



## Meeting of the Finance Audit & Risk Sub-committee

**Date:** Wednesday 21 August 2019  
**Time:** 9.00am  
**Venue:** Council Chamber  
Hawke's Bay Regional Council  
159 Dalton Street  
NAPIER

### Agenda

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1.	Welcome/Notices/Apologies	
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**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**SUBJECT: FOLLOW-UPS FROM PREVIOUS FINANCE AUDIT & RISK SUB-COMMITTEE MEETINGS**

**Item 4**

**Reason for Report**

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

**Decision Making Process**

2. Council is required to make every decision in accordance with the Local Government Act 2002 (the Act). Staff have assessed the in relation to this item and have concluded that as this report is for information only and no decision is required, the decision making procedures set out in the Act do not apply.

**Recommendation**

That the Finance, Audit and Risk Sub-committee receives and notes the "*Follow-ups from Previous Finance Audit and Risk Sub-committee Meetings*" staff report.

**Authored by:**

**Shash Davé**  
**CHIEF FINANCIAL OFFICER**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER CORPORATE**  
**SERVICES**

**Attachment/s**

[!\[\]\(2bae76de5ebbd5c4d7d47162f1673734\_img.jpg\) 1](#) Followups for Aug 2019 FARS meeting



## Follow-ups from Finance, Audit &amp; Risk Sub-committee Meetings

22 May 2019

	Agenda Item	Follow-up / Request	Responsible	Status Comment
1.	Follow-ups	Provide info on progress and implementation of the learning and development strategy following the HR review and report to Exec	J Lawrence	The HR review was completed on 8 August. A new structure and direction will be put in place with any reassignments of existing staff by 26 August. The new People and Capability Manager, when appointed, will be responsible for driving the implementation of the learning and development strategy (the draft of which is due for sign off by the Exec on 27 August).
2.	Proposed Schedule of 2019-20 Internal Audits	Monitor HBRC's current approach to Climate Change, i.e. performance, options and opportunities including feedback from Crowe Horwath	J Ellerm/ M des Landes/ S Davé	Crowe Horwath have advised that a climate change review is not part of their service offering. Council is making a strong commitment internally towards reducing its environmental footprint, including progression towards becoming Enviromark accredited. A report on progress made, and targets identified will be provided to the next FARS meeting. A number of initiatives are underway and are having an impact. Carbon emissions for Dalton St were reduced by 33% for the month of June compared to the previous year.Hi
3.	Water Management Follow-up Internal Audit Report	Crowe Horwath to undertake a further follow-up audit of issues not "closed"	L Lambert	To be completed for November meeting.
4.	Water Management Follow-up Internal Audit Report	Clarify HB Drinking Water Governance Joint Committee reporting to HBRC	L Lambert	The Agendas and Minutes of the Joint Committee are circulated to all HBRC councillors, and in future a "report from the meeting" will be written for the next Regional Council meeting agenda. Terms of Reference for the Committee are attached (reference 4)

Item 4

Attachment 1

## Reference follow-up 4

**Hawke's Bay Drinking Water Governance Joint Committee****Terms of Reference****1. Background**

- 1.1. In August 2016 a significant water contamination event occurred that affected the Hawke's Bay community of Havelock North. The Government established an Inquiry into the Havelock North water supply.
- 1.2. It became apparent during the Government Inquiry that in order to achieve a systematic approach to ensuring safe drinking water, there was a need to strengthen interagency working relationships, collaboration and information sharing pertaining to drinking water.
- 1.3. The Inquiry asked a Joint Working Group (JWG) initially comprising staff representatives of the
- 1.4. Hawke's Bay District Health Board, Hawke's Bay Regional Council and the Hastings District Council to implement its 17 initial recommendations. As this group has evolved it has become apparent that many drinking water issues will require an ongoing forum for regional collaboration and decision making. Napier City Council have also joined the Joint Working Group, as well as a Drinking- Water Assessor from the Central North Island Drinking Water Assessment Unit.
- 1.5. Ngāti Kahungunu Iwi Incorporated have called for the agencies involved in water management to view water as a taonga, the lifeblood of the land and people. They consider that drinking water should be set as the number one priority for water use in decision-making processes related to water.
- 1.6. It is within this context that the Hawke's Bay Drinking Water Governance Joint Committee has been established. The principal focus of the Committee is on drinking water, however drinking water cannot be considered in isolation from other fresh water management issues. For that reason the focus of the Committee will be twofold:
  - 1.6.1. To provide governance oversight for planning and decision making on regional drinking water matters; and
  - 1.6.2. To consider and make recommendations where appropriate to decision-making bodies with responsibility for broader freshwater management issues or planning or infrastructure issues that have implications for drinking water and/or drinking water safety.

**2. Purpose**

- 2.1. The parties agree that water is a taonga, the lifeblood of the land and people. They further agree that the Joint Committee established under this Terms of Reference is intended to give practical meaning and effect to this agreement.
- 2.2. The Committee is established to provide governance oversight to the existing JWG regarding the implementation of recommendations from the Inquiry Panel and then the evolution of the JWG into a more permanent officials working group.
- 2.3. In the context of this agreement including 2.1 and 2.2 above, the purpose of the Hawke's Bay Regional Drinking Water Security Joint Committee is to give governance oversight and direction in respect of the following matters:
  - 2.3.1. Programmes and initiatives to protect and enhance drinking water quality and safety
  - 2.3.2. Improving and maintaining effective inter-agency working relationships relating to drinking water, including the extent and effectiveness of cooperation, collaboration and information sharing between the agencies, and mechanisms to achieve these desired outcomes

- 2.3.3. Provision of governance oversight of strategies and work programmes related to drinking water management, including drinking water sources and infrastructure matters
- 2.3.4. To recommend to the relevant bodies and decision making for changes to strategies and work programmes to protect and enhance drinking water quality and safety
- 2.3.5. To encourage the member parties to give adequate consideration of the safety of drinking water in the carrying out of their range of functions
- 2.3.6. To make recommendations as appropriate to relevant agencies and decision making fora on initiatives and priorities related to water, having regard to the needs of the region for adequate and secure water resources suitable for the supply of safe drinking water.
- 2.4. The geographic scope of the Joint Committee's jurisdiction shall be over drinking water related matters on the land and catchment areas within territorial authorities who elect to be members of the Joint Committee (the participating territorial authorities) plus such other land and catchment areas within the authority of the Hawke's Bay Regional Council that have an impact upon drinking water within the participating territorial authorities.
3. **Members/Parties**
  - 3.1. If they elect to take up membership and establish the Joint Committee, each of the following shall be a Member Organisation of the Hawke's Bay Drinking Water Governance Joint Committee and a party to this document and the establishment of the Joint Committee:
    - 3.1.1. Hawke's Bay District Health Board
    - 3.1.2. Hawke's Bay Regional Council
    - 3.1.3. Central Hawke's Bay District Council
    - 3.1.4. Hastings District Council
    - 3.1.5. Napier City Council
    - 3.1.6. Wairoa District Council
  - 3.2. Each member organisation may appoint two (2) representatives.
  - 3.3. To ensure the work of the joint Committee is not unreasonably disrupted by absences each party may appoint alternative representatives.
  - 3.4. The Joint Committee shall appoint an Independent Chairperson of the Joint Committee.
  - 3.5. Water is of particular importance to Māori, and Māori have certain statutory rights in respect of decision making relating to water under the Resource Management Act 1991 and the Local Government Act 2002. Some iwi representatives have been involved in discussions leading to the proposal for this Joint Committee but have not determined whether or not they wish to formally participate in the Joint Committee. Provision is made for iwi representation to be added to the Committee should iwi organisations with authority in respect of the geographic areas over which this Joint Committee has jurisdiction indicate that they wish to formally join the Committee.
    - 3.5.1. Notwithstanding any decision by iwi organisations under e. above, the member organisations will take steps to consult with, and take into account the interests of, Māori as appropriate in terms of local authority decision making requirements in respect of matters before the Joint Committee.
4. **Name**
  - 4.1. The Hawke's Bay Drinking Water Governance Joint Committee shall be known as the Hawke's Bay Drinking Water Governance Joint Committee (HBDWGJC).



5. **Status**
  - 5.1. By agreement of the local authority members, the Hawke's Bay Drinking Water Governance Joint Committee is to be established as a Joint Committee under clause 30 and clause 30A of Schedule 7 of the Local Government Act 2002.
6. **Delegated Authority**
  - 6.1. The Hawke's Bay Water Governance Joint Committee shall have authority to undertake such steps as are necessary to give effect to the purpose of the Hawke's Bay Water Governance Joint Committee including but not limited to:
    - 6.1.1. Establishing and amending as it sees fit the Terms of Reference for the JWG
    - 6.1.2. Receiving reports from and giving direction to the officials Joint Working Group that leads interagency cooperation and work programmes on drinking water quality and safety and/or from the Chief Executives of the member agencies
    - 6.1.3. Commissioning reports and studies
    - 6.1.4. Making recommendations to members related to the security and safety of drinking water
    - 6.1.5. Making recommendations to member organisations relating to strategies and work programmes.
    - 6.1.6. Making recommendations to appropriate parties on matters within the purpose of the Joint Committee.
7. **Administering Authority and Servicing**
  - 7.1. The members of the Hawke's Bay Drinking Water Governance Joint Committee shall work with the JWG established to lead interagency cooperation and work programmes on drinking water quality and safety.
  - 7.2. The Administering Authority of the Joint Committee shall be the Hawke's Bay Regional Council.
8. **The Remuneration**
  - 8.1. Each member organisation of the Hawke's Bay Drinking Water Governance Joint Committee shall be responsible for the cost of its participation on the Joint Committee.
  - 8.2. The Joint Committee shall agree on the apportionment of the costs of the Independent Chairperson on the recommendation of the JWG.
  - 8.3. The JWG shall agree the apportionment of any costs arising from the work of the Joint Committee.
9. **Meetings**
  - 9.1. The Standing Orders of the Hawke's Bay Regional Council will be used to conduct Joint Committee meetings.
  - 9.2. The Joint Committee shall meet not less than 6 monthly or at such other times and places as agreed for the achievement of the purpose of the Joint Committee.
10. **Quorum**
  - 10.1. The quorum at any meeting shall be not less than eight (8).
11. **Voting**
  - 11.1. The membership shall strive at all times to reach a consensus.
  - 11.2. Each representative and the Independent Chairperson shall be entitled to one vote on any item of business.
  - 11.3. There shall be no casting vote.



**12. Chairperson and Deputy Chairperson**

- 12.1. Member representatives shall appoint, by agreement, an Independent Chairperson who shall be entitled to one vote, and in the case of an equality of votes does not have a casting vote.
- 12.2. The Joint Committee shall also appoint, by simple majority vote from among the representatives, a Deputy Chairperson.

**13. Variations**

- 13.1. Any Member may propose an amendment (including additions or deletions) to the Terms of Reference which may be agreed to by the Joint Committee.
- 13.2. Once agreed to by the Joint Committee, amendments to the Terms of Reference shall have no effect until each member organisation has agreed to the amendment.

