Meeting of the Finance Audit & Risk Sub-committee

Date: Wednesday 17 February 2021

Time: 9.00am

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

Agenda

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HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 17 February 2021

Subject: SIX MONTHLY RISK REPORT AND RISK MATURITY UPDATE

Reason for Report

1. This item and accompanying presentation present the Regional Council's (Council) six-monthly enterprise risk report as well as an update on progress towards risk maturity.

Background

2. At the Corporate and Strategic Committee meeting held on 10 June 2020 the Committee endorsed the risk maturity roadmap for Council. At that meeting it was agreed that the FARS would oversee implementation of the maturing risk management system. With the focus on ensuring the evolving risk system is progressively delivering value to the organisation, and that the roadmap deliverables remain on track. Oversight of Council's risk maturity by FARS can be evidenced through improvements to governance risk reporting. Therefore, the risk maturity update and Council's six-monthly risk report have been combined into one agenda item.

Discussion

3. As part of the risk management maturity roadmap both a risk management policy and framework were developed and approved by Council. By applying the risk methodologies outlined in the risk framework a 'new look' risk report with refreshed enterprise risks was presented to, and endorsed by, the FARS at the August 2020 meeting. The August 2020 enterprise risk report and the accompanying enterprise risks have now formed the baseline for presenting changes to the Council's risk profile. All updates between risk reports are denoted as tracked changes or red text.
4. At the August 2020 meeting it was noted that due to timing of the meeting each enterprise risk had not been subject to bowtie analysis as required in the framework. Therefore, some changes noted from the August 2020 report to this current risk report reflect Council's continual risk maturity and improved risk synthesisation resulting from undertaking the bowtie analysis, rather than reflecting a change to Council's risk profile.
5. At the November 2020 FARS meeting and as a milestone for risk maturity it was agreed over the proceeding risk reporting period to February 2021 at least six enterprise risk would have bowtie analysis applied. And, the bowtie analysis output to be reflected in the enterprise risk report. Bowtie analysis was subsequently undertaken for the following risks with the enterprise risk report updated accordingly:
   - 5.1. Information Management and Security Not Fit for Purpose (incl. cyber)
   - 5.2. Business Interruption
   - 5.3. People Capability
   - 5.4. Fraud
   - 5.5. Heath, Safety and Wellbeing
   - 5.6. Infrastructure and Asset Management Not Fit for Purpose.
6. As per the agreed risk maturity roadmap the remaining enterprise risks will have bowtie analysis undertaken over the next risk reporting period to April 2021. Completion of bowties by April 2021 is in preparation for meeting the target date of setting the Council's risk appetite within the first half of 2021.

Summary of Risk Reporting Changes

7. The following material changes are noted in the current enterprise risk report compared to the August 2020 report.

8. Risk 5 - Information Not Fit for Purpose (incl. Cyber) formally titled Information Security (Cyber)

   8.1. Through the bowtie analysis it is clearer that this risk has two distinct components, being:

      8.1.1. information management, and

      8.1.2. information security.

   8.2. Analysis of information management has determined that without implementing additional controls to improve information storage over the next 12 months it is 'likely' that increased storage costs will exceed $500k. Therefore, the residual likelihood risk assessment has been elevated from 'possible' to 'likely'. There was no resulting change to the risk rating. It is noted that without changing information management processes and staff behaviours storage cost increases will likely be exponential and not linear over proceeding years. A deeper dive into this risk and proposed corrective action initiatives will be presented to the FARS at the meeting.

9. Risk 8 – Business Interruption

   9.1. There has been no change to the risk or overall control rating for Business Interruption. However, the risk has been updated to reflect structured activities that Council has initiated to ensure the pandemic safety response plan remains relevant for the more virulent mutations of Covid19. Especially as the more virulent strains are now being detected at New Zealand's border.

