRC will act within the law, to meet its legal obligations when procuring assets, goods, works and services. When HBRC enters into any agreement with a supplier, it will communicate clearly the appropriate standard of integrity that is expected from the supplier. This standard will apply to both the supplier's transactions with HBRC and as a representative of HBRC in the public domain.

5. **Managing conflicts of interest** – *Expectations about conflicts of interest and how they are managed should be clearly understood by all parties. Conflicting interests and roles, and the associated perceptions, should be identified, declared, and managed effectively.* Suppliers affiliated in any way to elected members or employees of HBRC can still be considered for funding. Impacted elected members or HBRC employees are required to note any possible conflict of interest (or perception of a conflict of interest) and will not be involved in any assessment or decision making related to either funding or supplier selection where a conflict may exist.

6. **Confidentiality and security** – *Confidences should be respected and information should be held securely and safeguarded from wrongful or inadvertent disclosure.* HBRC will endeavour to keep commercially sensitive information confidential while undergoing procurement activities. (See 5.4 for more detail)

7. **Accountability** – *There should be strong, but proportionate, project governance and reporting system in place.* HBRC is accountable for its performance and will keep complete and accurate accounts of its external expenditure, including the reasons and justification for committing to the expenditure. Suitable governance and management arrangements will be in place to oversee procurement decisions, processes and the performance of any subsequent supplier agreements.

8. **Value for money** – HBRC will use its resources effectively, economically and without waste. HBRC will be focussed on the outcomes it is trying to achieve and will apply its resources in such a way to best achieve those outcomes, having due regard for the 'whole of life' costs of the purchase.

4. Practical Considerations

HBRC and its employees will refer to the following practical considerations when undertaking procurement activities:

1. Procurement decisions should reflect the HBRC's policies and objectives for the provision of services to its ratepayers and community.
2. Assets, goods, works and services to be purchased should be fit for purpose and meet HBRC's requirements.
3. HBRC should be flexible in its use of procurement processes and supplier agreements and those used should be appropriate to the type and scale of the procurement and specific requirements of HBRC.
4. Procurement strategies, planning and processes should aim to keep the process costs of procurement as low as possible for HBRC and its suppliers, without compromising the legality and thoroughness of the procurement.
5. As part of procurement planning, risks involved with the activities should be identified and measures put in place to manage the risks effectively.
6. HBRC's wider commitments and obligations must be considered, including purchasing locally, whole of life costs, environmental sustainability, health and safety and compliance with other HBRC agreements. Where practical and relevant, supplier agreements must align with and reflect HBRC's wider commitments and obligations.
7. Good practice should be followed, and HBRC employees should be aware of, and comply with current government and industry guidelines for purchasing (OAG, Ministry of Business, Innovation and Employment, NZ Construction Industry Council etc).
8. Procurement decisions should take into account section 17A of the Local Government Act 2002 which states that a local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions. A review of these arrangements must be undertaken when there are any significant changes to relevant services levels, within two years of the expiry of any contract or binding agreement relating to infrastructure, service or regulatory functions or at any other time the local authority considers desirable, but not later than 6 years from the last review. For more information refer directly to the Local Government Act 2002

5. Purchasing Ethics

5.1 Communications

HBRC will communicate information openly and fairly to all participants in HBRC procurement processes. An appropriate representative of HBRC will be appointed to be responsible for managing communications for each contract. All participants in any procurement that are unsuccessful in becoming a supplier will be given the opportunity to be briefed on the reasons why they were not successful.

5.2 Conflicts of interest

HBRC have procedures for managing conflicts of interests. HBRC will ensure its employees, suppliers and potential suppliers declare any conflict of interest and that appropriate action is taken when a conflict is identified.

Please refer to Staff Policy 28 – amended 2018
https://herbi.hbrc.govt.nz/site/hr/pol/SP028%20Conflict%20of%20Interest.doc#search=conflict%20of%20interest%20policy

5.3 Conflicted suppliers

In some cases, it may be practical or beneficial if both HBRC and an applicant, submitter or adversary can purchase a specialty service or product from a single supplier. HBRC may in these circumstances agree to both parties using the services or product, notwithstanding the existence of any real or perceived conflict of interest of the supplier - e.*g. An engineering consultant has undertaken a significant study with respect to an issue. Both HBRC and an applicant wish to make use of the study for the purposes of a consent hearing and engage the consultant for that purpose.*

5.4 Confidentiality

Please note that all information collected and held by HBRC is public information under section 2 of the Local Government Official Information and Meetings Act 1987 (LGOIMA), as such any and all information may be requested by a third party. Access to information held by Council is administered in accordance with LOGIMA and the Privacy Act 1993. These Acts means that Council is not able to give suppliers comprehensive assurances about the protection of sensitive information.

All employees and consultants that may have access to confidential information will be required by HBRC to sign and abide by a confidentiality undertaking. Any breaches of confidentiality HBRC becomes aware should be dealt with immediately and appropriately.

5.5 Gifts or Inducements

HBRC employees must not accept gifts or inducements from suppliers or potential suppliers that might be perceived as influencing any purchase decision made by the employee in favour of the supplier or potential supplier. HBRC employees must advise their Group Manager of any gift received from an external organisation as to the appropriate course of action to take. Gifts or inducements include entertainment, travel, tickets to events and the like.

Please refer to Staff Policy 18 –Offer of Gifts or Winning Prizes
https://herbi.hbrc.govt.nz/site/hr/_layouts/15/WopiFrame.aspx?sourcedoc=%2Fsite%2Fhr%2Fpol%2FSP018%20Offer%20of%20Gifts%20or%20Winning%20Prizes%2Edoc&action=view

5.6 Expert Advice

HBRC employees should ensure that professional advice from individuals or firms is procured on the basis of the expert nature of the advice. Individuals or firms should not be selected based on their willingness to advocate for HBRC's position on the matter in concern. This should include legal advice, where non-standard clauses could be introduced to contract terms and conditions.

5.7 Buying Local

HBRC supports purchasing from local suppliers based on the benefits this provides the local community and economy and HBRC employees will consider the availability and capability of suppliers in the local market. However, HBRC should always balance the benefits of buying locally with ensuring that HBRC and its ratepayers and the community will receive optimal value.

A decision to purchase goods, works or services from a supplier where the locality of the supplier is the determining factor (rather than price and/or quality factors) should consider one or more of the following.

- The importance of the goods or service being available locally (due to factors such as time constraints or availability of key personnel to respond to requests for service from HBRC).
- The importance of local knowledge of the Hawke's Bay regional environment.
- The importance of supplier knowledge and understanding of HBRC's operational practices, processes and systems.

Where the locality of the supplier is the determining factor in a purchase, HBRC will document this and include the justification for approving the purchase on this basis.

In a Major Procurement that may include several interested suppliers (local and non-local) via a competitive process, the importance of local presence and/or knowledge should be clearly highlighted in HBRC's procurement documentation and submissions should be evaluated accordingly.

5.8 'Whole of Life' Costs

When planning for and undertaking a procurement activity, HBRC employees should consider the potential whole of life cost of the purchase, otherwise known as the total cost of ownership.

The whole of life cost includes costs that are not the direct acquisition costs of assets, goods, works or services. The whole of life cost might include maintenance costs, management costs and disposal costs. NZTA states additional costs for consideration as quality, design integrity, innovation, health and safety practices and capital invested as well as training and development opportunities. There might be other costs to consider in the whole of life cost, such as environmental, economic and social impacts.

HBRC will make procurement decisions based on the assessment of whole of life costs involved in a purchase. Appropriate analysis, planning and evaluation prior to and during procurement is necessary for HBRC to make the best procurement decisions based on the whole of life costs. Whole of life costs assessments should be in proportion to the potential size, value and duration of the investment by HBRC.

5.9 Sustainability and the living wage

Sustainability is about meeting the needs of today, without compromising the ability of future generations to meet their needs. HBRC gives preference to suppliers adopting the living wage as an alternate to minimum wage, and HBRC will use the living wage in the supplier selection process.

HBRC is committed to purchasing goods, works and services that are environmentally sustainable. HBRC will endeavour to select suppliers that will promote sustainability and will commit to HBRC's sustainability principles. Where it is appropriate to do so, HBRC will ensure that its procurement and purchases serve to minimise the consumption of resources and energy, reduce waste and prevent pollution.

5.10 Health and Safety

Health and safety are an important considerations for HBRC and its suppliers must meet health and safety requirements as a part of any procurement. HBRC's health and safety expectations should be clearly communicated to suppliers and be appropriate for the type of goods, works or services being purchased and comply with the Health and Safety Reform Bill 2015. Suppliers of services are required to be SiteWise registered (or equivalent industry standard) and performing (as assessed by external audit) to appropriate Health and Safety standards and practice suited to the work environment.

HBRC will address health and safety through procurement by:

- Approving and inducting suppliers into HBRC's health and safety regime prior to engagements.
- Requiring suppliers to provide health and safety plans, where appropriate.
- Including the monitoring and auditing of health and safety practices as conditions of contracts and agreements.

5.11 Intellectual Property

HBRC will consider its position on intellectual property that might be provided or created out of any supplier agreement. Once it has considered its position, HBRC will agree with the supplier and document how intellectual property will be treated. HBRC will:

- Make every effort to ensure it values and protects its own intellectual property.
- Seek appropriate licences to use supplier intellectual property.
- Respect the intellectual property of its suppliers.
- Treat suppliers fairly with the use and protection of supplier provided intellectual property.

Where procurement involves the purchase of intellectual property rights, such as computer software development, staff need to determine whether the intellectual property rights should belong to Council or to the supplier. Relevant factors may include the effect on the price of the contract and the ongoing ability of the parties to develop innovations. Staff must:

- Identify all intellectual property likely to be developed or created in a project
- Determine who should own any intellectual property.

The State Services Commission has developed guidelines around the approach to take with intellectual property in ICT contracts. Although intended for Central Government contracts staff should consult the following document when addressing Intellectual Property issues: Guidelines for Treatment of Intellectual Property Rights in ICT Contracts, State Services Commission, 2008.

5.12 Sensitive Expenditure

Sensitive expenditure is expenditure that might appear to convey a private benefit to an individual employee or elected representative over and above the benefit to HBRC. Expenditure on travel, accommodation, hospitality and vehicles are examples of sensitive expenditure.

HBRC must maintain a list of reasonable costs for the reimbursement of individual employees and elected representatives covering categories of sensitive expenditure and reimburse expenditure with reference to that list.

When making purchases that could be deemed as sensitive expenditure, employees should consider whether the expenditure:

- Has a justifiable business purpose.
- Is moderate in terms of level of expenditure.
- Is accompanied by sufficient proof of purchase.
- Is appropriate in all other ways.