**14. Good Faith**

- 14.1. The parties to this Terms of Reference agree to act in good faith towards each other and to give effect to the purpose of the Joint Committee.

Dated: 26 July 2017

Signed on behalf of the Hawke's Bay Regional Council

**Item 4****Attachment 1**



**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**Item 5**

**Subject: REMISSION OF PENALTIES ON RATES POLICY (FIXED TERM)**

**Reason for Report**

1. The purpose of this report is to introduce an additional Remission of Penalties on Rates Policy (Fixed Term) to assist ratepayers who may experience a financial hardship caused by Council's change in our rates payment due date from 31 January 2021 to 20 September 2020.
2. Staff have begun developing and implementing a comprehensive communications plan with staggered roll-out over the coming months to advise, inform, and educate the ratepayers on this change in due date. As a result, Staff proposes to seek the appropriate decision-making committees of the Council to formalise and adopt this one-time, fixed term change to the Remission of Penalties on Rates.
3. Our current Remission of Penalty on Rates Policy 'conditions and criteria' allow for one remission every three years for a missed rate payment for circumstances which are under ratepayer's control.
4. A change in our rates due date from January 2021 to September 2020 (4 months earlier) may cause some ratepayers a financial hardship resulting in a delayed payment. Council currently applies a 10% penalty on unpaid rates (rates past the due date). This policy change allows a ratepayer to apply for a remission on the 10% penalty recognising that some ratepayers will be required to issue two rate payments in calendar year 2020, which may cause a financial hardship. Any discretionary decision by the Council granting this special remission will disregard the ratepayer's prior missed rate payment history.
5. This policy will only apply to rates due for the financial year 1 July 2020 to 30 June 2021.
6. The Local Government Act (LGA), section 103(4), requires an amendment to a rates remission and postponement policy to be consulted on using the provisions of section 82. Presenting this report to the FARS is part of the procedure required to enable its inclusion in next year's annual plan consultation process.

**Objective**

7. The objective of this additional policy is to enable Council to act fairly and reasonably, when a rates payment has not been received by the due date to allow for a one-time remission of penalties for ratepayers who may experience a financial hardship caused by the requirement to remit two rate payments in one calendar year (2020).

**Background**

8. Local Government (Rating) Act Section 57, states that a local authority may, by resolution, authorise penalties to be added to rates that are not paid by the due date. This penalty must not exceed 10% of the amount of the unpaid rates on the date when the penalty is added. Council applies a 10% penalty for unpaid rates.
9. Council acts fairly and reasonably when a rate payment has not been received by the due date and currently has the following Rates Remission and Postponement policies in place:
  - 9.1. Māori Freehold Land, Remission in Special Circumstances
  - 9.2. Remission of Penalties on Rates
  - 9.3. Remission of Rates on Properties Affected by Natural Calamity
  - 9.4. Remission for Uniformed Annual General Charges (UAGC)

- 9.5. Postponement in Cases of Financial Hardship or Natural Disaster.
10. To be granted a remission or postponement under any of the above policies certain 'conditions and criteria' must be met before a penalty remission is granted. All applications for a remission must be in a written format (including email).
11. Of the policies listed above, application for remissions from ratepayers fall within one of two of the following policies.
  - 11.1. Māori Freehold Land
  - 11.2. the Remission of Penalties on Rates.
12. Māori Freehold Land Remissions 'conditions and criteria' are straightforward and easy to apply as the entire rate, including penalties, can be remitted.
13. Remission of Penalties on Rates 'conditions and criteria' allows for two types of remissions under which only the penalty can be remitted.
  - 13.1. matters that are outside the ratepayer's control
  - 13.2. matters that fall within the ratepayer's control.
14. If the late payment is caused due to matters outside of the ratepayer's control, i.e. an error by the Council, then this penalty would be remitted as soon as it is identified.
15. Ratepayer controlled penalty remissions are where there is non-payment at due date with the error being the ratepayers responsibility. Council's current policy allows for one remission every three years, taking into consideration the ratepayer's good payment history.
16. As the Council changes the rates due date, from January 2021 to September in 2020 (4 months earlier), Council may find that some ratepayers are unable to pay their rates in full by the accelerated due date of 20 September 2020, resulting in a 10% penalty on past due rates. Under Council's current policy, a ratepayer who was granted a penalty remission in the last two years would be ineligible for another remission.
17. By introducing an additional Policy on Remission of Penalties on Rates (Fixed Term) which covers the first year of our changeover to the new rates due date, all ratepayers who are unable to issue a payment by the due date will be subject to a standardised, consistent, and transparent policy of remission on the penalty.

#### **New Fixed Term Policy - Remission of Penalties on Rates (Fixed Term)**

18. This policy is both a remission and postponement policy as defined by the Local Government (Rating) Act 2002 and Local Government Act 2002

##### *Objective*

19. To enable HBRC to act fairly and reasonably when a rates payment has not been received by the due date as a result of the Council changing the due date from 31 January 2021 to 20 September 2020. This policy will only be in place from 1 July 2020 to 20 September 2021 and is in addition to the existing policy on Remission of Penalties on Rates, and will apply only to rates due for the financial year 1 July 2020 to 30 June 2021.

20. There are two parts to this policy.

- 20.1. Ratepayers on an existing payment plan

##### *Conditions and criteria*

- 20.1.1. Upon receipt of an application from the ratepayer either in written or email format, or if identified by Council, a penalty may be remitted where all of the conditions listed below are met
- 20.1.2. A full payment of outstanding rates due (excluding a penalty amount) has been made prior 31 January 2021

- 20.1.3. The ratepayer has an existing payment plan which has been adhered to over the previous 12 months, and
- 20.1.4. The ratepayer amends the existing payment plan to ensure that the rates for the financial year 1 July 2021 to 30 June 2022 are paid no later than 20 September 2021.
- 20.2. Ratepayers not on an existing payment plan

*Conditions and criteria*

- 20.2.1. Upon receipt of an application from the ratepayer either in written or email format, or if identified by Council, a penalty may be remitted where all of the conditions listed below are met
- 20.2.2. Full payment of outstanding rates due (excluding a penalty amount) has been made prior to the application (but no later than being 31 January 2021) is received by the Council, and the ratepayer has previously paid all rates by the due date within the last three years
- 20.2.3. The ratepayer pays the rates for the financial year 1 July 2021 to 30 June 2022 no later than 20 September 2021.

*Policy notes*

- 21. The penalties are only postponed until all the criteria are met.
- 22. Where there is a deliberate non-payment, remission will not be granted.

**Decision Making Process**

- 23. Council is required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
  - 23.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 23.2. LGA section 103(4) requires that an amendment to a rates remission and postponement policy must be consulted on using the provisions of LGA section 82. This requires Council to provide the opportunity for persons who will or may be affected by or have an interest in the decision to present their views to Council. This consultation can be undertaken as part of any consultation that Council undertakes between now and 1 July 2020, including the 2020-21 Annual Plan.

**Recommendations**

- 1. That the Finance, Audit and Risk Sub-committee receives and considers the “*Remission of Penalties on Rates Policy (Fixed Term)*” staff report.
- 2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee recommends that Hawke’s Bay Regional Council:
  - 2.1. Agrees the decisions to be made are not significant under the criteria contained in Council’s adopted Significance and Engagement Policy, and that Council will consult as required by LGA s103(4) and s82 as part of either the 2020-21 Annual Plan or with other appropriate consultation process.
  - 2.2. Subject to consultation as per 2.1 above, agrees to adopt a Remission of Penalties on Rates Policy (Fixed Term).

**Authored by:**

**Trudy Kilkolly**  
**PRINCIPAL ACCOUNTANT RATES**  
**AND REVENUE**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

**Attachment/s** There are no attachments for this report.





**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**Item 6**

**Subject: SIX MONTHLY REPORT ON 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.

**Background**

2. The Sub-committee last considered the risk management report at its 12 February 2019 meeting.
3. 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 are outlined below.
4. During this period staff resourcing to support this work has been very stretched due to competing priorities. This has led to a shift as to how the risk management function will be resourced internally with changes described further on in this item.

**Key Changes to the Risk Matrix**

5. Following the feedback at the last discussion on this matter at the Finance, Audit and Risk Sub-Committee (FARS) on 12 February 2019, consideration has been given on whether to add a new risk regarding environmental harm, providing further detail surrounding the CDEM (Civil Defence) risk, and supplementary information on staff retention and welfare. These are summarised below for your consideration.

***Risk of Harm to Environment***

6. While there are risks on the register that relate to our region's drinking water, it was highlighted at the FARS discussion on 12 February that there is no recognised risk that 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.
7. As an example, the earlier incident of death of eels in our drainage was an example of harm to the environment caused whilst Council was carrying out its standard business practices. This risk would recognise any potential gaps between different group's aims, and seek to mitigate any potential conflicts.
8. We will look to include this as a new risk as "Risk of Harm to the Environment during Council undertaking its operations", and the agreed Risk Owner will be Chris Dolley, Group Manager Asset Management. He will assist in determining the exact risk descriptor, rating, and current and suggested mitigation strategies. Examples of mitigation actions will include appropriate Codes of Practice and training of staff. Further work on shaping up this risk and the mitigation strategies will be developed over the next few months and will be presented in the next risk update to FARS.

***Civil Defence***

9. While it is noted that Civil Defence has its own risk management processes, there was some concern from the FARS committee members as to whether or not these are sufficiently captured within Council's own risk register. The intention is to include this as part of the forthcoming risk management review later in the financial year.

### **Staff Wellbeing and Staff Retention**

10. There is a risk within the register entitled “Risk of Failure to Attract and Retain Staff”. Several committee members raised questions as to what the Council is doing to ensure staff wellbeing, and ensure staff are excited to work at the Council.
11. In response to this strategies currently being utilised for this risk are the implementation of the organisational development review and subsequent changes and work programme (which will pick up a deeper focus on recruitment and retention strategies), a project focussed on the new Learning & Development strategy, and the creation of the draft Wellbeing-Hauora Strategy and Action Plan. This latter plan utilises several initiatives encompassing physical, social, mental and spiritual wellbeing of staff. In addition, there has been a full remuneration review that has made it more aligned to the market. Remuneration changes are in the process of being implemented now.

### **Risk Register summary update**

12. Since the last FARS committee meeting, there has been a recent review of the risk register with all of the risk owners (or a delegate if needs be). Risk owners are managing their risks actively. Updates can be seen in blue on the attached risk register.
13. It should be noted that there have been a number of actions that have been implemented to further assist with the management of the Council’s risks especially with OCEC001 – Health and Safety. This will be further supported by the upcoming appointment of a health and safety staff resource.

### **Risk Trend ratings**

14. Risk trend ratings down have been amended as follows.

#### **REG001 Human Health impacts from contamination of drinking water**

- 14.1. Trending down due to the National Environment Standards for drinking water being reviewed to further tighten land use impacts and the identification of source protection zones complete for inclusion in plan change 9. As a result the residual risk rating is such that consequence has been altered from extreme to high.
15. Risk trend ratings going up are as follows.