10. Risk 9 - People Capability

   10.1. There has been no change to the risk or overall control rating for People Capability. However, bowtie analysis undertaken has helped reinforce that the People and Culture (P&C) strategy is successfully targeting improvements to 'People Capability' by focussing on core P&C activities and critical P&C controls. Therefore, the residual risk commentary and control corrective action plan has been updated to better reflect the current state.

11. Risk 11 - Health, Safety and Wellbeing

   11.1. Over the last six months several improvements have been implemented to Council's Health and Safety System. While continual improvement to Council's Health and Safety System will endure, the overall control assessment has improved from 'requires improvement' to 'effective'. Resulting in the residual likelihood assessment changing from 'possible' to 'unlikely'. The change in the residual likelihood reflects the focus for control corrective actions being on reducing the likelihood for a 'major' health and safety incident. There was no resulting change to the residual risk rating.

12. Risk 13 - Third Parties and Contractors

   12.1. Critical contracts such as Council's Work's Group and other key contracts that expose Council's to direct material financial risks are well managed. These contracts follow structured procurement practices from initiation to ongoing performance monitoring. However, services or supply arrangements that do not attract high direct financial risks are not explicitly included in the formalised procurement management system. Some contracts or MOU's arrangements while not attracting significant direct financial risk could present elevated qualitative risks to Council e.g. reputation. Therefore, a feasibility review on incorporating such arrangements into the procurement management system is being considered. For this reason, the overall control assessment has changed from 'effective' to 'requires improvement' and the residual likelihood assessment has been elevated from 'unlikely' to 'possible'. There was no resulting change to the residual risk rating.

13. The remainder of changes noted within the enterprise risk report relate to minor updates due to new information contained within the supporting risk information. Or, because of risk clarification due to bowtie analysis having been undertaken.

Strategic Fit

14. The six-monthly risk report facilitates discussions to ensure that any emerging matters within Council's internal or external environment are being managed. And, therefore unlikely to impinge of Council's ability to deliver on its strategy. In addition, the maturity of Council's risk management system contributes towards achieving excellence in execution of strategy. A mature risk system provides consistent risk intelligent decision making enabling the efficient prioritisation of finite organisational resources to deliver on strategy.

Financial and Resource Implications

15. Maturity of the risk management system is phased to minimise budgetary implications. Some facilitated workshops will be required to establish the risk appetite with Council.

Next Steps

16. Implementation of the risk management maturity roadmap continues. Scheduled actions for the next quarter include:
    16.1. Finalising the bowtie analysis for all remaining enterprise risks
    16.2. Analysing the feasibility of continuing with the scheduled risk appetite workshop between the ELT and Council due to ongoing border closures and the inability to get the preferred workshop facilitator in person
    16.3. Identification of Risk Champions within each Group
    16.4. Training of those Risk Champions on Regional Council's risk management policy, framework and practices, and finally
    16.5. Approval of the draft Regional Council internal assurance framework
17. The FARS should note that while these activities are targeted for the next quarter, there is some dependency on the speed at which a replacement Risk and Assurance Lead can be appointed.

Decision Making Process

18. 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:
    18.1. 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 on 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
        18.1.1. 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
        18.1.2. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks
        18.1.3. report on the robustness of risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

Item 4

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the *"Six Monthly Risk Report and Risk Maturity Update"* staff report, specifically noting the changes in the *February 2021 Enterprise Risk Report*.
2. Confirms that the management actions undertaken and planned, as detailed in the *February 2021 Enterprise Risk Report*, adequately respond to the Risk Management Maturity Roadmap as endorsed by Hawke's Bay Regional Council on 24 June 2020.
3. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *Six Monthly Risk Report and Risk Maturity Update* provides adequate evidence of the robustness of Council's risk management policy and framework and progress to implement the maturing risk management system.