Please refer to Staff Policy 024 Controlling Sensitive Expenditure amended February 2019:
https://hbrc.sharepoint.com/search/Pages/docresults.aspx?k=conflict%20of%20interest#k=sensitive%20expenditure#l=1033

5.13 All of Government (AoG) supply contracts

The Ministry of Business, Innovation and Employment is responsible for a programme of procurement of single supply agreements between the Crown and approved suppliers for the supply of selected common goods and services called All of Government (AoG) supply contracts. Local Government organisations are eligible to purchase goods or services under these AoG supply contracts.

HBRC has already committed to AoG supply contracts for some categories of expenditure and recognises the benefits that can be realised under AoG supply contracts. HBRC is committed to saving on transaction costs and will continue to review its requirements against the availability of goods or services under AoG contracts or similar bulk purchasing schemes.

HBRC employees must comply with the AoG supply requirements when purchasing goods or services in the categories where HBRC has committed to an AoG supply contract.

5.14 Reimbursements

HBRC may sometimes be required to cover costs of works or services that are procured by another party. In these circumstances, HBRC must approve and agree with the other party the scope of the works or services and the maximum cost HBRC will be incurring prior to any works or services commencing. The costs should be fair and reasonable giving regard to the nature and extent of work undertaken and the applicable market rates.

5.15 Loan/Subsidy Schemes

HBRC may take part in schemes where HBRC provides loans or subsidies to qualifying parties for purchasing goods or services. Where HBRC selects and provides a list of approved suppliers under those schemes, those suppliers will be included on the list based on pre-condition qualification criteria set by HBRC. The approved suppliers will be subject to audit to ensure that the standard of goods supplied, or work being undertaken consistently meets those criteria.

6. Procurement Processes

6.1 Competitive Procurement Processes

A significant portion of HBRC's external expenditure will be with suppliers who have been selected via a competitive process. A competitive process will be the default for selecting a supplier, unless there is good justification for deviating from a competitive process for a particular purchase. HBRC will maintain a framework of competitive procurement processes through its procurement manual. This framework will provide guidance to employees on:

- The appropriate methods to employ when undertaking a competitive procurement process;
- The criteria for deciding which method to use given the specific purchase requirements.

6.2 Deviations from Competitive Processes

HBRC recognises that some of its requirements will be best met through a direct approach to existing suppliers or Niche Suppliers (a supplier of goods, works or services not readily available from a number of competitive suppliers in the market). Sometimes there will be a clear benefit to HBRC from procuring assets, goods, works or services in this way.

Where justification for a deviation from a competitive procurement process is documented and approved at the appropriate level within HBRC, it will be open for HBRC to directly negotiate with a supplier and not be bound by its competitive procurement processes and corresponding financial thresholds.

The procurement manual will provide guidance to HBRC employees on the appropriate considerations and methods to use when deviating from competitive processes.

6.3 Panels or List of Preferred Suppliers

For some types of purchases, HBRC will engage suppliers on a panel, or maintain a list of approved suppliers. HBRC favours this approach to help reduce the cost of procurement, particularly where:

- Suppliers provide goods or services of relatively small value on an 'as required' basis.
- Suppliers are Niche Suppliers and HBRC is not easily able to procure the specific goods or services elsewhere.

HBRC will regularly review its lists of approved suppliers (at least every three years), and in particular the prices and quality of the suppliers on the list. One of the primary objectives of these reviews will be for HBRC to consider the need for a fresh procurement process, or price negotiation with suppliers. Supplier agreements with suppliers should contain terms and conditions that permit regular reviews.

https://herbi.hbrc.govt.nz/site/ContCent/Lists/Contractors/AllItems.aspx

7. Procurement Manual

7.1 Purpose of Procurement Manual

HBRC will maintain a procurement manual to document HBRCs procurement processes and support employees responsible for managing procurement activities. The procurement manual will provide employees with guidance on:

- Procurement strategy and planning
- Procurement processes
- Supplier evaluation and selection
- Procurement documentation and forms of contract
- Negotiation.

The procurement manual will be consistent with HBRC's procurement policy and list of financial delegations.

7.2 Contents of Procurement Manual

The procurement manual will contain information to enable documentation, processes and methods to be selected that are in proportion to the value and risk involved with a particular purchase. Where there are a variety of options available, the procurement manual should provide detailed selection criteria that allow the employee to select the most appropriate option for the particular type of procurement.

The procurement manual will cover:

- Purpose of the Manual
- Procurement life cycle
- Procurement Strategy
- Procurement Planning
- Tender Administration and Probity including
    - Selection process
    - Supplier Evaluation and Selection
- Contract Forms and Types
- Managing contracts including
    - Mobilisation
    - Evaluation.

8. Financial Delegations

HBRC will maintain a list of financial delegations that clearly identifies:

- HBRC individual officers delegated with financial authorisation to commit HBRC to external expenditure
- The level of expenditure authorisation delegated to those officers
- Any definitions of expenditure required for council officers to understand their financial delegation (for example: how expenditure for services provided on an as required basis under an ongoing service agreement with a supplier should be treated)

The list of financial delegations should not limit or impede an HBRC employee from undertaking their role and responsibilities, particularly with respect to authorising payments under a supplier agreement or managing an emergency.

Note that delegations are GST exclusive.

Financial Delegations – where provision is made in the LTP / Annual Plan (Operating & Capital)	
CE	Authority to implement the LTP / Annual Plan as approved by Council
Group Manager – Office of the Chair and Chief Executive	Up to $200,000 for any one commitment
All Other Group Managers	Up to $150,000 for any one commitment
Emergency Management – Group and Local Controllers	Up to $100,000 for any one commitment
All Other Staff	Delegations provided by their Group Manager up to a level of $100,000 for any one commitment

Operating Expenditure – where no provision is made in the LTP / Annual Plan
Any material operating expenditure that is outside the provisions of the LTP / Annual Plan should be raised with Council as soon as practical to obtain their agreement to proceed with the expenditure and to confirm how this will be funded. If it is agreed to fund through reductions in other budgets this will be reported on to Council through the quarterly operations report. Other options may include loan borrowing or letting the cost hit the bottom line. The Regional Council contingency budget will only be used once confirmed by the Council. This will usually occur in the 9-month reforecast exercise each year

Capital Expenditure	
CE	Up to $50,000 for any one commitment if funded via the asset replacement reserve.
Group Managers	Up to $20,000 for any one commitment if funded via the asset replacement reserve.
Council	Any capital expenditure outside of these delegations must go to Council for approval.

The above delegations were adopted by Council resolution 27 March 2019 - Please refer to:
https://herbi.hbrc.govt.nz/site/corpmgt/Lists/FinancialDelegations/AllItems.aspx

9. Emergency Procurement

An emergency is as defined under the Civil Defence Emergency Management Act 2002, as amended or superseded by other legislation. In an emergency, departures from normal procurement and payment process will be acceptable if it is necessary for HBRC and the Hawke's Bay CDEM Group to respond the emergency effectively.

In an emergency, the following financial delegations will apply:

All CDEM related expenditure during an emergency is incurred by the territorial authority in which the expenditure occurs. Certain expenditure can then be claimed from central government, such as welfare related expenditure. During an emergency, controllers who are council employees may use the delegations that they hold for their local authority. However, there may be occasions where controllers are not council employees or have been deployed from other local authorities. Financial delegations are therefore required to cover this situation and provide for an effective response to an emergency. The following financial delegations shall apply for persons appointed to the position of group or local controller, where appropriate local authority delegations have not been approved previously for the area concerned.

Local Controllers: Empowered to enter commitments up to $100,000 for any one commitment within the area they are local controller.

Group Controllers: Empowered to enter commitments up to $100,000 for any one commitment.

The Group Controller has the authority to delegate this expenditure to any emergency response individual as is required to effectively respond to the emergency.

Where emergency expenditure is required above the emergency limit for single item or service, approval for emergency expenditure must be provided by either the Chair of the Joint Committee or the Chief Executive of the Hawke's Bay Regional Council or their respective Hawke's Bay CDEM Group delegates.

Where practicable to do so prior to expenditure being incurred, the Group Controller will seek assurance from the Ministry of Civil Defence and Emergency Management that expenditure by HBRC in an emergency will be eligible for reimbursement by Central Government.

For oil spill response the Maritime Transport Act 1994 should be followed, and the On-Scene commander will have the authority to have delegated authority up to the level stated in our oil spill procedures.

Urgent Procurement may include when life, property, or equipment is immediately at risk; or standards of public health, welfare, or safety need to be re-established without delay, such as disaster relief.

10. Record Keeping

HBRC should be able to demonstrate that it has conducted procurement fairly and appropriately. It is essential that records are kept of procurement activities by HBRC describing the background and reasons for procurement decisions. Records should be maintained for each procurement that document:

- That HBRC's procurement processes have been followed.
- That enough budget has been allocated for the purchase.
- That approval has been given for the purchase from the relevant holder of delegated financial authority.
- Any conflicts of interest have been identified and managed.
- Any risks have been identified and managed.
- The supplier agreement(s) that have been entered.

HBRC will maintain adequate systems and processes for managing its procurement documentation and supplier agreements. All employees responsible for purchasing activities and contract management should be trained in the correct processes for managing documentation.

Every new contract should be recorded under the Procurement Hub in HerBi which will allocate a specific contract number and will enable the collation of all information under each contract.

Please refer to HerBi / https://herbi.hbrc.govt.nz/site/ContCent/default.aspx for archived contract information.

11. Application of Policy

11.1 General Application

This procurement policy applies to HBRC and all its employees, consultants and advisors undertaking procurement activities on behalf of HBRC.

11.2 Council Controlled Organisations

This procurement policy does not apply to any council-controlled organisations in which HRBC has any interest.

11.3 Council Business Units

This procurement policy applies to HBRC business units with respect to the business units procuring assets, goods, works and services from suppliers.

Where an HBRC business unit is a supplier or potential supplier to HBRC:

HBRC will not invite any HBRC business unit to tender or submit for any work in any competitive process where it will be in direct competition with the open market.

Where HBRC has work which is able to be undertaken by a business unit and the Council wants the business unit to potentially undertake the work, it may either:

- Approach the business unit directly and solely to price the work as an alternative to engaging the market in a competitive process; or
- Having already undertaken a competitive process with the market and not being satisfied with the value it will receive, request the business unit to price and undertake the work.

12. Review

This procurement policy and the procurement manual will be reviewed in 2022. Changes may be made to the procurement policy and/or the procurement manual in the interim if there are significant developments in procurement best practice.

Item 10

Hawke’s Bay Regional Council

Procurement Manual

Attachment 2

May 2019

Document Control

Purpose of this document:

The Procurement Manual supports the Procurement Policy and details how to apply the policy principles.

The revised procurement policy and procurement manual are consistent with national procurement principles and guidelines and are compliant with relevant legislation. The Policy details what HBRC is required to do to meet national guidelines and the Manual details of how to apply the policy principles to deliver benefits of best practice procurement.