#### **CORP002 Investment Portfolio** – the ability to receive expected dividends. Financial reliance on dividends from Napier Port in time of planned expansion. HBRIC Limited with renewed mandate and directorship.

- 15.1. The IPO transaction is expected to take place on 19 August which will reduce our shareholding to 55%, therefore there is less reliance on the port dividend - proceeds are unknown at the time of writing. There will be less ability to accurately forecast financial returns on the Diversified Investment Portfolio. Likewise the current \$40m funds under management remain subject to potential market volatility.

#### **STRAT001 Implementation of National Policy for Freshwater Management (NPSFM): risk that aspects of policy do not meet minimum standards.**

- 15.2. There is a high possibility that central government will impose a new deadline of 2025 for all freshwater plans to be operative. Risk trend amended from steady to trending up.

### **Risk Management Summary**

#### **External Review**

16. At the last risk update to FARS, there was some uncertainty expressed as to the level of detail within the risk register and whether or not this was sufficient or too excessive. There was also some query as to how much societal risks should be covered in the register i.e. demographic changes. In addition to the consideration of Civil Defence risks, both of these questions will be addressed through a risk management review that is proposed for the 2019-20 financial year as part of the Crowe Horwath internal audit programme (and is included in existing internal audit budgets). The timeline for the

review is likely to be in the third or fourth quarter and will help outline the scope of the future work programme.

### **Risk Management function**

17. 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.
18. Current resourcing of the risk management portfolio has been through Melissa Des Landes in the Finance Team who has developed a strong framework and understanding of risk management. However resourcing the function has been a continuing challenge. As Melissa is shifting into a Senior Group Accountant role, it is anticipated to appoint a risk and assurance role who will lead responsibility for the risk management portfolio to further build organisational maturity. Alongside this they will develop the Council's assurance framework which will include responsibility for the internal audit programme and quality management system (ISO business process certification). This role will be funded through a vacancy created elsewhere in the Office of the CE and Chair (OCEC) group.
19. At a group manager level, this portfolio will be held by the Group Manager (OCEC). The newly-appointment Chief Financial Officer, Shash Dave, has a background in risk management and will retain an advisory link to this work-stream.

### **Decision Making Process**

20. 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:
  - 20.1. The decision does not significantly alter the service provision or affect a strategic asset, and is not inconsistent with an existing policy or plan.
  - 20.2. The use of the special consultative procedure is not prescribed by legislation.
  - 20.3. The decision does not fall within the definition of Council's policy on significance.
  - 20.4. 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 9 November 2016, specifically:
    - 20.4.1. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to 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, and
    - 20.4.2. undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks
    - 20.4.3. report on Council's risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

### **Recommendations**

That the Finance, Audit and Risk Sub-committee:

1. receives and considers the "*Six Monthly Risk Assessment and Management*" staff report

### **AND**

2. confirms the Sub-committee's confidence that Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks
3. 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**

4. 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 next sub-committee meeting.
  - 4.1. ...
  - 4.2. ...
5. 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**

[!\[\]\(aa53ad6fea213b8b2226d3077e30533a\_img.jpg\) 1](#) Risk Management Register



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)	Effectiveness	Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor			Consequence	Likelihood	Factor			
REG001: Human Health impacts from contamination of drinking water - death or illness as a result of 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	<ul style="list-style-type: none"> <li>* Increased monitoring of bores and testing of water supply - targeted testing of consents situated within area near known municipal drinking water bores</li> <li>* Operation of regional Joint Working Group (JWG) &amp; Joint Governance Group for drinking water</li> <li>* Advancement of TANK plan change with new regulations and rules recommended by Joint Working Group</li> <li>* Enforcement of adequate consents (including wastewater, stormwater, drinking water &amp; other consents)</li> <li>* Focus on going open communication between relevant authorities</li> <li>* Increased resourcing for consents/compliance to address need for greater physical monitoring of bores (also recommended by compliance review)</li> <li>* Voluntary bore owner assessment/remediation - supply of report of security to HBRC</li> <li>* Internal audit on critical water infrastructure assets monitoring complete with second review due Q4 2018/19</li> <li>* Inclusion of source protection zones in TANK</li> <li>* Proactive communication with small scale bore owners, including clarity of responsibility and the release of brochures regarding bore security</li> <li>* Drinking water committee have developed protocol on contamination of arsenic</li> <li>* Council disclaimers and consents have been reviewed and updated to ensure clarification as to responsibility of consents</li> <li>* 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)</li> </ul>	Effective	High	Highly unlikely	Moderate	<ul style="list-style-type: none"> <li>* Continue with better collaboration and communication between relevant stakeholders (including District/City Councils and Health Boards)</li> <li>* Potential for advocacy role and clarification is established between all stakeholders as to where responsibility lies through Terms of Reference</li> <li>* Set up a contingency fund to contract in resource to help with monitoring if needed</li> <li>* Review of regional plan to provide for monitoring for ongoing life of bore</li> <li>* Application of NES for drinking water (additional control of activities that may have an effect on public drinking water supplies) <i>NES for drinking water being reviewed to further tighten land use impacts.</i></li> <li>* Continue to provide feedback to influence Water New Zealand</li> <li>* <i>Identification of source protection zones completed for inclusion in plan change 9.</i></li> </ul>	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	High/Likely	Extreme	<ul style="list-style-type: none"> <li>* Server refresh cycles and server room restrictions</li> <li>* Antivirus software and Firewalls</li> <li>* Back ups (including off site backups)</li> <li>* ICT acceptable use policy</li> <li>* Access control</li> <li>* Generator</li> <li>* Robust vendor selection process</li> <li>* Independent cyber security audit - <i>IT Audit has taken place and report (going to Andrew) due any time now. Recommendations will be reviewed when report received.</i></li> <li>* Staff training including regular reminders to staff</li> <li>* Cyber security insurance (also covers Cloud)</li> </ul>	Satisfactory	High	High	High	<ul style="list-style-type: none"> <li>* Cyber security risk is increasing - ensuring staff are aware of the risks and how to detect any scam activity</li> <li>* Formalised incident reporting and assessment</li> <li>* Repeat of previously held "phishing training"</li> <li>* Independent audit on appropriate controls in place (to include penetration testing)</li> <li>* Improved staff wide understanding of ICT backup plans</li> <li>* Improved staff consultation when implementing or altering an ICT system or process</li> <li>* Reduce the risk of hardware failure affecting services</li> <li>* Option for text alert system for generator failure</li> <li>* Reduce reliance on one staff member holding knowledge of systems</li> </ul>	Group Manager - Corporate Services	
OCEC1: 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	<ul style="list-style-type: none"> <li>* 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. NHB EROAD is not seen as an H&amp;S mechanism notwithstanding it can help with H&amp;S issues.</li> <li>* 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.</li> <li>* 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.</li> <li>* Regular Health and Safety training and policies in place. Working alone policy has been modified.</li> <li>* Appropriate Property, Plant and Equipment always provided. High spec fleet maintained. Good technical support provided for staff.</li> <li>* Site safety plans - to be filled out on a daily basis. Site Safety plans in various forms are completed by majority of sections.</li> <li>* Liability Insurance</li> <li>* Development, and regular review of Codes of Practice (COP) for safe work practices across the full range of Council work. COPs are reviewed according to schedule. Some are over due, but key ones up to date. Reviewed as need or issue arises.</li> <li>* Corporate Risk Management Framework (H&amp;S Committee) - continue to ensure effectiveness of committee</li> <li>* Monitoring of workplace stress, vitae support and stress and resilience training. Well Being - Houara Strategy and Action plan developed</li> </ul>	Effective	High	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Option to capture training and an 'action register' to be created when staff are required to upgrade/renew training. Good capture of H&amp;S training on Hasmote but still a lot of 'other' training not noted as not aware of it. Bring up for key training works OK out of Hasmote.</li> <li>* 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.</li> <li>* Creation of organisation wide risk averse and continuous improvement culture. Encouragement of self reporting. On going awareness work. Effective representation on H&amp;S committees.</li> <li>* Regular review and updating of Codes Of Practices'. COPs regularly reviewed but not specifically presented to Executive. Done through H&amp;S committee and out to relevant sections for comments.</li> <li>* Health &amp; Safety audit complete - Work programme underway. Audit recs underway. Strategy and Implementation Plan adopted as well as Governance Charter and Executive commitment doc.</li> <li>* Review of H&amp;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.</li> <li>* 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.</li> <li>* 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.</li> </ul>	Group Manager - OCEC	
CDEM1: 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	<ul style="list-style-type: none"> <li>* Trained staff on how to respond in an emergency to ensure safety of others and themselves</li> <li>* Activation exercises</li> <li>* Joint approach with other local Councils showing effectiveness</li> <li>* Relationships with businesses who have resources that could be borrowed in an emergency</li> <li>* Regular testing of buildings and equipment to ensure minimum requirements are met, and will function as expected during an emergency</li> <li>* Relationship development with other agencies</li> <li>* 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.</li> <li>* Staff within HBRC and other Council's now trained to a more advanced level</li> <li>* Two audits have corrective actions being worked on, including improvement of facilities and training. Additional resource now recruited.</li> <li>* Disaster work with other stakeholders to secure other buildings</li> </ul>	Satisfactory	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Continue to build on relationship management with other stakeholders</li> <li>* Dedicated CDEM communications advisor in place</li> <li>* Continue to educate public using social media and other forums on what to do in case of an emergency.</li> <li>* Enact any findings from post exercise/event</li> <li>* Progress community resilience plans across high risk communities and extra resource now in place</li> <li>* Shorter but higher frequency of training to ensure that staff are still relevant and able to attend training sessions</li> <li>* Continue with targeted training</li> <li>* CDEM considerations to be understood and included in various projects</li> <li>* Continue with implementation of group work programme focusing on risk, research and recovery</li> <li>* <i>Regional multi-agency exercise (Ex Ruamoko) to be held in Oct 2019.</i></li> </ul>	Group Manager - Civil Defence	
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	<ul style="list-style-type: none"> <li>* Ongoing data collection to enable return period estimates to be improved over time</li> <li>* Professional engineers and hydrologists</li> <li>* Best design practice followed</li> <li>* Review of levels of service undertaken when required</li> <li>* Disaster damage reserves held in line with Council policy</li> <li>* <i>Asset management plans are a living document and are therefore constantly being reviewed.</i></li> <li>* Recent review of hydrometric network, no major issues flagged</li> <li>* Debriefs and lessons learned following any weather related response</li> <li>* <i>The Heretaunga Plains flood control scheme is being upgraded from 1 in 100 to 1 in 300 level of protection.</i></li> </ul>	Effective	High	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Asset management framework aligned with standard</li> <li>* Continuing staff development</li> <li>* National guidelines for asset risk and condition - standardised flood protection</li> <li>* Consider secondments or national pool of qualified engineers for high demand times when specialist knowledge is required</li> <li>* Consider earlier engagement of consultants and amendment of current approach</li> <li>* Reassessment of level and suitability of backup equipment</li> <li>* Engage with River Engineers Special Interest Group, assess opportunities to second staff from other Councils</li> </ul>	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	<ul style="list-style-type: none"> <li>* Maintenance of 'HAIL' register</li> <li>* Strategic monitoring and review</li> <li>* Control of contaminated soils through consents</li> <li>* Enforcement of consents with provision of certain actions to be addressed</li> <li>* Physical remediation with site monitoring and enforcement</li> <li>* Compliance team review completed and additional resourcing appointed</li> </ul>	Effective	High	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Review of hazards management programme</li> <li>* Education and encouragement of correct disposal methods - consents team get large influx of queries, option to create a FAQ sheet</li> <li>* Create a pamphlet on good storm water guidance practice</li> <li>* Engage in a collaborative approach with other Territorial Local Authorities (TLA's)</li> <li>* Monitoring reports</li> <li>* Encourage self reporting</li> <li>* Continue with tightening up of source protection zones and continue with bore security programme reported to JWG</li> <li>* Encouraging self reporting and testing including a reporting portal for well owners and information brochures</li> <li>* <i>Enforcement action taken where required.</i></li> </ul>	Group Manager - Regulation	