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RISK AND ASSURANCE LEAD

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

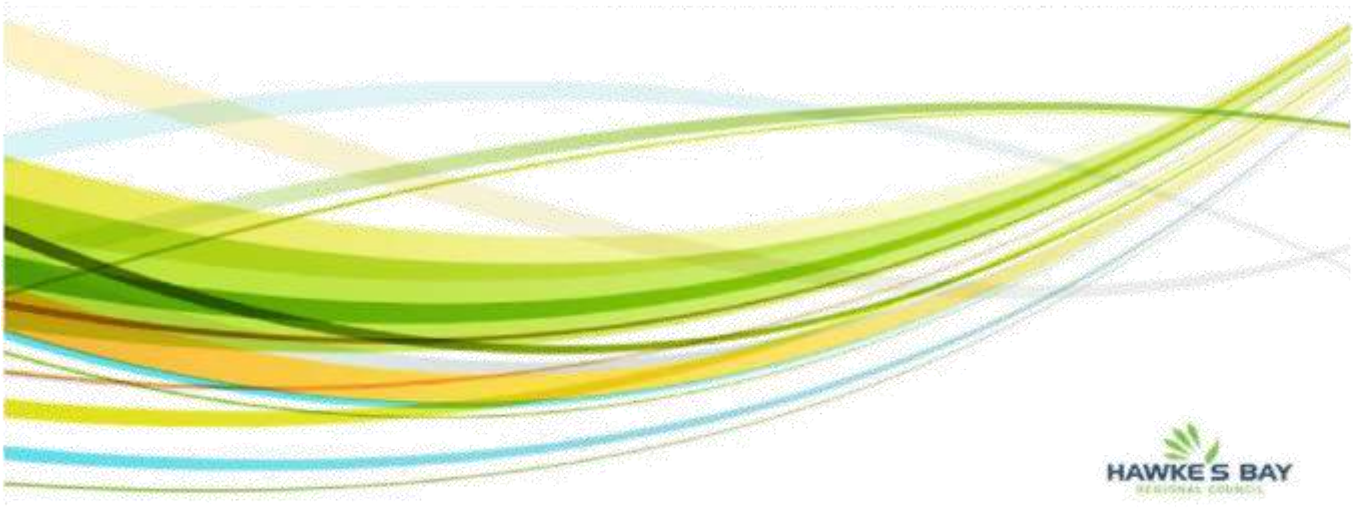
Attachment/s

⇩**1** February 2021 Enterprise Risk Report

Hawke's Bay Regional Council

Enterprise Risk Report

February 2021



Supporting Risk Information (Internal and External Context)

Legal and Regulatory Update

This year there will be regulations from the National Environmental Standards for Freshwater that will come into force. Landowners will be subject to compliance checks for these standards by the HBRC Compliance team. These include intensive winter grazing provisions from 1 May 2021, stockholding areas other than feedlots and application of synthetic nitrogen fertiliser to pastoral land come into force on 1 July 2021. This will result in an increased workload for the regulatory teams.

There is a watching brief on the potential RMA changes and are engaging with agencies and the Ministry for Environment on these proposals. The Policy team are ready to engage when draft provisions are released for submission.

Incidents

The Erosion Control Scheme (ECS) – ECS processes are currently under review to strengthen controls and improve Council oversight of resource allocation and execution of work.

Audit Update

The following reviews were completed during the current risk reporting period:

- Covid19 Debrief Report – a copy of this report was provided to the FARS at the November 2020 meeting - no material findings
- A Telarc quality system surveillance review, October 2020. This review was intended as a light touch surveillance review ahead of the HBRC's full ISO9001 – Quality Management revalidation audit scheduled for later in 2021. A summary of the full revalidation audit will be provided to the FARS. One major non-conformance was observed through the surveillance review that related to storage of some files on a desktop. The specific files have been backed-up and relocated to the correct drive, with targeted document storage training provided to the specific staff member. In addition, a wider organisational information management and information security project was already being scoped and will include addressing any potential systemic risks relating to information storage. It is intended the project will be rolled out over the next two years across HBRC.

There are no operational audits to report with 'high' findings.