Intended Audience:

This document is intended for internal HBRC staff who administer and manage procurement. Communications information will be developed and made publicly available for external audiences, anticipating a launch following policy approval, in July 2019.

Following the relaunch, this policy may be refined in the light of experience over time with any changes to be approved by Council before implementation. The next scheduled review is 2022.

Document Information

	Position
Document Owner	Jessica Ellerm – Group Manager
Issue Date	14.5.19
File Name	Procurement Manual – Revised May 2019

Document History

Version	Issue Date	Changes
VO1	13.5.19	

Document Review

Name	Role	Review Status
Mark Heaney	Manager, Client Services	Draft Complete

Document Sign-off

Name	Role	Sign-off date
Jessica Ellerm	Group Manager – Corporate Services	16.5.19

Contents

1 Purpose of the Manual

The purpose of this manual is to provide guidance for HBRC employees responsible for managing procurement activities.

The processes to follow, and the tools to use when undertaking procurement of goods, works or services to comply with Hawke's Bay Regional Council's procurement principles, policy and national guidelines.

The manual details how to apply policy principles that deliver the benefits of best procurement practice.

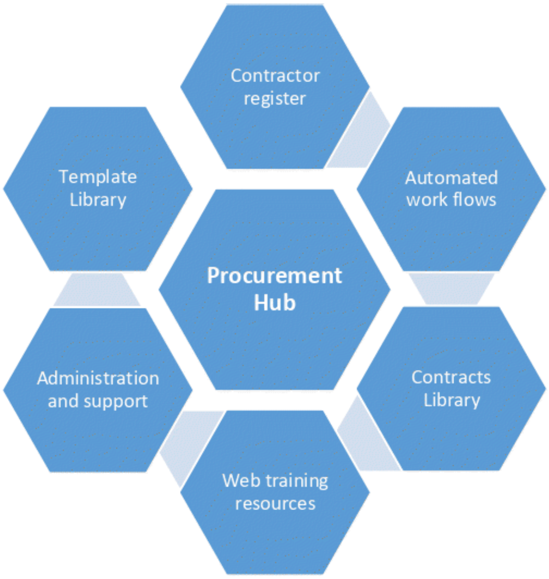
The manual provides guidance on the overall procurement process including:

- Purpose of the Manual.
- Procurement life cycle.
- Procurement Strategy.
- Procurement Planning.
- Tender Administration and Probity.
- Selection process.
- Supplier Evaluation and Selection.
- Contract Forms and Types.
- Managing contracts.
- Mobilisation.
- Evaluation.

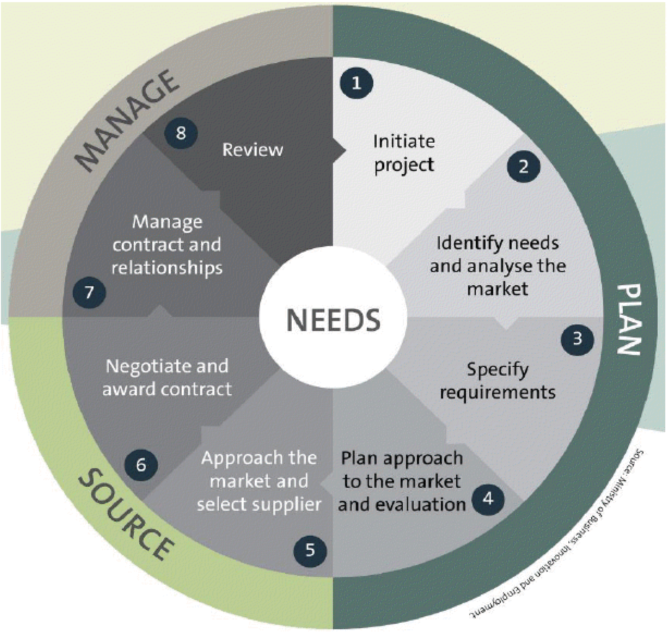
The procurement manual aligns with HBRC's procurement policy and financial delegations.

Every procurement activity is different and the considerations for sustainable procurement will vary depending on the goods, service or works HBRC is buying, the size, scale and, risks involved in the procurement, and the outcomes we want to achieve.

To do this well, HBRC needs people with the right skills to advise, manage, and make decisions about what to buy, how to buy it, and how to make sure they are getting what they have paid for. Resource is available to support those with procurement responsibilities to adopt a consistent approach to procurement across the organisation. This will be delivered using a hub and spoke model.



2 The procurement life cycle - plan, source, manage.


MANAGE
PLAN
SOURCE
NEEDS
1
Initiate project
2
Identify needs and analyse the market
3
Specify requirements
4
Plan approach to the market and evaluation
5
Approach the market and select supplier
6
Negotiate and award contract
7
Manage contract and relationships
8
Review

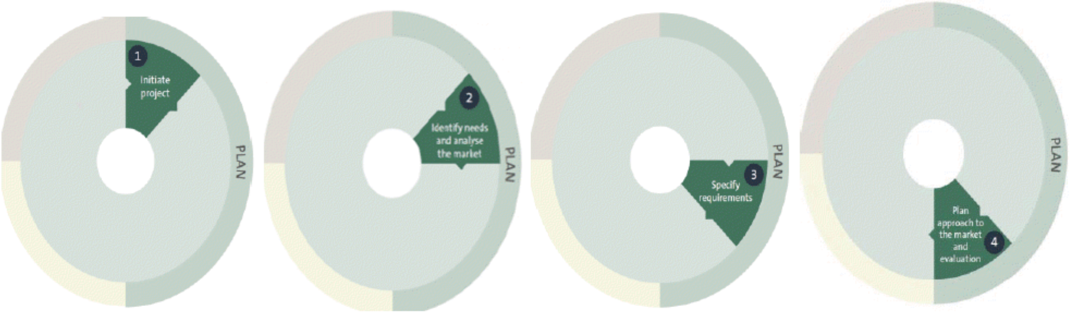
Source: Ministry of Business, Innovation and Employment.

Effective procurement can save money and ensure that more projects are delivered on time and budget, with reduced exposure to commercial risk, and less cost in doing business. It can lead to productivity gains and support innovation by suppliers. For a procurement to be successful, it is important for HBRC to consider each of the eight stages in the procurement life cycle.

Procurement guidance, such as *Government Rules of Sourcing* and the Office of the Auditor General (OAG) 2008 good practice guide, *Procurement guidance for public entities*, has been available to the public sector for the last 10 years. These documents are available at procurement.govt.nz.

There are three stages of the procurement life cycle that HBRC can improve: the strategic analysis, which should be done at the start of the procurement life cycle; contract management; and checking that intended benefits are realised.

Procurement begins with HBRC determining what goods and services it needs to achieve its goals. Procurement includes planning for the purchase, the purchase process itself, and any monitoring to ensure that the contract has been carried out and has achieved what it was meant to.


1
Initiate project
PLAN
2
Identify needs and analyse the market
PLAN
3
Specify requirements
PLAN
Plan approach to the market and evaluation
4
PLAN

3 Initiation, needs identification and specification

The early stages of planning for a procurement are critical to success. The first stage of a procurement life cycle is initiating the project. In this stage, it is important that HBRC takes a strategic approach, with proposed procurement aligning with the organisation's priorities and business objectives. For a procurement to be successful, HBRC needs to clarify roles, responsibilities, and processes for decision-making, ownership, and oversight, at the start of the procurement life cycle. At an early stage, HBRC needs to take a strategic view of their procurement and determine how it fits with their broader objectives.

The second stage in the procurement life cycle is identifying needs and analysing the market of suppliers that provide goods and services. It is important that HBRC consults stakeholders at an early stage, use the best possible information and understand the supplier market.

The third stage in the procurement life cycle is specifying requirements. HBRC needs to have a clear understanding of what it wants to purchase and a plan of how they will measure supplier performance, before agreeing to a contract.

The fourth stage in the procurement life cycle is planning how the procurement will be carried out and justifying these decisions. This is s called the procurement plan. How much detail is needed in the plan will depend on the value and risk associated with a particular procurement. It can include project scope, the procurement method, whether the approach will be open or closed or multi-staged, how HBRC will work with the market, and the form of contract. Planning should also include selecting the evaluation model (including evaluation criteria) and process.

3.1 *Purpose of the Procurement Plan*

The procurement plan provides the means for HBRC to consider and decide upon the appropriate strategy for procuring services. The plan will also be a reference for staff throughout the process and provides an auditable record of how the procurement proceeded.

A procurement plan should only be developed if the business need for the procurement is established and approved and there is available budget for the supply or project to be undertaken. For routine purchases this will be a simple process as part of HBRC's normal planning cycle. For one off, extraordinary purchases, a business case for the procurement will need to have been established and approved.

3.2 *When is a Procurement Plan Required?*

The procurement plan should be to a level of detail that is suitable for the particular service taking in to account factors such as estimated value, complexity, risk, market capability and other service specific issues.

The following table indicates the expected requirements based on estimated value. Where services are complex and/or high risk a Detailed Procurement Plan should be considered even if the estimated value is below the $50,000 threshold.

Estimated Value	Procurement Plan Requirements	Approved by
Up to $10,000	Not required	Staff with Financial Delegation
$10,001 to $50,000	Basic Procurement Plan	Manager / Group Manager
> $50,000	Detailed Procurement Plan	Manager / Group Manager / CEO

The procurement plan should be included with the other contract information in the contract library. If the procurement only requires a purchase order then the procurement plan should be attached to the final invoice and scanned into the accounts system.

3.3 *Contents of Basic Procurement Plan*

A basic procurement plan should contain appropriate information about the scope, process, risks and procurement team. The exact level of detail is determined by the Manager given the value and risks involved.

3.4 *Contents of Detailed Procurement Plan*

The Group Manager is responsible for ensuring a project or service specific procurement plan is developed and contains the appropriate level of detail for the services to be purchased. The detailed procurement plan should contain the following information:

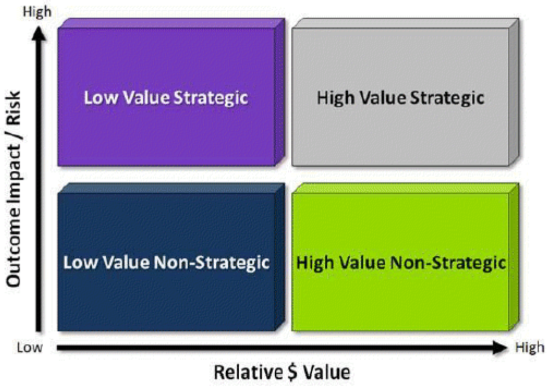
- The goods, works or services ("the services") to be procured and any relevant background information including prior approvals.
- A brief statement of the scope of the services required and summarised special technical or performance requirements (including where relevant special requirements that minimise the whole of life costs of the services which may attract a price premium). This should be provided by a person expert in the specification of the particular services.
- The total budget including:
  - The expected full cost of the services (over the entire contract length for term contracts).
  - Any contingency allowances for risk.
  - The cost of the procurement process.
  - The cost of managing and administering the supply contract.
  - The cost of related or consequential commitments that are outside the cost of the service supply (e.g. the costs of a consent that HBRC must obtain to enable the service supplier to perform).
- Any risks that might impact on the procurement process or the services including the strength and number of potential suppliers in the market and how these may be mitigated.
- The term of the contract for repetitive services (e.g. bus services or asset maintenance) or for one off supply contracts.
- The type of contract and a summary of key contractual conditions that are intended to be used and why.
- The procurement strategy including how potential participants will be invited, the conditions of tender, the evaluation method and any proposed process deviations.
- The timeline to complete the process.
- The procurement team – including the procurement project manager, procurement administration manager, the evaluation team members, any probity personnel required and the authority responsible for approving the award of a contract.