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		Effectiveness	Consequence	Likelihood			
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	<ul style="list-style-type: none"> <li>* Appropriate insurance cover</li> <li>* Contingency in place for provision of office space and equipment</li> <li>* ICM Group quality management system</li> <li>* ICT backups</li> <li>* Business Continuity Plan in place (reviewed annually)</li> <li>* Cyber security insurance implemented</li> <li>* Avoid using products and services that have a single operator</li> <li>* Business Continuity Review recently conducted</li> <li>* Implementation of IRIS to assist with accessibility of paperless information</li> </ul>	Satisfactory	High	Highly Unlikely	<ul style="list-style-type: none"> <li>* Regular review of Business Continuity Plan (BCP). <i>Reviewed, effective 1/7/19 - testing October 2019</i></li> <li>* Improved staff wide training and awareness - <i>Lisa P connects with new staff creating awareness</i></li> <li>* Creation of 'one pager' go to guide that staff can refer to in the incidence of risk to Business Continuity</li> <li>* Centralised database of staff personal contact details in the event of a business outage. <i>Held by payroll</i></li> <li>* Staff to review findings of recent review and refresh BCP within the organisation. <i>Completed</i></li> <li>* New dedicated ownership proposed in Business Continuity. <i>Civil Defence, clearer who owns.</i></li> <li>* Ensure staff are aware of existence of BCP and where to find it</li> <li>* Perform a desk top exercise for staff. <i>Civil Defence exercise</i></li> </ul>	Group Manager - OCEC	↔
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	<ul style="list-style-type: none"> <li>* Work programme - resource in place with responsibilities for progressing co-governance issues</li> <li>* A collaborative process with Council working to improve relationship with Treaty Claimant Groups and Tangata Whenua</li> <li>* Strategic overview of how "nuts and bolts mesh"</li> <li>* Partnerships team has been established.</li> <li>* HBRC responsiveness to Maori strategy is under development key component of which will be relationships engagements with tangata whenua</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>* Continue to build on relationship management with relevant stakeholders to ensure collaboration</li> <li>* Recognition of 80% voting rule may allow for delays in decision making processes <i>(RPC)</i></li> <li>* Code of Conduct to be extended to non-elected members <i>(RPC)</i></li> <li>* Provide clarity around legislative function around what HBRC does under RMA</li> <li>* Provision more lead time in plan changes for tangata whenua engagement</li> </ul>	Te Pou Whakaree	↔
CORP002: Investment Portfolio - ability to receive expected dividends. Financial reliance on dividends from Napier Port in time of planned expansion. HBRC Limited with renewed mandate and directorship.	Financial Organisational Reputational	High	Likely	High	<ul style="list-style-type: none"> <li>* Treasury Policy</li> <li>* Funding strategy development</li> <li>* Napier Port holds insurance for material damage and business interruption</li> <li>* Public consultation on Port Funding Options to diversify risk pool and fund expansion</li> <li>* Engagement of fund manager(s) to diversify funding mix and increase returns</li> <li>* Council approves SOI and appointment of Directors for HBRC Limited. Regular reporting from HBRC to Council.</li> <li>* IPO transaction expected to take place on 19 August which will reduce our shareholding to 33% therefore less reliance on port dividend - proceeds unknown at this time. <i>(less to update before paper submitted to FARS). Less ability to accurately forecast financial returns on Diversified Investment Portfolio.</i></li> </ul>	Satisfactory	High	Unlikely	<ul style="list-style-type: none"> <li>* Alter funding mix to reduce reliance on Napier Port Dividend</li> <li>* Continue with communications strategy on Port Transaction</li> <li>* Increase internal treasury performance reporting including reporting on market conditions</li> <li>* Continued development of appropriate policy</li> </ul>	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	<ul style="list-style-type: none"> <li>* Development of protocols/guidelines for staff</li> <li>* Establishment of scheduled reporting and meeting appointments with key stakeholders</li> <li>* Creation of Maori Partnerships Group. <i>Completed</i></li> <li>* Agreement to Memoranda of Understanding where appropriate and mutually agreed</li> <li>* Formation of joint working groups</li> <li>* Additional Tangata Whenua funding requested in LTP</li> <li>* CRM (Customer relations database) 27/8 Show and Tell to Evac</li> <li>* Participation of Matariki REDS Executive steering partnership</li> <li>* Regular bi-lateral meetings with TA's and leaders forum</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>* Regular and proactive communication with stakeholders to maintain and build trust and enhance two way communication</li> <li>* Networking/relationship building training to be provided to staff</li> <li>* Additional staff visibility at relevant events. <i>Role of Regional officers - identify ways to free up time for CE and across business</i></li> <li>* Ensuring stakeholders (i.e. suppliers) understand our business and it's requirements - <i>stakeholder engagement plan</i></li> <li>* <i>Stakeholder engagement strategy and implementation plan</i></li> </ul>	Chief Executive Officer	↔
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	<ul style="list-style-type: none"> <li>* Regular media releases to inform stakeholders using a variety of relevant channels. <i>This continues and will increase now the two new communications advisors have joined the Comms &amp; Marketing team (20 May).</i></li> <li>* Public consultation. <i>Public consultation is undertaken when required by law. There is also regular interaction with the public through Facebook.</i></li> <li>* Engagement with Councilor's (and other stakeholders) on specific issues to ensure clear communication strategy. <i>Councilors receive media releases and e-newsletters sent out as well as media stories regarding the regional council</i></li> <li>* A stakeholder list of around 350 receives a bi-monthly newsletter updating them on the work of the Regional Council</li> <li>* Proactive information sharing (i.e. media releases and reporting, publication of Works Group work programme in public spaces. <i>There is proactive information sharing through media releases, e-newsletters and Facebook, as well as the Regional Council website</i></li> <li>* Continuous improvement of internal alignment of strategy and purpose</li> <li>* Continue to differentiate roles and responsibilities between HBRC and TLA's. <i>Communications frequently explain the role and the work of the Regional Council</i></li> <li>* Programme of communication with farmers and asset management plans. <i>As part of the Communications Strategy and Plan a programme of work to engage with farmers is scheduled.</i></li> <li>* <i>Once the two new communications advisors are on board on 20 May this work will be increased</i></li> </ul>	Satisfactory	Moderate	Unlikely	<ul style="list-style-type: none"> <li>* Cross organisational engagement plan</li> <li>* Provision of clear breakdown of costs and resource implications to Councilors</li> <li>* Communications team to promote "good news stories" and greater visibility of outcome reporting. <i>This is undertaken, although it has been hampered by a lack of resources and a restructuring in the Communications and Marketing team. This will improve when the two new communications advisors are on board from 20 May.</i></li> <li>* General work programme to better engage with stakeholders including a stakeholder audit scheduled for current year</li> <li>* Collaborative work programme with CE's and Chairs regionally</li> <li>* New communications strategic plan agreed and to be actioned in current year</li> </ul>	Group Manager - OCEC	↔
STRAT001: Implementation of National Policy for Freshwater Management (NPSFM) - risk that aspects of policy do not meet minimum standards	Organisational Environmental Reputational	High	Near Certain	High	<ul style="list-style-type: none"> <li>* Annual Report and Implementation Plan</li> <li>* Liaison with other councils and agencies (MFE and MPI) for guidance on NPSFM implementation</li> <li>* Long Term Plan and Annual Plan</li> <li>* On-going monitoring programme</li> <li>* Heavy involvement in relevant stakeholder groups</li> <li>* Recent reorganisation has aided in facilitating better work across organisation</li> <li>* Project review for TANK including lessons learned</li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>* Continue with regular monitoring to ensure that minimum requirements are being met</li> <li>* Ensuring that planning processes are robust and fit for purpose</li> <li>* Have an adaptive cycle to ensure that changes can be made if required</li> <li>* Maintain support of Overseer model or find alternative</li> <li>* Options to outsource to consultants for specialist work</li> <li>* Project review to assess correctness of approach</li> <li>* <i>High possibility that central government will impose new deadline of 2023 for all freshwater plans to be operative.</i></li> </ul>	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	Moderate	Likely	High	<ul style="list-style-type: none"> <li>* Ensuring appropriate project plan is in place</li> <li>* Strategic and suitably qualified staff to ensure projects are executed properly</li> <li>* Ensuring risks are adequately managed so staff time isn't diverted elsewhere</li> <li>* Regular communication to stakeholders including public to ensure expectations are met</li> <li>* New Project Management Office (PMO) implemented with dedicated resource in this space</li> <li>* Pilot projects underway with planned reporting to future Council meetings. <i>Pilot completed - initiatives register established for better visibility of projects/workstreams</i></li> <li>* Increased staff training on Project Management principles</li> <li>* Consideration of impact or influence of 3rd parties who may be misaligned with project goals</li> <li>* <i>Project Management training in place</i></li> <li>* <i>Carry forwards large in 2018/19 and scrutinized.</i></li> </ul>	Effective	Moderate	Unlikely	<ul style="list-style-type: none"> <li>* Continue to monitor projects to ensure deadlines are being met</li> <li>* Consider formalizing project management discipline/training to all staff involved in projects</li> <li>* Full clarity of ownership on projects</li> <li>* Consider resourcing within whole of Council and ability to move staff within projects</li> <li>* Monitoring of pilot projects</li> <li>* Option for labour hour budgeting to better understand resourcing capacity and constraints</li> <li>* Active prioritization of projects</li> </ul>	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	<ul style="list-style-type: none"> <li>* Remuneration at local government market rates. <i>Local and National</i></li> <li>* Regular professional development training provided to staff where applicable</li> <li>* Advertisement of roles outside of region to attract staff with specific skills. Recruitment consultants engaged where required</li> <li>* Strong staff culture including flexible working hours, open door policies</li> <li>* Ensuring ongoing training and staff advancement, and promote internally where possible</li> <li>* Cross skilling of staff where possible</li> <li>* Introduction of staff performance management system and review process</li> </ul>	Satisfactory	Moderate	Likely	<ul style="list-style-type: none"> <li>* Emphasis on maintaining strong staff culture</li> <li>* Staff satisfaction and engagement survey to be repeated/<i>held annually</i></li> <li>* Ensuring ongoing competitiveness in remuneration by using market surveys. <i>Review undertaken and new system in place.</i></li> <li>* Reward staff where possible and invest in their training and wellbeing - <i>as above</i></li> <li>* Establish clarity of roles. <i>Ongoing overview of JD's</i></li> <li>* Provide flexibility in roles where possible</li> <li>* Branding and image opportunities. <i>Drew to ensure we are employer of choice</i></li> <li>* Remuneration flexibility (i.e. training, benefits etc.) <i>Completed in review</i></li> <li>* Review other options for recruitment such as a finders fee, or bonding opportunities. <i>Not yet completed</i></li> </ul>	Chief Executive Officer	↔