Material Internal Change Projects

- OneCouncil financial systems upgrade through Technology One

Emerging Issues and Uncertainties

- Covid19 Global Pandemic
    - virulent strain mutations exacerbating the severity of second/third waves resulting in:
        - more stringent global lockdowns with potential for deeper global economic impacts
        - deeper global economic impacts may shift the global focus from environmental issues
        - continued lockdowns may increase disruption to global supply chains
        - unstructured global vaccination rollout may limit the effectiveness of global eradication of the virus therefore prolonging the global effects of Covid19
- Covid19 NZ second wave if border containment fails
    - business continuance – loss of building – loss of staff (sickness) – disrupted supply chains
    - deeper financial impacts for HBRC's
    - regional recovery prolonged impacting community sustainability
    - shift of focus from environmental sustainability to economic recovery
- Cyber security – increase high profile breaches within NZ (RBNZ and NZ Stock Exchange)

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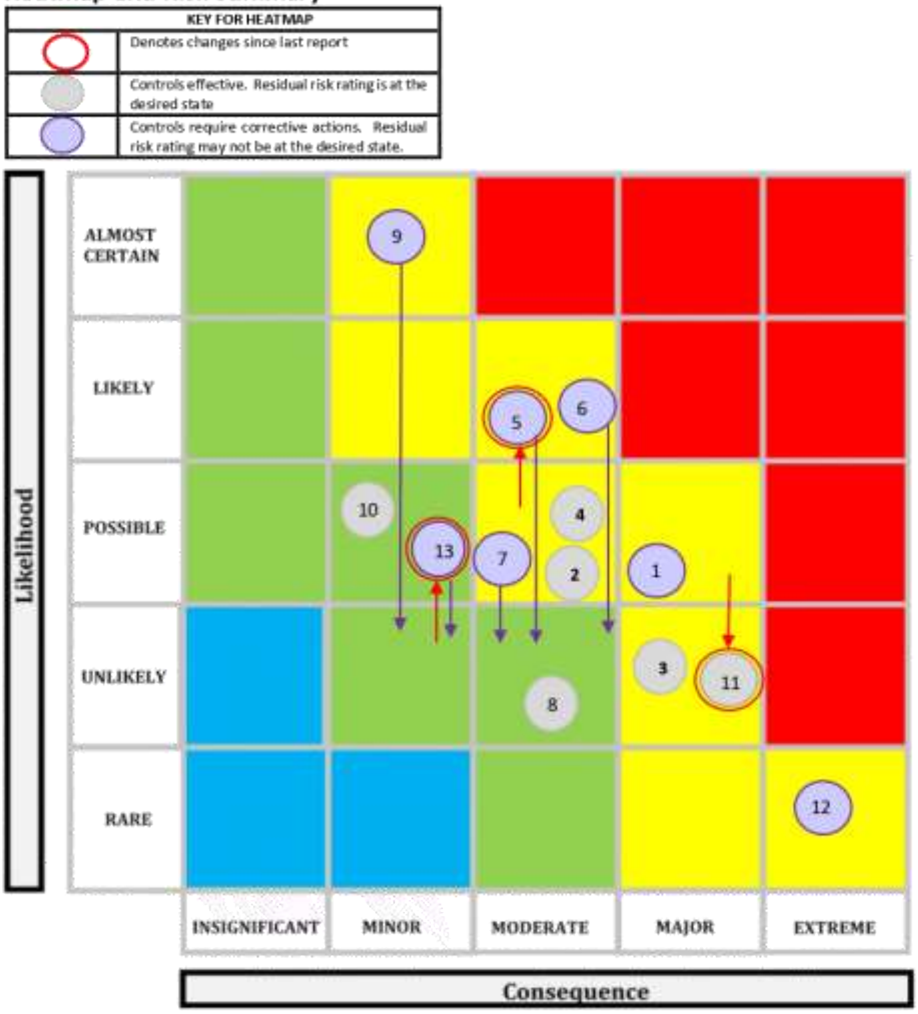
Corrective actions progress update (risk controls and internal audits)

See separate internal audit corrective action dashboard.