For procurement of services that are less complex lower value judgment is required as to the level of detail required. This will be determined by the responsible Group Manager.

3.5 *Procurement Risk*

Risk can often be difficult to anticipate or describe however there are risks that are common to many procurement processes. These risks should be considered, and measures taken to mitigate them through careful planning and good management of the procurement process. Some of the key procurement risks are:

- Participants in the process are not treated equally and fairly leaving the process open to challenge – mitigated by auditable and rigorous processes that ensure even handed dealings with all participants.
- A supplier is selected who is not suitably qualified, experienced or capable of delivering the goods, works or services – mitigated by a robust selection process.
- The tendered price of the goods, works or services is significantly more than expected or budgeted for. If significant, and there is no further funding available, there may be a need to review the technical specification, quantum of work, time for completion or amount of risk the tenderer is being expected to take. Minor changes can often be negotiated with the preferred tenderer but if changes are significant it may be prudent to go back to all tenderers and request a retender for the contract.
- The tendered price is significantly lower than expected. This can be due to the estimate being too high but can mean that the tenderer has misinterpreted the quantum or difficulty of supply to the quality standards required. Such cases need to be explored with care. A contract that is priced too low usually results in poor performance and at worst contractor default. The contract also becomes expensive and time consuming to administer and resolve disputes.



Low value strategic	A service that is relatively low cost, but that is likely to have a significant impact on the outcomes for which HBRC is responsible, the relationship with the provider is likely to be collaborative, open, and have a strong personal element. It will have a strategic focus, with risk management generally being one of the key drivers.
High value strategic	A service of a higher cost and likely to have a significant impact on HBRC outcomes. Such relationships should be very collaborative and open, with a strong strategic focus from both sides. You are likely to engage frequently and in depth, with correspondingly higher levels of trust in the relationship. There will be multiple levels of engagement, including operational and executive level. Considerable focus should be applied to the development and maintenance of relationships in this quadrant.
Low value non-strategic	A service that is relatively low cost and mostly transactional in nature; such as a single local provider offering a service; or a national subject matter expert producing a report. While such services contribute to outcomes, they tend to be lower impact and also lower risk. The relationship will be focussed on the service delivery. You and the provider will have less frequent communication and little, if any, discussion or engagement at a strategic level.
High value non-strategic	A service of a higher cost, but still mostly transactional in nature. Most relationships in this quadrant tend to be for more commercial services, such as air travel to all of government. While you will have more meetings and more contact than with relationships in the *lower value* non-strategic quadrant, your approach from a relationship perspective is more 'business' than 'personal'.

3.6 *Services Risk*

Once the contract is awarded both the contractor (supplier) and the client are legally bound to fulfil their respective obligations as set out in the contract documents. A successful contract is founded on good quality specifications and contract conditions. Some of these are specifically designed to limit the risk to the client of poor or non-performance by the contractor. Some common examples of risks that give rise to contract disputes that need to be responsibly managed are:

- The client does not fulfil its contract obligations or does so in an untimely manner e.g. slow responses to contractor queries.
- Unforeseen (by the client) variations arising from factors outside the contractors control or from actual quantities being more than that in the contract payment schedule.
- The contract does not contain suitable protection for the client in the event of failure or negligence of a supplier during the performance of contract.

3.7 *The Term of Contracts*

- In any supply situation consideration needs to be given to what is a reasonable time for the completion and delivery of the required goods, works or services. While every situation is different it is useful to consider the following.
- Are the goods available locally, off the shelf or must they be custom made elsewhere?
- Is there specialised equipment required.
- Will performance be affected by the seasons/weather.
- Is the delivery date critical to the client or can a more generous time be allowed (what is the likely cost to the client of a later delivery?).

It is noted here that often the time becomes critical purely because the client has been late in tendering the work. If so this is a pointer to improving the client's internal processes.

- Remember that as a rule delivery times that are too tight are likely to result in:
- Higher prices being tendered.
- Higher risk of contractor default.
- Higher risk of poor quality.

4 Procurement Strategy

The procurement plan / strategy should be about achieving the best value outcome for the client. Best value generally needs to balance the needs for fit for purpose quality, delivery time and cost. In order to obtain best value (assuming the deliverables are well specified) from the procurement process the following should be considered:

- Is there a competitive supplier market or is the service highly specialised with limited or possibly only one supplier?
- Is a local supplier able to match quality and cost criteria?
- For low value goods, works and services should the simplified (say) three verbal or written quotes be used?
- What procurement process is appropriate for the value or complexity for the goods, works or services required?
- How should potential participants be invited to tender?
- What conditions of tender should be used?
- What evaluation method should be used?
- When is the best time of the year to call for tenders?

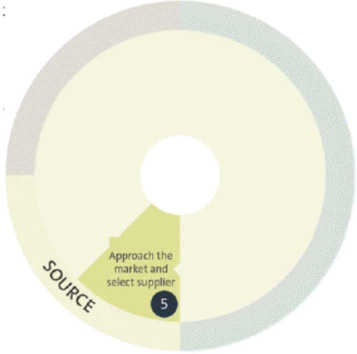
Procurement decisions should take into account section 17A of the Local Government Act 2002 which states that a local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions. A review of these arrangements must be undertaken when there are any significant changes to relevant services levels, within two years of the expiry of any contract or binding agreement relating to infrastructure, service or regulatory functions or at any other time the local authority considers desirable, but no later the 6 years from the last review.

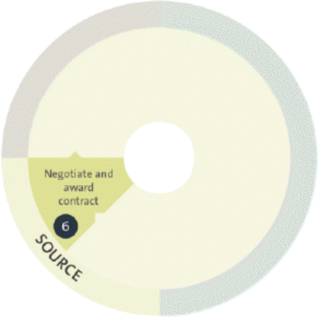
For more information refer directly to the Local Government Act 2002

Attachment 2

Item 10

5 Approaching the market, selecting a supplier, and awarding a contract





The fifth stage in the procurement life cycle involves initiating the procurement process in the supplier market, providing information to potential suppliers, answering any questions they might have, and selecting a preferred supplier.

The sixth stage in the procurement life cycle is negotiating the terms and conditions of a contract, establishing and agreeing to levels of service with the supplier, and providing feedback to both successful and unsuccessful suppliers

5.1 *Competitive Procurement Processes*

Competitive procurement provides the advantage of being able to compare and assess the relative quality and price of various suppliers. Because suppliers must compete to be successful, there is greater likelihood of achieving the best value for the goods, works or services being procured. Competitive processes also enhance the transparency of the procurement process and decision to select a particular supplier.

A competitive procurement process should be used wherever possible and practical and is consistent with good governance principles applying in the public sector. A competitive process will be appropriate when there are a number of potential suppliers with the right product or capability in the market.

Note: Where a prequalified supplier panel exists (either through an All of Government (AoG) contract or a panel or list of suppliers managed by HBRC) it is still possible to obtain competitive submissions from a number of the listed suitable suppliers. Depending on the nature of the deliverables their submissions may be expected to cover methodology, delivery time and cost. Caution should be exercised in selecting suppliers from a list that has not been the subject of a robust selection process.

There is a range of processes and associated documentation that can be used for a competitive procurement. The most appropriate process to use will depend on a number of factors such as

- The value of the service.
- The cost and resources required for the suppliers to take part in the process.
- The level of detail of HBRC's requirements and technical specification of the goods, works and services.
- The urgency of the procurement.
- The number of available suppliers assessed through market research.

The following are the most common types of competitive process and when they should be used:

Type of Process	Type of Market Engagement	Used
Quotation Based	Verbal quotation	For simple procurements for low value and low risk goods, works or services. Verbal quotations should only be used when the value of the procurement is less than $10,000.
Seeking quotations requires HBRC to effectively communicate its requirements. HBRC must take care to ensure all potential suppliers receive the same information regarding the requirements. Where there is a large market, three quotes should be sufficient for ensuring a competitive price. Quotations received and procurement decisions should be appropriately documented as with other procurement processes.		
Quotation Based	Written Quotation	For simple procurements of low risk, but with a value below $50,000.
Best practice requires HBRC to document its requirements. A Request For Quotation (RFQ) document ensures that all potential suppliers are provided with the same information. Where there is a large market, at least three quotes should be obtained.		
Proposal Based	Request for Proposal (RFP)	To be used when HBRC knows *what* outcome it wants from the procurement but is not certain *how* this outcome is best achieved. Proposal processes are useful in the following scenarios: • Goods, works or services are not able to be clearly defined • A detailed specification cannot be provided • Requires a solution to an existing problem where there is potentially a number of solution options For procurement of medium to high value and risk. For procurement values above $25,000 a proposal process should be considered*. Above $50,000 a proposal or tender process is mandatory except where approved otherwise by the Chief Executive.
Proposal processes are useful if HBRC does not have a detailed scope and specification of the goods, works or services. However, wherever there are essential requirements, RFP documents should include enough detail of these for participants to cover the requirements in their proposals. Proposal processes will likely involve negotiation with the preferred participant to confirm the exact scope and specification of the final contract and basis for payment. Often used for professional services contracts.		
Tender Based	Request For Tender (RFT)	Tender processes should be used when HBRC knows exactly what it requires for the goods, works or services and how it wants those goods, works or services delivered. Tender processes are useful in the following scenarios: • Goods, works or services are clearly defined • Detailed specification, methodology or processes can be provided • For procurement of medium to high value and risk For procurement values above $25,000 a tender process should be considered*. Above $50,000 a proposal or tender process is mandatory except where approved otherwise by the Chief Executive.
Tender processes are appropriate where there is a clear and defined scope and/or detailed specification for the goods, works or services being procured. Tender documents must provide tenderers with certainty and clarity of the requirements. Tender processes are focused on tenderer capability, resources and price and allows all of these to be compared to determine who will be the successful supplier. Tender processes may involve negotiation with the preferred participant to confirm the exact scope and specification of the final contract and the price. Often used for major supply, works or services contracts.		