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)	Effectiveness	Residual Risk (considering measures in place)			Management Options	Risk Owner	Trend
		Consequence	Likelihood	Factor			Consequence	Likelihood	Factor			
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	<ul style="list-style-type: none"> <li>* HBRC to act in a support role (MPI) however good relationships maintained with Central Government with regard to possible incident responses</li> <li>* Approved contractors to undertake biosecurity work</li> <li>* Auditing of farmers handling and distributing their own bait stations</li> <li>* Poison handling and bait distribution specification standards</li> <li>* Cape to City project - elimination of pests</li> <li>* Proactive communication with stakeholders</li> <li>* Implementation of on-farm biosecurity protocol</li> </ul>	Effective	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Continue to maintain good relationships with Central Government</li> <li>* Investigate training of staff on how to respond to biosecurity incident - <i>MPI are now running a National Biosecurity capability network training programme that HBRC staff have been invited to participate.</i></li> <li>* Proactive agreement with MPI. Regional biosecurity forum</li> <li>* Communication to staff regarding proper protocols in the event of an outbreak (i.e. location of stock)</li> <li>* Review learnings of Microplasma Bovis report</li> <li>* Review/increase activity in communication with stakeholders</li> <li>* Discuss potential of Biosecurity communication plan with rest of organisation</li> </ul>	Group Manager - Integrated Catchment Management	↔
CORP003: Inadequate Contractor Management - resulting in unnecessary costs and/or insufficient output or quality. Poor or unsafe contractor performance.	Financial Organisational Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Appropriate contracts in place as per procurement policy</li> <li>* Regular audits of contractor performance and safety</li> <li>* SiteWise to help ensure quality and compliance of contractor</li> <li>* Standardised contract available for staff to use</li> <li>* Procurement and contract management audit complete with informal work programme on findings underway including development of templates</li> <li>* <i>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.</i></li> </ul>	Satisfactory	Low	Likely	Moderate	<ul style="list-style-type: none"> <li>* Ensure staff continue to follow correct procurement procedures</li> <li>* Continue to ensure contractors are inducted as per HBRC policies</li> <li>* Implement formalised contractor performance assessment process</li> <li>* Ensure contracts are adequate and liability is clarified</li> <li>* Assessment of opportunities to have a "preferred supplier" where possible</li> <li>* Investigate joint resource opportunities for procurement/contract manager role</li> </ul>	Group Manager - Corporate Services	↔
STRAT003: Ability to maintain awareness and understanding of relevant legislation - inability to comply with consents, statute and national standards.	Organisational Reputational	High	Likely	High	<ul style="list-style-type: none"> <li>* Regular training and monitoring of legislation.</li> <li>* Ability for staff to make submissions on legislation changes</li> <li>* Independent advice provided when needed</li> <li>* Local Government NZ membership. Other relevant professional/government body memberships</li> <li>* ICM Group Improvement register logs and prioritises impending legislative changes</li> </ul>	Effective	Moderate	Unlikely	Low	<ul style="list-style-type: none"> <li>* Ensure staff obtain advice when and where required</li> <li>* Ensure training is provided</li> <li>* Cross organisational ownership</li> <li>* Central database that provides updates on relevant legislation changes</li> <li>* Dedication of more resourcing and enable more functional knowledge sharing within organisation</li> </ul>	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	<ul style="list-style-type: none"> <li>* Ensuring staff are adequately trained and briefed before providing information</li> <li>* Peer review of public documents</li> <li>* Critical documents to be externally reviewed</li> <li>* Professional indemnity and Public liability insurances are held</li> <li>* Quality control of information held (i.e. passwords)</li> </ul>	Effective	Low	Unlikely	Low	<ul style="list-style-type: none"> <li>* Implement privacy awareness training so staff are aware of their roles and responsibilities, including document management training and negligence. <i>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.</i></li> <li>* 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.</li> <li>* Customer Relationship Management database currently being trialled with Executive assistants</li> <li>* Media training completed in 2018/19 calendar year</li> <li>* Ensure all Council business is conducted on Council email address by all staff and Councillors</li> <li>* FAQ cards to be created and dispersed amongst staff regarding topical media stories to ensure all staff are aware of appropriate response to questions</li> </ul>	Group Manager - OCEC	↔
CORP004: Accuracy and integrity of financial information - ensuring statutory returns are filed accurately. Information provided to stakeholders is factual.	Financial Reputational	Moderate	Unlikely	Moderate	<ul style="list-style-type: none"> <li>* Internal and External audit held routinely</li> <li>* Training of finance staff held frequently</li> <li>* Training sessions held with non-finance staff by finance staff</li> <li>* Fraud policy and training</li> <li>* Segregation of duties and correct authorisation levels in place - reviewed annually</li> <li>* Peer review of work</li> <li>* <i>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.</i></li> <li>* <i>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.</i></li> </ul>	Effective	Moderate	Unlikely	Low	<ul style="list-style-type: none"> <li>* Peer reviews to be conducted when non-finance staff are responsible for producing financial information</li> <li>* Continue with internal and external audits and ensure recommendations are implemented and followed</li> <li>* Improve frequency and readability of both reporting internally and to Council</li> <li>* Option for labour hour budgeting to better understand resourcing capacity and constraints</li> </ul>	Group Manager - Corporate Services	↔



**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**Subject: TREASURY REPORT**

**Item 7**

**Reason for Report**

1. This item provides an update on the development of Council's diversified investment portfolio.

**Background**

2. On 26 September 2018 Council resolved to appoint dual fund managers, being Mercer and Jarden (formerly First New Zealand Capital).
3. Council has engaged PwC to provide treasury advice and reporting, and their quarterly treasury report for the period ended 30 June 2019 is attached.

**Fund Performance**

4. For the quarter ending 30 June 2019, investment returns are below Council's FY19 targeted net inflation-adjusted return of 4.50%; at 2.31% for investments managed by Jarden, and 2.9% for investments managed by Mercer.
5. Investment returns are also slightly below the benchmark for both fund managers. Specifically, funds managed by Mercer closely tracked the benchmark, slightly underperforming by 0.2%. Funds under management by Jarden also closely tracked the benchmark, slightly underperforming by 0.1%.
6. Income assets for both fund managers either tracked the benchmark (Jarden) or slightly outperformed the benchmark (Mercer +0.7%). This is due to Mercer's reallocation of income assets in May 2019 as well as Mercer's New Zealand Sovereign Bond portfolio slightly outperforming the benchmark.
7. Investment returns are below Council's FY19 targeted net inflation-adjusted return of 4.50% due to:
  - 7.1 Council's allotment of capital between Income and Growth assets
  - 7.2 Target asset allocation and portfolio composition have yet to be fully realised by one of the two fund managers (Jarden).
8. An analysis of investment performance metrics may be premature primarily due to the relatively recent capital allocations to the fund managers, as well as ongoing portfolio composition adjustments. Returns and performance will continue to be analysed and presented quarterly.
9. Notwithstanding the foregoing, Mercer's returns on its income asset allocation have outperformed the benchmark but have slightly underperformed for growth assets.
10. Any commentary on Jarden's assessment of performance relative to the benchmark would be premature due to targeted portfolio composition continuing to be completed.
11. Mercer's investment returns for income and growth assets have outperformed Jarden's. However, Income asset returns are relatively comparable. This is in part due to the initial instruction from Council to Jarden to assign a greater weighting to cash investments, and in part due to Jarden's deliberate and systematic approach to building a portfolio of Growth Assets in a macro-economic environment where corporate earnings may not fully support market valuations.
12. Jarden is currently non-compliant with the Statement of Investment Policy and Objectives (SIPO) with respect to achieving target asset allocation for funds under management. This is partly due to Jarden's investment philosophy of gradually

staggering into investment portfolio positions and partly due to Council's initial instruction to Jarden assigning greater weight to cash investments.

13. Council staff have discussed Jarden's SIPO non-compliance during in-person meetings with Jarden and PwC representatives, and Jarden has provided assurances that the strategic asset allocation will achieve SIPO compliance over the coming months.
14. This staggered approach to target asset allocation over a slightly elongated time frame may be beneficial as it theoretically allows Jarden to strategically develop an equity position in Growth assets with a longer-term view on returns and performance. Despite this investment strategy, forecast returns could be negatively impacted due to broader macro-economic factors outlined below.

#### **Additional Funds under Management**

15. With Council's 45% ownership in Napier Port to be traded through the New Zealand Stock Exchange (NZX) within the coming days, staff estimates a \$79 million tax-neutral influx of capital being returned to the Council.
16. The balance of capital influx is to be realised by Hawke's Bay Regional Investment Company Ltd (HBRIC), a Council Controlled Organisation.
17. Staff have engaged both of the Council-approved fund managers (Mercer and Jarden) to deploy this additional capital within Council's currently managed portfolios, in accordance with the Council's SIPO. Staff have received confirmation that Mercer will deploy this additional capital immediately, while Jarden will continue its staggered, risk-based approach to capital deployment over the upcoming months. Jarden will likely remain non-compliant with the SIPO as it pertains to strategic asset allocations due to its methodical approach to asset allocation.
18. Staff have also engaged both of the Council-approved fund managers (Mercer and Jarden) to deploy additional HBRIC capital (estimated at \$25 million) in mirror funds to those of the Council's, in accordance with the Council's SIPO. Staff will continue to engage with the fund managers and HBRIC leadership to determine other commercially viable and cost-efficient capital deployment alternatives that are consistent with the Council's ethos and values.