Heatmap and Risk Summary



Risk No	Risk Title	Inherent Risk Assessment			Control Assessment	Residual Risk Assessment		
		Likelihood	Consequence	Rating	Overall Rating	Likelihood	Consequence	Rating
1	Strategic	Likely	Extreme	High	Requires Improvement	Possible	Major	Medium
2	Financial	Possible	Extreme	High	Effective	Possible	Moderate	Medium
3	People, Community and Environmental Health	Likely	Extreme	High	Effective	Unlikely	Major	Medium
4	Strategic Partnerships	Almost Certain	Major	High	Effective	Possible	Moderate	Medium
5	Information Not Fit for Purpose (cyber)	Almost Certain	Major	High	Improvement	~~Possible~~ Likely	Moderate	Medium
6	Core ICT Services	Likely	Major	High	Improvement	Likely	Moderate	Medium
7	Legal compliance	Likely	Major	High	Improvement	Possible	Moderate	Medium
8	Business Interruption HBRC	Unlikely	Extreme	High	Effective	Unlikely	Moderate	Low
9	People Capability	Almost Certain	Major	High	Improvement	Almost Certain	Minor	Medium
10	Fraud	Likely	Major	High	Effective	Possible	Minor	Low
11	H&S and Wellbeing	Likely	Extreme	High	Effective Improvement	~~Possible~~ Unlikely	Major	Medium
12	Assets/ Infrastructure Not Fit for Purpose	Likely	Extreme	High	Improvement	Rare	Extreme	Medium
13	Third parties / Contractors	Likely	Extreme	High	Requires Improvement	~~Unlikely~~ Possible	Minor	Low

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Enterprise Risk Number & Name: 01 – Strategic

Risk Class: Strategic

Risk Description: As defined by Deloitte strategic risks are….. *'risks that affect or are created by an organisation's business strategy and strategic objectives'. Whereas, operational risks are 'major risks that affect an organisation's ability to execute its strategic plan'*. Therefore, this risk is broken into three parts.

- **Decision** risk – this component of strategic risk covers the mechanisms and constraints that exist in order for HBRC to proactively make the best possible decisions when setting both regional policy and strategic outcomes and objectives (rather than the relevance of the specific strategic outcome - a strategic risk assessment is intertwined in processs of decision making to set policy and strategic outcomes). Strategic decisions guide the regional policy statement and regional plan (as required by the RMA), along with the long-term plan and annual plan (as required by the LGA).
- **Implementation** risk – this component covers the processes of tracking and reporting HBRC's execution of strategic decisions which is one of the primary activities of the PMO.
- **Delivered** risk – transitioning change initiatives into the operational business and maintaining as BAU.

Exclusions and Assumptions: Business Interruption (refer Business Interruption to HBRC – Risk 9). PMO activities that are not specifically related to strategy project execution and tracking.

Risk Causes: regulatory environment (incl. RMA & LGA alignment, central government direction, policy and legislation reform), natural disasters, civil/global unrest, economic downturn, black swan events, data (internal & external), decision models, technology, social preferences, strategic partnerships, staff capability (capacity, competency, diversity), corporate agility, community expectations.

Inherent Risk Assessment Likely | Extreme | High

The inherent risk assessment assumes that with no controls strategic decisions would be 'likely' based on flawed data or bias. Therefore, decisions would not provide robust long-term solutions and outcomes to best manage the regional resources, nor provide an optimal business model. Suboptimal decision's made on usage and protection of a region's resources may cause irreversible environmental damage and therefore the inherent consequence is assessed as 'extreme'. The inherent risk rating is 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

Council has several robust processes and controls in place to ensure an inclusive approach is maintained within strategic decision making. In addition, strategic assumptions used to formulate decisions are tested and reviewed. HBRC has in place a regular performance reporting~~. However, due to the very long-term nature of regional outcomes over the next 12 months reporting will be improved to better link and report on milestones progress that are intrinsic to deliver the long-term outcomes.~~ on both strategic outcomes and outputs as well as projects. Due to the long lag time between Council interventions and improvements to the state and condition of the environment and complex causal relationships more analysis is required to better link and report on milestones progress that are intrinsic to deliver the long-term outcomes. This will be picked up by the incoming Strategy and Performance Team Leader currently being recruited