**** The decision to use quotes over a proposal or tender process will be based on the analysis of requirements of HBRC in the preceding procurement plan. If factors such as well-defined requirements, lower risk procurement category, known and established suppliers favour a quotation process, there may be justification for pursuing this lower cost route of procurement.***

HBRC must comply with above procurement value thresholds when making decisions about the type of process to be used, with the exceptions of the following circumstances:

- Emergency procurement (competitive processes do not have to be complied with in an emergency situation).
- Transport procurement (to be undertaken in accordance with an approved NZTA procurement strategy).
- Approved deviations.

Note: It is very important that the conditions for any proposal or tender invitation are carefully prepared. Proposal and tender processes can create a contract between HBRC and a participant that meets the requirements set out in the proposal or tender documents. Proposal or tender documentation should be drafted to allow HBRC to alter the process or make procurement decisions where necessary to achieve the best outcome without the risk of HBRC acting unlawfully. For major procurements, professional and/or legal advice should be sought before proposal or tender documents are issued to the market.

5.2 *Multistage Processes*

In some circumstances, it may be appropriate for HBRC to undertake a multistage procurement process. Multistage processes usually consist of two stages:

An initial stage – where HBRC has identified a need for goods, works or services but is not clear about the availability or the capability of suppliers in the market. An initial stage can also be useful for HBRC to refine its requirements for goods, works or services based on the responses it receives.

Registration of Interest (ROI), Expressions of Interest (EOI), and Requests for Information (RFI) are all options for undertaking this initial stage. The most appropriate procurement documentation will depend on the outcome HBRC is looking for from the process. Essentially the different document types will all service the purpose of indicating who is interested in supplying the goods works or services. What differentiates them is the amount of additional information that is requested about:

- The capability of the supplier.
- The possible services or solutions that could be provided by the supplier.

Price is generally not considered at this stage of a multi-stage process.

This initial stage may be used to shortlist preferred participants who are then invited to submit a proposal or tender in the second stage.

A second stage – where HBRC is certain enough of its requirements and the market based on the initial stage to undertake a more detailed procurement process of the goods, works or services. The second stage will involve issuing Request for Proposal (RFP) or Request for Tender (RFT) documents to participants short listed in the initial phase.

Because multistage processes can be expensive and time consuming, HBRC should only use a multi stage process for higher value procurement.

Short listing in the initial stage can be a useful aspect of a multistage process. Where there might be numerous participants in a procurement process, the cost of pricing a full tender in a single stage process may discourage some parties from participating. An initial stage that clearly states the intention to short list may increase the level of interest in the market. This will provide HBRC with a greater understanding of the capability of suppliers in the market before having to decide on the final supplier.

5.3 *Open and Closed Procurement*

An open procurement process is when offers from potential suppliers are requested from the market by public advertisement of the procurement. Open procurement processes will usually be conducted when HBRC wants as many high-quality participants to take part in the process as possible.

Open procurement processes should be used wherever possible by HBRC as this increases the likelihood of HBRC receiving offers from all potential suppliers. This means that:

- No supplier is disadvantaged by being excluded from the process.

- HBRC has more opportunity to receive an offer from a participant that represents the best possible value.

A closed procurement process is when a select number of suppliers are identified by HBRC prior to the procurement and only those suppliers are approached to take part in the process. A closed procurement process will often benefit HBRC by decreasing the time and cost to undertake the procurement process. However, there is the risk in a closed process that HBRC will not be provided with the best possible offer and that it could be challenged by a party that was not invited to take part in the process.

Closed procurement processes should only be used when:

- HBRC has adequately assessed the market with respect to its requirements and will invite all the suppliers to participate it believes can meet its requirements.
- HBRC is conducting a multi stage process and has short-listed a number of participants through an open process to proceed to a subsequent closed stage of the procurement.

The following table provides an indication of when it is appropriate to use open or closed processes:

Contract Value	Process	Open or Closed
Up to $10,000	Verbal or written quotations	Closed
$10,001 < $50,000	Written quotations	Closed or Open
>$50,000	Written quotations, Proposal or Tender	Closed * or Open

*Where a closed tender is proposed for procurement over $50,000, this must be approved by the General Manager and documented in the procurement plan.

5.4 *Deviations from Competitive Processes*

There will be circumstances where it is appropriate for HBRC to deviate from a conventional competitive process and procure goods, works or services directly from a supplier. Direct purchasing will likely result in significant cost savings to HBRC with respect to the procurement process.

The type of situations where direct purchasing may be considered are:

- The number of suppliers in the market is extremely limited.
- A supplier has knowledge of HBRC's environment and/or requirements that other suppliers do not have (Note: This may be open to challenge by other suppliers).
- The goods, works or services being procured are of a specialist type or nature or must match existing service or assets.
- The goods, works or services are associated with or dependent on other goods, works or services already purchased from a current supplier (e.g. a software upgrade to an existing HBRC system).
- HBRC can and must purchase the goods, works or services under an AoG contract.

HBRC must in the first instance undertake enough investigation and analysis to determine that a direct purchase is appropriate.

If the goods, works or services can be purchased under an AoG supply contract, then HBRC will be required to use that channel. HBRC must follow the correct process for this type of purchase as dictated by the Ministry of Business, Innovation and Employment (MBIE) on the following website www.procurement.govt.nz

If the goods, works or services are to be purchased directly because of the limited market, speciality type and/or are from a supplier with which HBRC has an existing relationship, then the reasons for purchasing directly must be documented appropriately and approved by the delegated financial authority for the purchase. Procurement of middle to high value should have an approved procurement plan, as outlined in Section 3.2, which sets out the justification for this procurement approach.

The plan for direct procurement should confirm that:

- *The rates are reasonable and consistent with the market rates for items of a similar nature;*
- *HBRC does regular reviews to ensure the reasonableness of prices, including randomly inviting quotations at appropriate time intervals;*

- *The required goods or services are not split into components or a succession of orders to enable orders to be placed without seeking competitive prices;*
- *and fairness and equity are assured*

5.5 *Panels/Supplier Lists*

5.5.1 Panels

A Supplier Panel allows HBRC to set up contracts for a defined term with a group of preferred suppliers to deliver goods, works or services as and when required during the term of the contract. All the Supplier Panel members should have been selected for their capability. Supplier Panel contracts limit the cost of the procurement process to that required to set up the panel. Individual purchases of goods, works or services are simply made through the panel with simple documentation. This makes panels more efficient for some goods, works or services.

HBRC should consider setting up panel contracts for types of goods, works or services when:

- HBRC cannot be certain of the amount of the goods, works or services it will require.
- The goods, skills or knowledge being purchased are specialist.
- Suppliers have limited capacity, so a panel ensures several suppliers can be called upon at short notice.
- Suppliers might have a conflict of interest in acting for HBRC from time to time.

Panel contracts are most used for professional services where there is an ongoing need for services to be supplied on an ad hoc basis. An important aspect of panel contracts is that no one supplier is guaranteed a certain amount of work. HBRC is open to instruct any supplier on the panel on whatever basis it decides.

Panel contracts are set up via a competitive process where participants are asked:

- To demonstrate their capability to provide the services.
- Provide a schedule of rates for providing the services.

When a panel of suppliers is set up, HBRC needs to consider and implement methods and processes for:

- Allocating work to different panel suppliers – This should be on an equitable basis taking into account availability, specialist skills and knowledge, performance, cost or division of work across the suppliers (or a combination of these criteria). Often suppliers on a panel can be required to provide a competitive estimate/quote for each project based on the rates already tendered or otherwise.
- Managing the performance of suppliers – this includes methods for reviewing and comparing the quality of work received from different panel suppliers and removing suppliers from a panel (if necessary).

Panels should be reviewed on a regular basis according to HBRC's procurement policy and from time to time, a new competitive process should be undertaken to re-establish the panel. This will ensure that suppliers in the market receive a fair opportunity to supply HBRC and that prices are tested on a regular basis so HBRC can be assured they are receiving good value for money.

5.5.2 Supplier Lists

A supplier list is a register of suppliers that HBRC has determined are suitable for providing goods, works or services. Suppliers on the list must be assessed on standard criteria for their inclusion on the list. Criteria such as specialist skills and knowledge, track record of supply, financial stability and health and safety record can be used to include suppliers on the list.

Because suppliers on a list do not have a contract with HBRC, a procurement process will need to be undertaken every time goods, works or services are required. However, the list may make it more efficient for HBRC to seek quotes from suitable suppliers or undertake more complex procurements, because the suppliers on the list have already met criteria that they would be required to demonstrate and be evaluated on through a competitive procurement process.

6 Contract Forms and Types

6.1 *Contract Terms and Conditions*

There are many forms of contract that HBRC can use to contract with a supplier. There are several appropriate standard forms of contract to use for different types of goods, works and services. The form of contract to use for a procurement will depend on the nature of the deliverable, value of the contract and the risk involved. In general, HBRC must use the following type of contract, based on contract value.

Contract Value	Contract
Up to $10,000	Purchase order or basic contract for provision of goods and or services
$10,001 < $50,000	Purchase order or detailed contract for provision of goods and or services
>$50,000	Detailed contract for provision of goods and or services

When HBRC is undertaking a competitive proposal or tender process, the intended contract terms and conditions should be specified as part of procurement documentation. For smaller quotation-based procurement, the supplier's terms of trade may be sufficient, provided HBRC reviews these prior to committing to the purchase and the level of risk is determined to be low.

6.2 *Standard Forms of Contracts*

There are several standard forms of contract that can be used by HBRC. These are generally well understood by suppliers who use them regularly and should be used to save the cost of drafting bespoke terms and conditions. Some examples of standard forms of contract are:

<table>
<tr><th>Contract Name</th><th>Used</th></tr>
<tr><td><b>Physical Works Contract (NZS3910)</b></td><td>For construction contracts, physical works contracts or on-going maintenance contracts.</td></tr>
<tr><td colspan="2">A standard form of contract that is well understood in the contract industry, particularly the payment process, risk allocation and dispute resolution provisions.
Uses a third party 'Engineer to the Contract' (typically a consultant professional engineer) to oversee the contract on behalf of the Principal.
Primarily designed for construction projects, but can be adapted easily for other operations or maintenance contracts.</td></tr>
<tr><td><b>Physical Works / Maintenance Contract (NZS3915)</b></td><td>Also used for construction contracts, physical works contracts or on-going maintenance contracts where the relationship is directly between the Principal and the Contractor.</td></tr>
<tr><td colspan="2">Similar to 3910 but uses a technical "expert" to determine disputes and does not use an Engineer to the Contract
Requires a sound contract management experience and capability within HBRC.</td></tr>
<tr><td><b>New Engineering Contracts (NEC)</b></td><td>Also used for construction contracts, physical works contracts or on-going maintenance contracts where the relationship is collaborative in nature and usually addresses risk sharing.</td></tr>
<tr><td colspan="2">Based on a UK model. Not yet as widely used in New Zealand as NZS3910 or NZS3915 and therefore lacks market familiarity but is an international standard contract that can be a viable alternative and that has some desirable features.</td></tr>
<tr><td><b>Conditions of Contract for Consultancy Services <i>(CCCS)</i></b></td><td>Used for consultancy and professional services contracts.</td></tr>
<tr><td colspan="2">Widely used by councils and NZTA across several professions and covers important conditions such as intellectual property ownership, professional standards and duty of care.</td></tr>
</table>

Contract Name	Used
Conditions of Contract for Provision of Transport Services	HBRC Standard conditions used for the purchase of public transport services.
Widely used by Regional Councils in NZ.	