#### **Macro Overview**

19. The escalation of protectionist measures by the US government continues to dominate, distract and detract from economic prospects for the US and the rest of the world. An intensifying and ongoing conflict between the US and China (and elsewhere) has depressed consumer sentiment and trade activity. This political unpredictability has created a challenging environment for central banks to be constructive on the economic outlook. Consequently, indicators of global manufacturing sentiment and trade have worsened.
20. Global equity markets witnessed substantial movements over the second quarter of 2019 with periods of declines being ultimately surpassed. Declines in equity indices were prompted by an escalation of the US/China trade dispute as well as a weakening in the international macroeconomic growth outlook. A swift recovery was followed by the Trump/Xi meeting at the G20 summit in Osaka that new tariffs would not be immediately implemented. This short-lived equity market euphoria was quickly tampered by recent statements from the US proposing an additional 10% tariff on approximately \$300 billion of Chinese imports beginning 1 September 2019. China retaliated by stopping purchases of US agricultural goods and allowing the yuan to depreciate through the key psychological level of 7 to the USD.
21. The future of the equity markets is contingent on the investors' desire to achieve sufficient returns and corporations' earnings matching equity pricing. With depressed interest rate returns, there remains little alternative to equity markets for sizeable returns. Although, the ability for corporate earnings to meet valuations indicated by equity pricing poses a potential challenge in an environment of slowing global growth.
22. Monetary and fiscal measures could play a vital role in potentially offsetting the impact of trade deliberations. Most notably, the US Federal Reserve and the European Central

Bank have both relented on tightening monetary policy this year. Markets have already priced in a 70% probability of two to three interest rate cuts in the US this year.

23. Governments may be more inclined to use fiscal policy by implementing tax cuts and/or increase spending, to encourage growth in the months ahead. An example of this is the Chinese economy which appears to have stabilised after a period of tight monetary conditions in the first half of 2018, followed by a reduction in interest rates signifying easier monetary policy. While the Chinese economy has not responded with the same vigour as it has in past stimulus cycles, this is emblematic of the impact of the trade uncertainties, which continue to dampen both business and consumer confidence.
24. Consequently, the Reserve Bank of New Zealand (RBNZ) had previously indicated easing the monetary policy and further reduction in the Official Cash Rate (OCR). As at 29 July 2019, market pricing suggested that the Official Cash Rate (OCR) may reach 1% by year-end. However, RBNZ dramatically reduced the OCR by 50 bps to 1% in August 2019. Most economists, expecting the OCR rate to be reach a 1% “floor” by year-end are left readjusting their forecasts indicating that a 0.75% OCR rate reduction may be a near eventuality.
25. Nationally, New Zealand business confidence indicators appear to be falling as evidenced by the ANZ Business Outlook Survey business confidence index, which has fallen 6 points since June, and commercial construction intentions falling by a concerning 25 points (to -20%), with a net 33% of firms in the construction sector intending to cut jobs. Firms’ expectations of their own activity fell to the lowest level in almost a year, with only a net 5% expecting a lift. As the construction sector is a substantial provider of employment in New Zealand, this downturn in activity may further support RBNZ’s rationale for future interest rate cuts as it continues to focus on its remit of “Maximum Sustainable Employment.”
26. Although New Zealand commodity prices remain at well supported levels and interest rates follow a downward trajectory, fears of a global growth slowdown coupled with credit and cost constraints appear to be dampening primarily due to a broader easing of monetary policy across Europe, North America and Australasia along with tightened (and tightening) capital requirements for banks and financial institutions.

### **Debt Funding**

27. Council's debt forecast indicate a requirement of additional \$10 million of core borrowings during FY 2019-20. Staff will evaluate the borrowing and funding schedule for FY 2019-20 based on an internal analysis of annual financial statements which are currently being drafted.
28. Staff will also evaluate the FY 2019-20 core borrowing and funding needs in light of new developments while seeking specialist advice from PwC in compliance with the Council's Treasury and Funding Policy. Specifically, Staff will evaluate the Council's financial position in relation to any expected or anticipated return of costs (or capital) arising out of the initial public offering (IPO) of Napier Port while evaluating the current macro-economic environment impacting total cost of capital (borrowings).

### **Foreign Currency Hedging**

29. Council's current SIPO requires fund managers to mitigate 100% of Council's foreign currency exposure in all international asset classes except equities.
30. Staff's consultation with fund manager(s) indicate that the 100% mitigation of foreign currency risk across all asset classes (except equities) utilising spot and forward exchange contracts may not be cost-efficient due to historical and anticipated currency volatility which may inherently accompany an easing monetary and fiscal policy.
31. Subsequent to both fund managers meeting their SIPO-mandated asset allocations, staff and fund managers will evaluate the portfolio as well as options to present a more cost-effective solution which may require adjustments to the SIPO.

### **Decision Making Process**

32. 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*”.

#### **Authored by:**

**Shash Davé**  
**CHIEF FINANCIAL OFFICER**

#### **Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

### **Attachment/s**

[!\[\]\(d5d7044e5caf6907399af2dced8d6ff8\_img.jpg\) 1](#) HBRC Treasury Reporting to 30 June 2019



# Hawke's Bay Regional Council

## *Quarterly Treasury Reporting*

*As at 30 June 2019*

Attachment 1

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Item 7

## 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
SIPO	Counterparty credit limits	Yes
	Asset allocations	No

## 2.0 Investment Management Reporting

### Investment Manager Comparison

Investment Manager	Asset Class	Opening Balance	Closing Balance	Total Gain(Loss)	Investment Return	Benchmark Return	Performance vs Benchmark	Asset Allocation	SIPO Compliant?
Mercer	Income Assets	10,116,604.6	10,457,618.1	340,813.5	1.0%	1.0%	0.0%	49.7%	Yes
	Growth Assets	10,360,253.7	10,577,577.7	217,324.0	1.9%	1.9%	(0.1%)	50.3%	Yes
Jarden	Income Assets	18,787,396.0	18,728,530.0	(58,866.0)	0.9%	-	-	75.3%	No
	Growth Assets	3,815,862.0	5,153,816.0	1,337,954.0	1.4%	-	-	24.7%	No

- All returns presented above are on a NZD basis before fees and inflation adjustments (i.e. are gross returns).
- Investment returns are below Council's FY19 targeted net inflation adjusted return of 4.50%. This is in part due to the staggered allotment of capital provided to the Investment Managers and desired strategic asset allocations continuing to be constructed over the period.
- Annualised returns reporting is able to be contemplated over the coming quarters for FY20.
- It is noted that the Investment Managers have now received their full capital allocations from Council.
- Mercer's returns on its income asset allocation have outperformed the benchmark but have slightly underperformed for growth assets.
- Jarden has not provided an assessment of performance relative to benchmark due to the targeted portfolio composition continuing to be completed.
- Mercer's investment returns for income and growth assets have outperformed Jarden's. Income asset returns are relatively comparable however. This is in part due to the initial instruction from Council management to Jarden to have a greater weighting to cash investments.
- Only Mercer is currently compliant with SIPO strategic asset allocation requirements.
- Jarden are continuing their gradual build-up of the targeted portfolio composition and are currently non-compliant to the SIPO. It is our intention to discuss the timeframe over which Jarden will achieve full compliance to the SIPO over coming weeks.
- It is noted that comparison between Investment Managers and assessment of performance/compliance should be cognisant of the staggered allotment of capital to the respective Investment Managers, target portfolio compositions still being achieved and the limited investment period (i.e. six months only).

**Jarden****Market Value**

Asset Class	Opening Balance	Purchases / (Sales)	Realised Gains/(Losses)	Unrealised Gains/(Losses)	Unleveraged Accrued Interest	Closing Balance	(Fees and Taxes)	Gross Income	Total Gain/(Loss)
Cash	2,942,534	(1,790,908)	-	-	-	1,151,626.0	-	10,912.0	10,912.0
NZ Fixed Interest	10,098,920	(593,349.0)	841	51,880	43,575	9,601,867.0	-	48,540.0	144,845.0
Intl Fixed Interest	3,745,944	1,116,830.0	-	104,263	-	4,967,037.0	-	-	104,263.0
NZ Equities	1,601,948	351,234.0	1,084	84,173	-	2,038,439.0	-	23,186.0	108,443.0
Intl Equities	1,754,514	1,000,000.0	-	89,798	-	2,824,302.0	-	20,300.0	90,088.0
NZ Property	258,400	-	-	31,675	-	291,075.0	-	3,658.0	35,333.0
Intl Property	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>20,403,260</b>	<b>83,807</b>	<b>1,925</b>	<b>341,779</b>	<b>43,575</b>	<b>20,874,346</b>	<b>(22,799)</b>	<b>106,605</b>	<b>493,884</b>

**Performance and SIPO asset allocations**

Asset Class	Investment Return	Asset Allocation	SIPO Weightings	SIPO Compliant
Cash	(7.1%)	5.5%	2.0%	8.0% Yes
NZ Fixed Interest	1.4%	46.0%	15.0%	24.0% No
Intl Fixed Interest	2.7%	23.8%	23.0%	28.0% Yes
NZ Equities	6.7%	9.8%	13.0%	18.0% No
Intl Equities	4.1%	13.5%	25.0%	34.0% No
NZ Property	13.6%	1.4%	1.0%	4.0% Yes
Intl Property	-	-	1.0%	4.0% No
<b>Total</b>	<b>2.3%</b>	<b>100.0%</b>	<b>-</b>	<b>- No</b>

We understand that the investment portfolio is not SIPO compliant as Jarden are still establishing the Fund investment allocations.

**Mercer****Market Value**

Asset Class	Opening Balance	Realised Gains/(Losses)	Unrealised Gains/(Losses)	Closing Balance	(Fees and Taxes)	Total Gain/(Loss)
Operational Cash	9,692.44	-	-	102,691.6	-	-
Index Cash Portfolio	2,919,745.10	-	-	1,967,680.9	-	-
NZ Sovereign Bonds	2,881,726.60	-	-	2,924,597.8	-	-
Overseas Sovereign Bonds	2,462,330.25	-	-	2,528,427.5	-	-
Global Credit	1,843,310.20	-	-	1,894,491.9	-	-
Other Fixed Interest*	-	-	-	1,039,728.3	-	-
Socially Responsible Trans-Tasman Shares	1,246,735.50	-	-	1,259,186.9	-	-
Socially Responsible Overseas Shares	6,407,315.90	-	-	6,394,931	-	-
International Listed Property	1,347,122.60	-	-	1,440,594.8	-	-
Unlisted Property	-	-	-	-	-	-
International Listed Infrastructure	1,349,079.70	-	-	1,482,864.6	-	-
Unlisted Infrastructure	-	-	-	-	-	-
<b>Total</b>	<b>20,467,058.29</b>	<b>24,555.5</b>	<b>543,497.7</b>	<b>21,035,195.9</b>	<b>34,337.0</b>	<b>568,053.1</b>

**Performance and SIPO asset allocations**

Asset Class	Opening Balance	Investment Return*	Asset Allocation	Mercer Portfolio Ranges	Portfolio Compliant?
Operational Cash	9,692.44	-	0.5%	-	-
Index Cash Portfolio	2,919,745.10	0.6%	9.4%	0.0% 20.0%	Yes
NZ Sovereign Bonds	2,881,726.60	2.1%	13.9%	5.0% 25.0%	Yes
Overseas Sovereign Bonds	2,462,330.25	2.9%	12.0%	5.0% 25.0%	Yes
Global Credit	1,843,310.20	3.1%	9.0%	5.0% 25.0%	Yes
Other Fixed Interest*	-	0.5%	4.9%	0.0% 10.0%	Yes
Socially Responsible Trans-Tasman Shares	1,246,735.50	6.7%	6.0%	0.0% 18.0%	Yes
Socially Responsible Overseas Shares	6,407,315.90	3.5%	30.4%	17.0% 37.0%	Yes
International Listed Property	1,347,122.60	0.8%	6.8%	0.0% 10.0%	Yes
Unlisted Property	-	-	-	0.0% 10.0%	Yes
International Listed Infrastructure	1,349,079.70	4.8%	7.0%	0.0% 10.0%	Yes
Unlisted Infrastructure	-	-	-	0.0% 10.0%	Yes
<b>Total</b>	<b>20,467,058.29</b>	<b>2.9%</b>	<b>100.0%</b>		<b>Yes</b>

### 3.0 Treasury Investments

No treasury investments currently held.

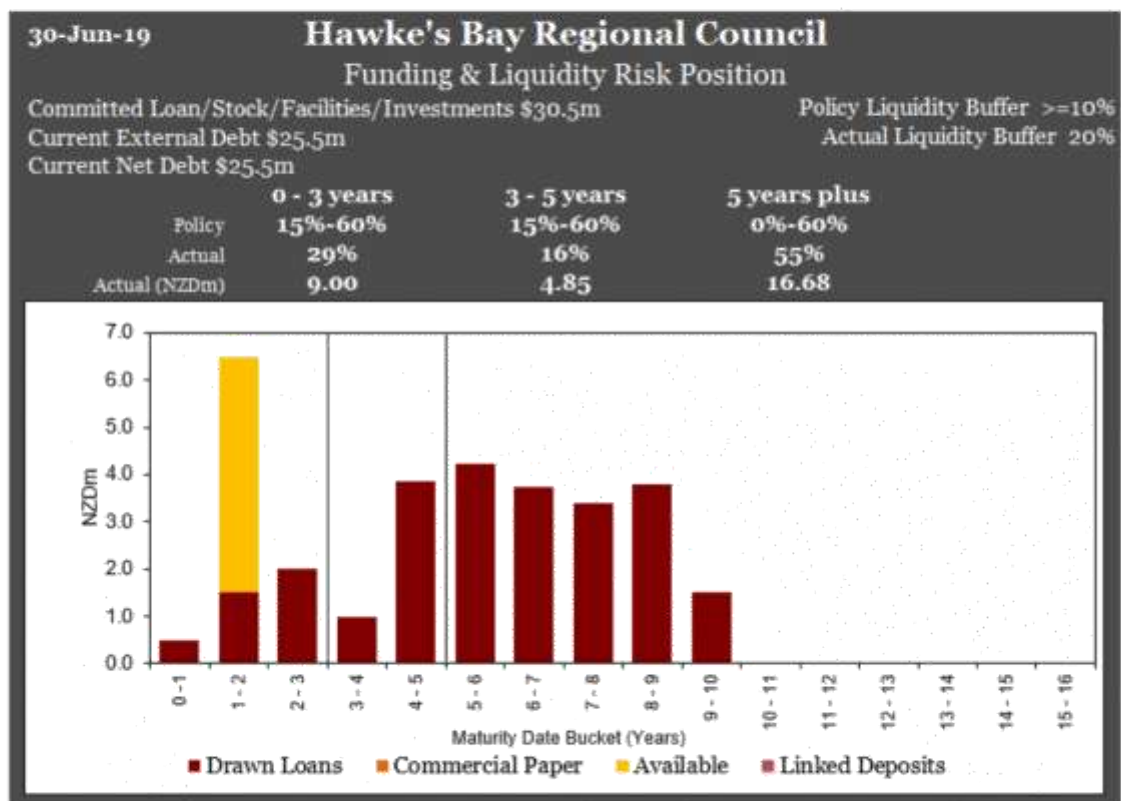
### 4.0 Liability Management Policy Compliance Checklist

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.

30-Jun-19			
<b>Liquidity Buffer:</b>	10%		
Actual	20%		
Policy Compliance	Y		
<b>Funding Maturity Profile:</b>			
Years	0 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	29%	16%	55%
Policy Compliance	Y	Y	Y
<b>Weighted Average Duration:</b>			
Funding		5.17 Years	
Fixed Rate Portfolio (swaps and fixed rate loans)		5.86 Years	
<b>Weighted average margin</b>		0.07%	
<b>Weighted average Commitment/Line Fee</b>		0.04%	
<b>Weighted average fixed rate (swaps &amp; term loans/bonds)</b>		5.56%	
<b>All up cost of borrowing (On Drawn Debt)</b>		5.25%	

## 5.0 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.

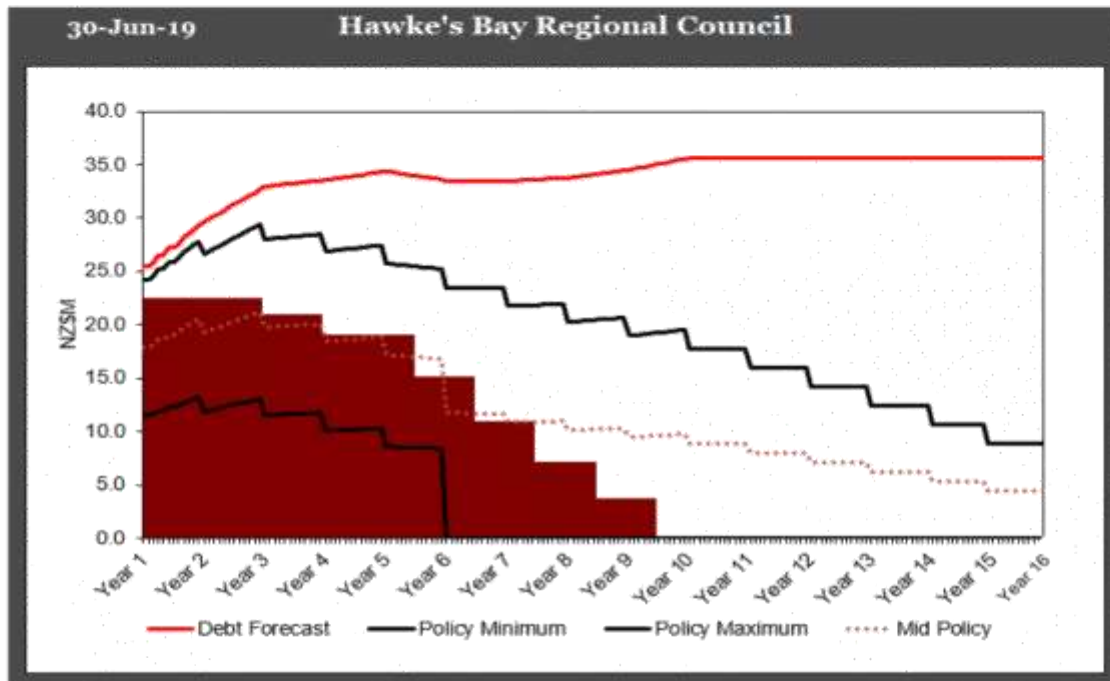




## 6.0 Interest Rate Risk Position

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)
Year 1	26	45%	95%	88%	Yes
Year 2	30	40%	90%	76%	Yes
Year 3	33	35%	85%	64%	Yes
Year 4	34	30%	80%	57%	Yes
Year 5	34	25%	75%	55%	Yes
Year 6	34	0%	70%	45%	Yes
Year 7	33	0%	65%	33%	Yes
Year 8	34	0%	60%	21%	Yes
Year 9	35	0%	55%	11%	Yes
Year 10	36	0%	50%	0%	Yes
Year 11	36	0%	45%	0%	Yes
Year 12	36	0%	40%	0%	Yes
Year 13	36	0%	35%	0%	Yes
Year 14	36	0%	30%	0%	Yes
Year 15	36	0%	25%	0%	Yes

## 7.0 Funding Facility

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

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
<b>Excess amount</b>	<b>2.45</b>	<b>2.70</b>

## 8.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy.

Counterparty Credit Risk (Interest Rate Risk Management Instruments and Investments)			
<b>Rates Revenue</b>			\$ 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

## 9.0 Market Commentary

### Investment markets

A see-saw movement was evidenced in global equity markets over the second quarter of 2019 with periods of declines ultimately overshadowed by the end of the quarter with new all-time highs being reached. Declines in equity indices were prompted by an escalation of the US/China trade dispute as well as a weakening in the international macroeconomic growth outlook.

These losses were reversed by quarters end with news from the Trump/Xi meeting at the G20 summit in Osaka that no new tariffs would not be immediately implemented. This decision was viewed favourably by investment markets. Further supporting this market improvement and the key driver behind equity market momentum, are the indications of further monetary policy stimulus being provided by global central banks, most notably the US Federal Reserve (Fed). With a slowing growth outlook, evidence of a softening employment market and core inflation levels moving below target, markets have begun to aggressively price in interest rate reductions by the Fed. This view has been supported by recent comments from Fed Chair Jerome Powell and has ultimately lead to significant movements lower in interest rates (i.e. bond prices higher) and all time highs in equity indices as investors hunt for yield.

The forward direction for equity markets is contingent on two key aspects; investors desire to achieve sufficient return levels and also corporate earnings matching equity pricing. Interest rate settings are likely to remain lower for longer, supporting the 'there is no alternative' to equity markets for sizable returns. However, the ability for corporate earnings to meet valuations poses a potential challenge in an environment of slowing global growth momentum.

### Funding markets

Credit margins widened throughout 2018 as the Fed normalised interest rates, spooking some riskier asset classes, including credit markets. However, a considerably more balanced, and now 'dovish', tilt by the Fed has helped improve global credit market conditions during 2019 and decreased credit margins during Q1. Increasing geopolitical risks have also prompted investors to reassess their risk tolerance during 2019, widening lower quality credit margins and supporting investor demand for higher-rated bonds. As a result, LGFA credit margins decreased across all tenors in 2019/Q1 and Q2.

The Reserve Bank of New Zealand (RBNZ) is also on the path of decreasing the Official Cash Rate, indicating interest rates will remain 'lower for longer'. The result has been a considerable move lower in bond yields, as well as swap and deposit rates. With Government bond yields having dropped to historical lows, we expect some substitution into LGFA bonds as a way for investors to marginally improve total returns. There is some risk that retail investors move down the credit curve, chasing higher yields. On balance, and supported by the movement lower in longer dated LGFA credit margins, it is expected that demand for LGFA bonds will remain firm over 2019.

### Interest rate markets

During late 2018 and early 2019, the domestic economic data pulse for employment, inflation and real GDP growth has softened. Notably, surveys of general business confidence and firms' own activity outlook have weakened, justified by ongoing geopolitical tensions, resource constraints, margin compression and global trade tensions.

The RBNZ's monetary policy assessment placed considerable weight on global economic growth conditions and the monetary policy stance of foreign central banks. Over recent months, the ongoing conflict between the US and China (and elsewhere) has intensified, keeping business sentiment and trade activity on the back foot. The political unpredictability factor has made it very difficult for central banks to be constructive on the economic outlook. Indeed, many measures of global manufacturing sentiment and trade have worsened. Further, many central banks within the G10 have cut interest rates or expressed the intention to do so.