Whatever form of contract is used in procurement, HBRC should ensure that the conditions of contract, particularly any amendments or confidentiality provisions are adequately reviewed for contract risks by legal advisors before the contract is tendered.

6.3 *Pricing Models for Contracts*

There are a few different pricing models of contract that can be used. The appropriate contract model for a circumstance will depend on:

- What the nature of the goods, works or services are; and
- The size of the contract; and
- The outcome sought by HBRC

Some examples of contract models and when they should be used are set out below.

Model	Description	When used
Purchase Order (generally, with a lump sum price)	An order for goods, works or services with the quoted price issued to the supplier.	For simple low value quotation-based purchases where there is limited on-going risk to HBRC.
Lump Sum Contracts	A higher value contract where the contract price is agreed and fixed prior to the contract being undertaken.	Used for works or services contract where the scope and specification are well defined. The overall contract costs can therefore be estimated by the supplier and the supplier takes the risk. Useful where HBRC has a defined budget and wants cost certainty for the duration of the contract.
Unit Price Contracts	A contract where the supplier prices a defined unit of work or good supplied and is paid a variable amount depending on quantity.	Used where the volume of quantity of work or goods required cannot be accurately specified prior to the contract. Is applicable where the contract is for a repetitive unit of work.
Cost Plus Contracts	A contract where HBRC and the supplier have an open book arrangement with respect to direct costs and agree and additional fee for overheads and profits. Often used with a pain/gain sharing of financial risk. Often used in alliance type contracts.	Used for works or services contract where the scope and specification could be variable. Useful where the quality of work or services is more important than overall cost. The supplier does not take on the price risk of a lump sum contract so standards or resource levels are less likely to decline. Requires a high level of contract management/participation by the client.

Model	Description	When used
Performance Based Contracts	A contract where the supplier is provided with incentives to perform to a particular standard.	Useful where HBRC can define targets to be set and measured for the costs and quality of works or services provided. Providing costs savings to HBRC can be incentivised by sharing those savings with the supplier, once the amount of savings has been determined or by offer of an available extension of the contract term (if provided for in the contract).

It is important to note that a combination of the above pricing models can be used in larger contracts for different portions of the contract. For example, a lump sum maintenance contract could contain some works that have unit prices attached to them while other routine maintenance activities are lump sum.

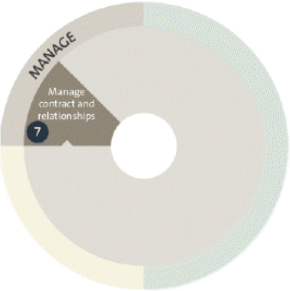
6.4 *Contract Models*

For major procurements involving significant amounts of management and/or design as well as large expenditure, HBRC should consider what the best management model for the contract will be. The traditional model is most used and is where HBRC instructs and manages the supplier and provides all inputs required by the supplier for the supplier to undertake the works or services. However, this requires HBRC to clearly communicate its requirements and expectations to the supplier and means HBRC takes a lot of the risk if its instructions or inputs are unclear or incorrect.

Other models to consider for major procurements, depending on the works or services, are:

Collaborative model – this is where a supplier is selected as per the Procurement Plan based on capability and then HBRC and the supplier jointly share the setting of outcomes and the management of resources to achieve the outcomes. The contract is undertaken co-operatively and requires a high level of input from both HBRC and the supplier. For this reason, it is generally only useful for long term contracts. This is the basis of most alliance type contracts. This is a specialist area and professional advice should be sought.

Design and build model – this model is often used where for capital construction works which are likely to benefit from contractor innovation in construction methods and final design. For significant works a professional peer review of the design is normal practice. Design and build contracts allow HBRC to require the supplier to organise and provide all design as well as the works, meaning the supplier is ultimately responsible for the adequacy of the design. This is also a specialist area and professional advice should be sought.



7 Managing contracts and relationships

The seventh stage in the procurement life cycle is actively managing the supplier's performance, including contract management planning and supplier relationship management; involving senior management in overseeing contracts; and ensuring that risks are managed.

Outcome agreement management plans (OAMP).

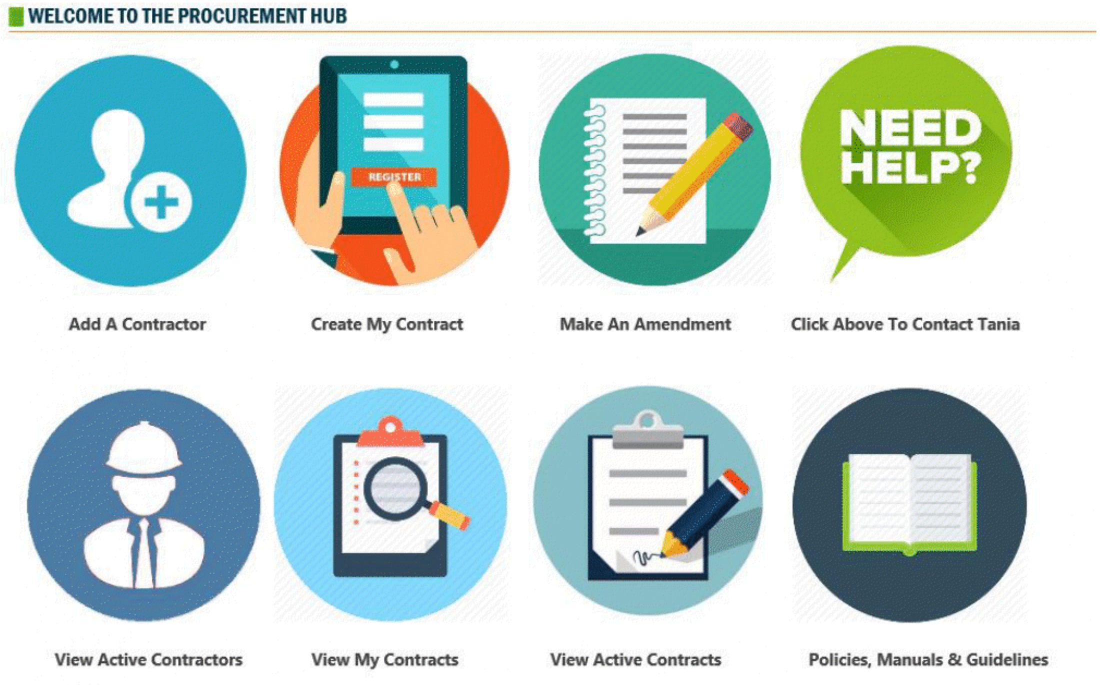
Outcome agreements benefit from a documented approach to contract management, particularly when they are of long duration, high value or complexity (e.g. multiple stakeholders and relationships).

It supports the planned, effective and efficient management of outcome agreements by HBRC and helps to ensure good practice, even if contract managers change.

HBRC should be able to demonstrate that it has conducted procurement fairly and appropriately. It is essential that records are kept of procurement activities by HBRC describing the background and reasons for procurement decisions. Records should be maintained for each procurement that demonstrate:

- That HBRC's procurement processes have been followed.
- That enough budget has been allocated for the purchase.
- That approval has been given for the purchase from the relevant holder of delegated financial authority.
- Any conflicts of interest have been identified and managed.
- Any risks have been identified and managed.
- The supplier agreement(s) that have been entered.

HBRC will maintain adequate systems and processes for managing its procurement documentation and supplier agreements in the Procurement Hub.



Every new contract should be set up in the Procurement Hub in HerBi which will allocate a specific contract number and will enable the collation of all information under each contract. Processes will be automated wherever possible, from contractor registration, to evaluation.

7.1 *Protecting against Contract Risks*

HBRC must protect itself against the risks of a supplier not performing under its contract or causing damage while performing its contract.

The table below outlines some of the key types of protection HBRC can specify as a requirement in its contracts to protect against loss or damage caused by a supplier of goods, works or services. HBRC should specify or use the forms of protection that are appropriate to the size of the contract, the type of goods, works or services and the risk that the contract represents.

Sometimes it will be more cost effective for HBRC to take out its own cover, such as for some contract works, as the supplier will need to build in the costs of the cover in its tender price. For local government the marginal change in the cost of it covering the contract works is usually insignificant. If concerned about the cost, HBRC can ask for the cost to be separately itemised in the procurement documents.

HBRC should also be careful to ensure that contract terms and conditions indemnify HBRC against the acts or omissions of a supplier.

Where HBRC is unsure what protection it should have in place for a specific contract, legal advice should be obtained prior to the contract being tendered.

Type of Protection Required in the Contract	Description	Type of Contract
Public Liability Insurance	Protects HBRC against liability for damage or injury caused to a third party by the contractor.	All works or services contracts.
Motor Vehicle Liability Insurance	Protects HBRC against liability for damage or injury caused to a third party by the contractor operating a licensed motor vehicle.	All works or services contracts involving the use of licensed motor vehicles.
Product Liability Insurance	Protects HBRC against liability for damage or injury caused to a third party by a faulty product.	Supply of goods and products.
Professional Indemnity Insurance	Protects HBRC from liability for damage caused by negligent design or advice.	• Professional services contracts, including engineering, architectural, science, specialist • Professional advisory contracts including legal and financial advice • Design and build contracts where contractor is responsible for designing the works
Contract Work's Insurance	Protects HBRC from loss or liability for damage caused to built or partially built structures. This is sometimes insured by the Client.	Contracts involving capital works construction.
Contractor's All Risk Insurance	Protects the Contractor from loss or liability for damage caused to plant and equipment thereby enabling the contractor to continue to fulfil its contract obligations.	Maintenance and capital works contracts.
Warranties	Provide HBRC with assurance that goods, works or services are fit for purpose for a defined period and will be rectified or replaced if not.	Generally only used for specialised or proprietary products (e.g. the performance of a waterproof membrane) or installed machinery.