At its May, Monetary Policy Statement, the RBNZ cut the OCR to a historically low 1.5% as it seeks to generate medium term inflation with further OCR cuts likely.

Given the above, global interest rates have fallen considerably, and New Zealand wholesale market swap rates have declined to historically low levels. The interest rate market has moved swiftly to price OCR cuts in August, and one more time by February 2020. Over the medium-term, the outlook for New Zealand interest rates is for them to remain low with a bias lower.

#### 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 only \$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.

### 10.0 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.

## 11.0 Appendix

### New Treasury Transactions up to 30 June 2019

#### Borrowing activity

Bank/LGFA	Amount (NZDm)	Borrower notes (NZDm)	Deal Date	Start Date	Maturity Date	Commitment Fee	Margin
LGFA	1.00	0.016	7 May 19	10 May 19	15 Apr 23	N/A	0.665%
LGFA	1.50	0.024	7 May 19	10 May 19	15 Apr 29	N/A	0.958%

#### 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 21 August 2019**

**Subject: PROCUREMENT HUB UPDATE**

**Item 8**

**Reason for Report**

1. This item provides the sub-committee with an update on progress to establish Council's Procurement Hub.

**Background**

2. In May 2018 Crowe Horwath completed a Procurement & Contract Management Review and 28 recommendations were adopted.
3. Findings of the review determined 5 key areas for improvement, being to:
  - 3.1. Centralise contract management
  - 3.2. Standardise procurement templates
  - 3.3. Introduce procurement plans
  - 3.4. Introduce monitoring and evaluation tools.
4. 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'.

**Progress**

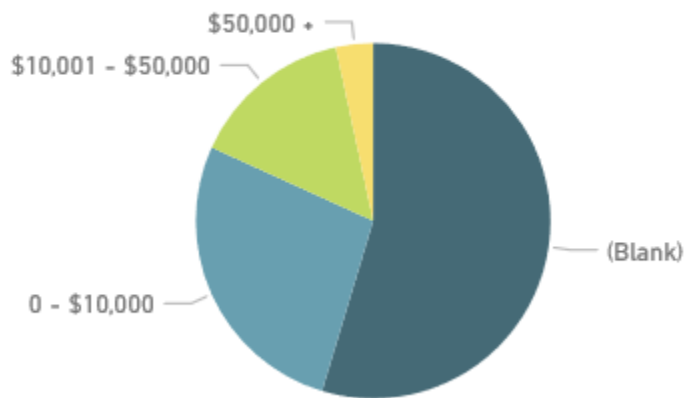
5. During July through December 2018 Council's Contract Central, 'current' contracts (655) were cleansed group by group, down to 475, and archived.
6. From January through July 2019, development, building and testing of the Procurement Hub was undertaken and the 2015 HBRC Procurement Policy & 2016 Operational manual were updated and approved to reflect:
  - 6.1. Combining OAG (Auditor General) principles (2018) and HBRC procurement principles (2019)
  - 6.2. Providing MBIE standardised templates with best practice guidelines
7. The procurement hub was 'soft launched' in July 2019 and training is now being cascaded by group, with presentations by Hub staff, as an advice and guidance resource. To date, presentations have been made to the Executive Leadership Team, 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 Integrated Catchment Management groups.
8. For the 2018-19 year in the now archived Contract Hub there were 236 new contracts as shown in Table 1 following.

Table 1 – Archived Contracts

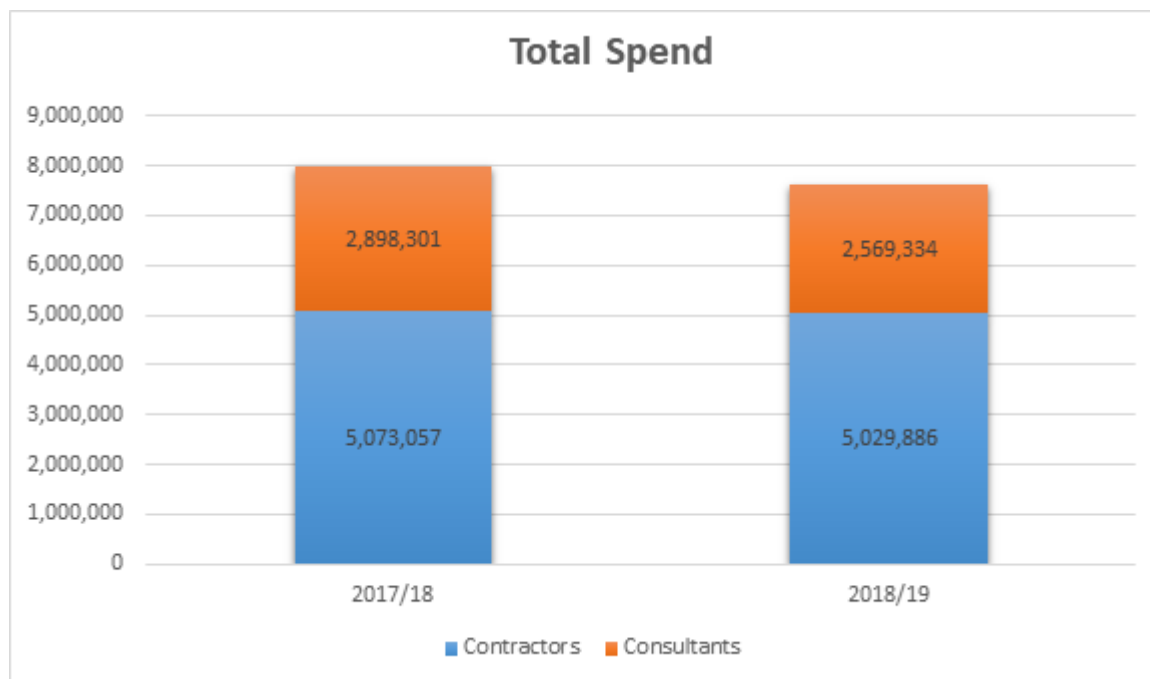
Group	Section	# of Contracts	Total
Integrated Catchment Management	Land Management	27	
	Animal Pest Management	22	
	Groundwater	10	
	Water Quality & Ecology	9	
	Plant Pest Management	8	
	Land Science	5	
	Hydrology	2	
	Water Information Services	1	
	Air Management	1	85
Asset Management	Land Drainage & River Control	59	
	Regional Open Spaces	5	
	Forestry	1	65
Corporate Support	Financial Management	48	
	Corporate Support	4	
	Communications	1	
	Information Technology	1	54
Strategic Planning	Plans, Policy & Strategy	14	
	Transport Management	4	18
CDEM		7	7
Regulation		7	7

9. The breakdown below shows that up to February 2019 we didn't capture value and risk effectively. This has now been included in line with audit recommendations as mandatory data requirement from February 2019 onwards, in the Procurement Hub.

Count of Contracts Created By Value







10. Procurement information is now available (from July 2019) 'live' at organisation and group level utilising a Power BI Dashboard as below.
11. Reports will be provided monthly to the executive team, and to every Finance Audit and Risk Committee meeting.
12. So far, a contract is being generated across the organisation every day, with the contract being one part in a three stage (planning, sourcing and managing including evaluation) process.
13. Further levels of detail are available at group, service and contract manager levels.



14. 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.

15. The procurement team will continue to apply a continuous improvement ethos to meet organisational need.

#### **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 “*Procurement Hub Update*” staff report.

#### **Authored by:**

**Mark Heaney**  
**MANAGER CLIENT SERVICES**

#### **Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

#### **Attachment/s**

There are no attachments for this report.

**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**Subject: AUGUST 2019 SUB-COMMITTEE WORK PROGRAMME UPDATE**

**Item 9**

**Reason for Report**

1. In order to ensure the sub-committee's ability to effectively and efficiently fulfill its role and responsibilities, an overall update on its work programme is provided following.

<b>Task</b>	<b>Item</b>	<b>Scheduled / Status</b>
Internal Audits	Cyber Security	Report received – to be presented to first FARS meeting of triennium
	Data Analytics	Scheduled for Q2 2019 FARS meeting.
	Water Management – Follow Up Review	Report was presented to 22 May FARS meeting, with further follow up report scheduled to be presented to Q3 FARS meeting
	Asset Management	Scheduled for Q3 FARS meeting
	Risk Management	Scheduled for Q4 FARS meeting
Risk Assessment & Management	Reporting on risks (6-monthly) affecting Council plus noting changes / improvements / areas that require attention from last report (3-monthly).	Presented to 19 September 2018, 12 February and 21 August 2019 meetings. An internal risk management advisory team has been created to consider developing a risk appetite framework for the Council. A Risk management review is proposed for the 2019-20 financial year.
Insurance	Council's proposed 2018-19 Insurance programme.	Update presented to 22 May FARS meeting. Insurance now placed effective August 2019.
Annual Report	Discussion on Audit Management Letter. Discussion on the major issues (if any) in the audit report on the Annual Report.	Staff to review the 2019-20 Audit Management Letter, and respond accordingly. Staff have engaged in discussions with Audit NZ pertaining to the disclosure of HBRIC financials prior to the Napier Port IPO.
S17a Efficiency Reviews (Section 17a Local Government Act)	Update on progress and findings of Section 17a Efficiency Reviews.	Staff focus is on specific areas of the Asset Management team to evaluate areas of efficiencies and the subject of a Public Excluded item on the 21 August 2019 FARS agenda.
Investment Returns & Treasury Monitoring	Update on Treasury function within Council.	Treasury Update standing item on 21 August 2019 FARS meeting
Living Wage	Procurement and Contract Management	Living Wage weighting is now part of Council's procurement process.

**Decision Making Process**

2. 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 *“August 2019 Sub-committee Work Programme Update”* staff report.

## **Item 9**

**Authored by:**

**Shash Davé  
CHIEF FINANCIAL OFFICER**

**Approved by:**

**Jessica Ellerm  
GROUP MANAGER  
CORPORATE SERVICES**

### **Attachment/s**

There are no attachments for this report.

**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**Subject: PROPOSED LOCAL GOVERNMENT ACT SECTION 17A REVIEW**

That Council excludes the public from this section of the meeting, being Agenda Item 10 Proposed Local Government Act Section 17a Review with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUNDS UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Proposed Local Government Act Section 17a Review	7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

**Authored by:**

**Shash Davé**  
**CHIEF FINANCIAL OFFICER**

**Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER CORPORATE**  
**SERVICES**



**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 21 August 2019**

**SUBJECT:** Confirmation of Public Excluded Minutes of the Finance Audit & Risk Sub-committee meeting held on 22 May 2019

That the Council excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 11 with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

**GENERAL SUBJECT OF THE  
ITEM TO BE CONSIDERED**

Proposed 2019-20 Council  
Insurance Programme

**REASON FOR PASSING THIS RESOLUTION**

7(2)(i) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to enable the local authority holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

**GROUND'S UNDER SECTION 48(1) FOR  
THE PASSING OF THE RESOLUTION**

The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

**Authored by:**

**Leeanne Hooper**  
**TEAM LEADER GOVERNANCE**

**Approved by:**

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

**Item 11**