Type of Protection Required in the Contract	Description	Type of Contract
Performance Bonds	A bond provided by a third party that is payable to HBRC on demand if supplier does not fulfil its obligations under the contract. Protects HBRC from the additional cost of procuring a replacement supplier if a supplier is unable to perform its responsibilities under the contract. The bond could be a cash bond lodged with the Council and held on trust however this is not usually favoured as it impacts the contractor's cash position.	Maintenance and capital works contracts and some service contracts. For maintenance and capital works contracts over $100,000, bonds must be for 10% of contract value. For maintenance and capital works contracts over $1,000,000, bonds must be for $100,000 + 5% of value over $1,000,000. The bond must be formally released once substantial completion is achieved.
Bonds in Lieu of Retentions	A bond that replaces contractual requirement for maintenance retention. This is very seldom used as it is expensive and the existence of the bond can limit the contractor's overdraft facility with its bank.	Capital works contracts. Usually 5% of contract fee withheld at each payment. Often 50% of retentions is released to the contractor at substantial completion of the works and the remaining 50% is paid at the end of the defects liability period.
Maintenance Retentions	Retention by HBRC of a percentage of contractor's payments. The requirement can be forgiven if a suitable bond in lieu of retentions is allowed and provided. Ensures that the works are properly maintained and problems rectified during the defects liability period. If not the client can use the available monies to engage another contractor to remediate any defects and deduct the actual cost of this up to the limit of the funds held.	Capital works contracts. Usually 5% of contract fee withheld at each payment. Often 50% of retentions is released to the contractor at substantial completion of the works and the remaining 50% is paid at the end of the defects liability period.
Liquidated Damages	Protects HBRC from the loss incurred if a supplier does not complete its responsibilities within a specified timeframe under the contract. Liquidated Damages do not protect against actual loss. The damages amount (usually $$ per day) is predetermined based on a realistic assessment prior to tendering.	Capital works contracts.
Defects Liability Period	Protects HBRC from defective works that arise within a specified timeframe under the contract (can vary widely depending on the works but often for one year). The contractor is required to make good any defects that are found in the defects liability period (or forgo any part of their retention monies use to engage another contractor to remedy defects).	Capital works contracts. Difficult to use with maintenance contracts without special provisions relating to major rehabilitation works.

8 Evaluation Methodologies and Procedures

The outcome of the procurement supplier selection process is determined by the evaluation of the submissions or offers received from the participants. Using the appropriate evaluation model will assist HBRC in making the right decision about who to select as a supplier. In order to achieve the best outcome, it is essential that the qualities HBRC are looking for in a supplier and a supplier's offer are reflected in the evaluation model used.

8.1 *Evaluation Planning*

It is essential that HBRC consider the evaluation model it will use prior to going out to the market and include it in:

- The procurement plan (summarised); and
- The procurement documents issued to the market.

This ensures that HBRC is clear about what criteria it will evaluate, and participants can understand how they will be assessed. Participants can then provide the appropriate information to allow HBRC to make meaningful comparisons between potential suppliers.

For more complex procurement processes, it is recommended that HBRC document the evaluation methodology in more detail in an evaluation plan that is issued to each member of the evaluation team with clear guidance on how to mark submissions and how the team will arrive at a decision to recommend a preferred supplier. Evaluation plans are also useful for audit purposes, as they provide documented detail on the decision-making process.

The evaluation plan must contain:

- The names and positions of the evaluation panel members
- Detail of the evaluation method
- A full description of the evaluation process on a step by step basis

Note: As best practice, procurement documentation provided to the market should make it clear to participants that HBRC reserves the right to depart from the stated evaluation process. Often clauses in procurement documentation will state that HBRC reserves the right to select the supplier that represents the best value for money for HBRC, irrespective of the evaluation process. This is important because it may become evident during the process that the evaluation model proposed will not result in an acceptable outcome for HBRC and the process needs to be modified. HBRC will need the flexibility to modify the evaluation process without taking the risk of acting unlawfully.

8.2 *Evaluation Methods*

Evaluating proposals and offers from potential suppliers is essentially about assessing two core aspects – the prospect of receiving the right quality of goods, works and services and the price.

Depending on the circumstances of the purchase, the emphasis for HBRC may be on either the quality or the price or a balanced combination of both. The first step in deciding upon the method of evaluation will be to establish which of the quality aspects or price of the purchase is more important to HBRC. This assessment must happen at the procurement planning stage.

8.2.1 Types of Evaluation Methods

There are number of methods and variations of those for evaluating submissions in a procurement process:

Focus	Example Evaluation method	When used	Key Aspects of Process
Price	Lowest Price Conforming	Minimum set of requirements in terms of the quality of goods, works or services to satisfy HBRC needs and conform. Price is then considered when quality conforms. Good process for non-specialised goods and low complexity physical works contracts.	Minimum requirements documented and included in procurement documentation. Non-price criteria marked as conforming or non-conforming according to whether they meet HBRC requirements or not. Lowest price of conforming submissions is awarded the contract so participants (who comply with basic requirements) are only competing on the basis of price.

<table>
<tr><th>Focus</th><th>Example Evaluation method</th><th>When used</th><th>Key Aspects of Process</th></tr>
<tr><td colspan="4">This method works particularly well for procurement projects where the goods, works or services are well specified and capable of being provided adequately by a number of suppliers. (e.g. fleet vehicles).</td></tr>
<tr><td><b>Quality and Price</b></td><td>Weighted Attributes</td><td>HBRC is looking for high contractor and quality attributes in the delivery of goods, works or services. Likely to be a range of quality attributes across the participants.
Price HBRC will pay is important but only one of the considerations.
Good process for professional services, service contracts, high complexity physical works contracts and specialised goods</td><td>HBRC determines the important non-price attributes and relative weightings of nonprice and price attributes and includes this in detail in procurement documentation.
Non-price attributes are scored and have a weighting applied.
Once all non-price evaluation is complete, price scores are then calculated using a formula and weighting applied.
The weighted price and non-price scores are added together and the participant with highest overall score selected as preferred supplier.</td></tr>
<tr><td colspan="4">It is important that weightings reflect the importance of each attribute to HBRC in order for the right outcome to be achieved. For example, where it is important how works or services will be performed, greater weighting should be given to methodology attributes.
HBRC can and should set a minimum score required for each attribute (usually 35%) and any participant scoring under this threshold may be excluded from further evaluation.
Price should not be weighted too heavily or price will become the only determining factor between the participants.
A further refinement of this is the Price/Quality method developed by NZTA and being quite widely used for larger professional services and maintenance contracts.</td></tr>
<tr><td><b>Quality</b></td><td>Quality Attributes Method</td><td>HBRC is primarily looking for the best quality of works or services it can procure.
Generally, only a process used for professional services.</td><td>Process is generally similar to weighted attributes, but price is not scored as part of the process.
Participants are asked to provide a separate price. Only the price of the participant with the highest quality score is opened and used as the basis for negotiating a final price.</td></tr>
<tr><td colspan="4">Because participants are only competing on quality, there is risk that HBRC will not receive the best value for money. Having said that it should be borne in mind that for design work most of the cost is in the construction and getting the best design will deliver better value overall than getting a cheaper price on the design.</td></tr>
</table>

The two most used methods above are the ‘lowest price conforming’ method and ‘weighted attributes’ method. It is more than likely that one or other of these two methods will be applicable in almost all HBRC procurement evaluations. For this reason, using other methods should be considered carefully before being used for an evaluation process.

Health and Safety should be considered with the upmost importance for all of these methods. HBRC’s health and safety expectations should be clearly communicated to suppliers and be appropriate for the type of goods, works or services being purchased and comply with the Health and Safety Reform Bill 2015.

HBRC will address health and safety through procurement by:

- Approving and inducting suppliers into HBRC’s health and safety regime prior to engagements.
- Requiring suppliers to provide health and safety plans, where appropriate.
- Including the monitoring and auditing of health and safety practices as conditions of contracts and agreements.

In New Zealand local government, the NZTA procurement manual is often referenced when prescribing evaluation processes for procurement. HBRC staff seeking more detailed explanations of different evaluation processes should refer to the latest version of the NZTA procurement manual. The evaluation processes described in that document are not unique to transport procurement and will be able to be successfully followed and/or modified for any competitive procurement evaluation.

8.3 *Evaluation Criteria*

Selecting evaluation criteria should be based on what attributes are most important to HBRC in the given circumstances. This will differ depending on whether HBRC is purchasing goods, works or services and what the characteristic requirements of those goods, works or services are.

However, there are standard evaluation criteria that are consistently used in competitive procurement evaluation. These criteria consist of two types:

Compliance based – where the participant must meet the criteria or provide mandatory information but will not be scored on this relative to other participants in the evaluation process but is a go/no go gateway e.g. adequate insurance, Health and Safety.

Attribute based – where the participant will be scored on the attributes relative to other participants in the evaluation process.

HBRC should detail what information participants are required to provide in the procurement documentation that will be assessed under each evaluation attribute. Ideally, the information requested for participants should relate directly to a specific attribute. This will mean that participants focus on providing relevant information and the evaluation team will have no trouble scoring each attribute. It is often a good idea to ask participants to structure their submission in accordance with the list of evaluation attributes for this purpose.

Although there are no rules around evaluation criteria, commonly used criteria are:

Compliance	Attributes - For goods/products	Attributes - For works and services
• Company structure • Company financials and solvency • Insurance cover • Health and Safety information • References	• The level of compliance with technical specifications and ability to meet operational requirements • The post purchase technical support and maintenance provision • Warranties and guarantees offered	• Management skills and capability • The technical skills and experience of key personnel • The relevant experience and track record of the supplier performing similar contracts • The resources available for application to the contract • The methodology for how the works or services will be performed

In a multistage process, all required compliance criteria should be requested as part of the initial stage of the process so as to not waste the time of participants who do not meet these criteria.

It is also good practice not to duplicate the attributes participants are scored on in subsequent stages of a multistage process. This can lead to inconsistencies and provides grounds for HBRC to be questioned on the fairness of the process. It is reasonable however to require higher level attributes of the participants capability in the initial stage and then if shortlisted request more project specific attribute information (e.g. specific methodology). Where HBRC wants to consider scores of attributes in a preliminary stage in subsequent stages, it can carry those scores over from the preliminary stage.

8.4 *Evaluation Team*

Evaluation panels comprising at least three individual evaluators should be used for more complex evaluations over $50,000 procured through a proposal or tender process. It is not necessary for an evaluation panel to be used for evaluating quotation-based procurements.

The Tenders committee is mandatory to be the evaluation panel for procurement over $400,000.

The evaluation panel must consist of:

For all proposal or tender processes	
At least two of:	CE A Group Manager Works Group Business Unit Manager
And including one of the appropriate:	Second or Third Tier Manager Technically qualified Staff Member

For lowest price conforming evaluations, it is enough for the evaluation panel to review the prices and an Assessment Report prepared by an appropriate staff member or consultant confirming those submissions that have met the requisite non-price criteria.

For other quality based evaluations, it might be appropriate to consider the inclusion of an independent technical expert on the evaluation panel who has experience/expertise in the goods, works or services being procured.

For NZTA subsidised transport contracts an Accredited NZTA Evaluator needs to be on the evaluation panel.

9 Tender Administration and Probity

9.1 *Advertising*

Advertising of the procurement should be appropriate to the goods, work or services being procured. Advertising channels should include newspaper advertising and the Government Electronic Tendering System (GETS). For more specialist procurement, it is also appropriate to approach industry specific associations and organisations who can alert their members to the procurement. For access to GETS please contact the Corporate Accountant or IT Manager.

Once the procurement has been advertised, HBRC is open to alert prospective participants that the procurement documents are available. It is best to direct these participants to GETS for them to download the documents themselves rather than issuing them directly.

An important principle is that procurement information is disseminated to all interested parties at the same time and that is there is no early release of documentation.

9.2 *Tender Administration Personnel*

The Group Manager is responsible for nominating a single contact person as the tender administrator for the tender or negotiation process. All enquiries from potential participants must be directed to that person during the procurement process, and responses appropriately documented. Informal contact with participants during the process is discouraged and should be avoided.

The tender administrator should also be present at any group evaluation to keep records of the evaluation process.

9.3 *Probity Auditor*

For more complex evaluations over $50,000, HBRC should consider appointing an probity auditor to oversee the evaluation process. The probity auditor will ensure the process it is undertaken correctly, and any risks are managed appropriately. The probity auditor will be available to any tender participant with concerns about the tender or evaluation process.

9.4 *Confidentiality and Conflicts of Interest*

The tender administrator will be responsible for managing the conflict of interest and confidentiality documentation for the procurement process. Every staff member involved in the procurement and evaluation panel member must sign relevant confidentiality and conflict of interest documentation.

The information provided by participants in a proposal or tender process must always be kept confidential during and after the process. Any breaches of confidentiality must be reported to the probity auditor and / or the Group Manager immediately upon an HBRC staff member becoming aware of the breach.

9.5 *Tender Communications*

Communications to and from participants involved in a tender or proposal process must be through the named tender administrator.

Where information or clarification is requested by a participant that in any way modifies or clarifies information contained within the RFP or RFT documents, then HBRC through the tender administrator must issue a notice with the modification or clarification to **all** participants. This notice then becomes part of the RFP or RFT documentation to be included in the eventual contract.

Notices that are issued to participants should be consecutively numbered (so participants can record which notices they have received in their submission).

9.6 *Closing and Opening Tenders*

All proposals and tenders are to be deposited either in the Tenders Box at Council's Napier Office or, if specified as an electronic process, by uploading into the specified electronic tender box (e.g. via GETS). Any proposal or tender received after the prescribed closing time must be excluded from the process. It is advisable that all proposal or tender processes require both hard copies and soft copies of tenders or proposals to be submitted. The procurement documentation must be extremely clear about the closing details of the tender or proposal.

Where proposals or tenders are called for where a two-envelope process will be conducted (with a non-price and price envelope) HBRC must instruct participants to separate both the information into the respective envelopes and clearly indicate on each envelope the following:

- The contract name and number to which the proposal or tender refers.
- The participant organisation's name.
- The contents of the envelope (price or non-price).

All proposals or tenders are to be opened in the presence of at least two senior management staff, one of whom must be one of Council's Executive. All proposals or tenders received are to be identified and recorded to be kept on file, which must be signed by all those present at the opening of the proposal/tender box.

Where the proposal or tender is a two-envelope process, envelopes containing the price must be separated and held by the Executive Team Member attending the opening.

In any process:

- Where selection is made on quality-based attributes alone; or
- A participant or participants submissions do not conform with the non-price attribute requirements, the Executive Team Member must return the price envelope of unsuccessful participant(s) unopened.

10 Supplier Evaluation and Selection

10.1 *Evaluation Process*

The evaluation process will be dependent on the number of evaluation team members and the complexity of the process being undertaken. However, the outcome of any evaluation process should be an evaluation team consensus score for each participant.

For simple proposals or tender processes, the evaluation team may be able to meet and evaluate proposals or tenders together. More typically, individual team members will initially score proposals or tenders separately initially. The team will then meet to discuss the individual scores and agree on a group consensus score.

It is important to keep a complete record of the group consensus scores on to demonstrate that a robust process has been followed. The tender administrator should be present at any evaluation team meetings to record the scoring. At the end of the scoring process, all evaluation team members should sign the final group scoring.

Any personal notes and individual score sheets created by evaluation team members must not be kept, as they may not reflect the final consensus of the evaluation team. The tender administrator should be responsible for collecting individual scores and destroying these following the evaluation meeting. This applies equally to personal and individual electronic notes.

10.2 *Interviews/Presentations*

As part of a proposal or tender evaluation, participants can be invited to attend an interview or deliver a presentation to provide additional information or clarify any outstanding questions or issues. For interviews, the HBRC evaluation team must:

- Prepare questions in advance and provide to participants.
- Allocate the same amount of time to each participant.

The evaluation team might wish to revise a participant's score after an interview or presentation. All participants' scores must be reviewed and any adjustments to the total score made that the evaluation team think are necessary.

If scores are adjusted following an interview or presentation, the final consensus result is the only copy to be retained and signed.

10.3 *Supplier Recommendation*

The conclusion of any procurement process should be a supplier recommendation. The purpose of a supplier recommendation is to achieve approval for a contract with the preferred supplier from the appropriate delegated financial authority. For simple quotation based procurement up to $25,000, a memo will be sufficient for approval by the appropriate manager.

For tender and proposal processes, once evaluation is complete, the tender administrator must compile a supplier recommendation that, as a minimum:

- Summarises the evaluation.
- Identifies and recommends the preferred supplier.
- Indicates the budget and the price of the successful bid.

For lowest price conforming evaluations, it is sufficient for the supplier recommendation that the Assessment Report to be used for this purpose with an appended preferred supplier and price.

The supplier recommendation must be forwarded to the appropriate level of delegated financial authority for approval.

If the price of the preferred supplier exceeds the level of delegated authority anticipated during the planning of the procurement, then the Manager responsible approving the procurement process and / or procurement plan must review and approve the supplier recommendation in the first instance. It should then go to the Manager or Council Executive Committee with delegated financial authority for final financial approval.

10.4 *Negotiation*

Following the evaluation and supplier recommendation process, HBRC may have an opportunity to negotiate with the preferred supplier before it enters any contract. Some contracts provide specifically for this and some do not. In the majority of procurement situations, HBRC should consider negotiating with the preferred supplier to achieve the best value possible. However, negotiation must be considered if:

- The proposed price is substantially more than expected.
- Some aspects of the proposal or tender could be changed or improved to better meet HBRC's requirements.
- The preferred supplier is offering (or have tagged) contractual terms and conditions that are not acceptable to HBRC (note that there are established protocols for dealing with the acceptance or removal of tags and these normally are documented in the conditions of Tendering).

The HBRC Manager(s) or staff member responsible for negotiation must have knowledge of the procurement and the goods, works or services being procured and have negotiating experience. Care should be taken at this stage to ensure that the preferred supplier is aware that the negotiations do not obligate either party to enter into a contract with one another.

10.5 *Awarding and Finalising the Contract*

HBRC will only award a contract to a preferred supplier once the supplier recommendation has been approved. Under most contracts an award letter will form a binding legal agreement. A letter to award a contract should therefore only be sent when HBRC is absolutely certain that it intends to enter into a contract with the preferred supplier and all terms and conditions have been agreed.

The award letter must specify the tender sum and state who the HBRC's representative will be in the administration of the contract and advise the name and qualification of the Engineer to the Contract if one is being appointed.

All details of a procurement process must remain confidential until this stage.

In order to record the detail of the contract two original and identical copies of the documents should be prepared for signing by the parties. Signees must have the authority to execute the contract agreement. For Major Procurements requiring the approval of Council, the contracts should be signed by the Chief Executive and an elected member representative under the HBRC seal.

The final documents should then be provided to the supplier for signature. The supplier should be requested to sign and return one copy to HBRC. HBRC must scan a copy of the contract and file this electronically.

10.6 *Post Process Feedback*

After a successful supplier's offer has been formally accepted the unsuccessful participants must be notified in writing of the outcome of the procurement process. Unsuccessful participants should be given the opportunity to receive feedback on their tender submission. Feedback in the form of a debrief helps participants to improve their offers and ensures that participants will continue to bid in the future. Constructive feedback also demonstrates that a fair process has been undertaken and should prevent participants from challenging HBRC on the process and decision.

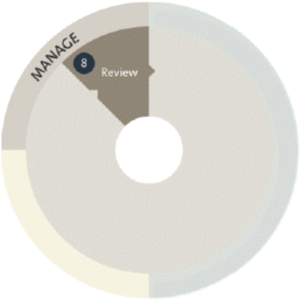
In feedback sessions, HBRC must not provide information on other participants' submissions. All information provided should be consistent with the evaluation and should cover the following:

- A recap of the evaluation process and criteria.
- Explanation of why the participant was not successful.
- Areas of demonstrated strengths and weaknesses and how the submission might have been improved.

11 Mobilisation

The activities will vary depending on the type of contract, but HBRC must ensure that appropriate actions are undertaken prior to the commencement of supply of goods, works or services:

- Pre-start meeting(s) are held. In this meeting HBRC must discuss with the supplier its performance expectations and agree how the contract will be managed and performance will be measured. Minutes of these meetings must be documented.
- Where relevant, the supplier is allowed access to sites and has appropriate security clearance and access
- HBRC must confirm all insurance arrangements are in place.
- Ensure the supplier's health and safety measures are in place.
- Any transition activities from an outgoing supplier are overseen by HBRC.



12 Evaluating and reviewing the procurement

The final stage in the procurement life cycle is assessing whether the intended benefits from a procurement have been realised and whether any lessons can be learnt from the process.

Contractor performance evaluation has been included in an automated process (utilising nintex workflow), to coincide with the expiry date of the contract. This automated process will ensure contract manager feedback is captured and stored in the contract file. The contracts administrator will notify Accounts Payable monthly with a report of expiring contracts, reducing the risk of fraud.

Benefits are the reason procurement is carried out and to successfully deliver any procurement, it is essential that the project managers and governors focus on realising the benefits of the procurement from the start of the procurement process.

Showing the benefits that resulted from a project is a way to show accountability. Reporting on what was achieved from a procurement is a way of being transparent about the procurement process and accountable for how the money was spent.

Learning lessons

Staff contract management performance will be audited internally on a regular basis, as part of the planning, sourcing and managing procurement practice.

- Were the staff used in the procurement process appropriately trained?
- Were the prescribed criteria and procedures followed?
- Was the outcome satisfactory, and what lessons can be learned?

For significant procurements, it is particularly important that any lessons are recorded and shared. HBRC should not wait until the end of a procurement to learn from the process because by then, it might be too late.

Those staff in a role where procurement of goods or services is significant, will have it reflected as a requirement of that particular role and included as a performance measurement tool / metric. A manual summary is available to those staff with procurement responsibilities.

HBRC should be willing to learn “along the way” and improve the procurement process when they can.

This Manual will be amended to capture any improved processes, and formally reviewed in 2022 with the Procurement Policy, and financial delegations.