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Link outcome milestones to reporting	Recruit ~~fixed term contractor~~new Strategy and Performance Team Leader.	Strategy and Governance	December 2021	On track

Residual Risk Assessment Possible | Major | Medium

The residual consequence is evaluated as 'major' due to the increasing rate of external change and uncertainties both socially and environmentally. The residual likelihood is evaluated as 'possible'. HBRC has effective processes in place to ensure robust strategic decisions for regional sustainability and compliance such as; engagement and consultation/submissions, and committee structures. These mechanisms can also create tension to effectively 'make' decisions by; slowing the decision process down or disrupting the strategy by changing previous decisions due to new or conflicting views/opinions of various representatives or Committees. Corrective control actions noted should provide improved assurance to councillors however it is unlikely this process improvements will change the residual rating of this risk.

Enterprise Risk Number & Name: 02 – Financial **Risk Class:** Financial

Risk Description: This risk focusses on HBRC's financial risk. HBRC's financial risks have been categorised into three contributing risk types: market, liquidity, and credit. This risk considers financing choices and contributing impacts to those choices. It does not consider the day to day risk events that occur in the operations of the business.

Exclusions and Assumptions: It is noted that generally all enterprise risks result in some financial impact to HBRC's bottom line. The financial impact of each enterprise risk event is considered in the individual risk assessments. The risk assessment of HBRC's financial risk does not calculate and reflect the cumulative financial impact of all HBRC's enterprise risks.

Risk Causes: Monetary policy, bank default, credit rating, supply chains, recession/depression, regulatory (rating policy), operational incident.

Inherent Risk Assessment

Possible	Extreme	High

The inherent risk assessment assumes that with no controls it is 'possible' that HBRC's cashflow management and funding would be suboptimal particularly in recessionary times. In time of financial turmoil suboptimal financial decisions would likely have an extreme impact of greater than $2.5m. Resulting in an inherent risk rating of 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment

Effective

HBRC have several controls that mitigate this risk. Some examples include; Investment and treasury policies, forecasting, budgeting, professional services (PwC), qualified in-house accountants, delegation's policy.

Residual Risk Assessment

Possible	Moderate	Medium

~~The~~Global uncertainty resulting from Covid19 continues. These uncertainties have been generated by: virus mutations, global second/third waves, and ~~pandemic has~~ an unstructured global vaccination rollout. This uncertainty also creates ~~resulted in~~ financial uncertaint~~ies~~y, with an ongoing threat of ~~potential recessionary~~economic downturn for the world, and for NZ. ~~impacts, and lost revenues for HBRC.~~ Through HBRC financial controls HBRC continues to monitor and manage its financial position. Currently the impact is assessed as 'moderate'. However, as global Covid19 situation remains in crisis ~~is still ongoing and watch remains over the potential for a second wave. Therefore,~~ the residual likelihood assessment is noted a 'possible'. Resulting in an~~With the~~ overall residual risk rating assessed ~~as~~of 'medium'.

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Enterprise Risk No. & Name: 03 – People, Community & Environmental Health **Risk Class:** Sustainability

Risk Description: This risk considers both the social and environmental resilience of the Hawke's Bay region. Specifically included in this risk is the; environmental monitoring and analysis of natural resources, resilience of natural resources, and protection of natural resources (land, air, water) from compromise especially where the health of the community maybe jeopardised. In addition, this risk also includes the protection of the regions eco-system, biosecurity and pest control balanced against the economic impacts for the region.

Exclusions and Assumptions: The parameters for issue of consents is included. However, specifically excluded is HBRC's consent issue process and compliance monitoring process as HBRC are legally obligated to undertake these processes within the Hawke's Bay (see Legal Compliance – risk 07). Also specifically included is the dependency of networks and infrastructure that land, air and water depend of for resilience e.g. drainage. However, the management of assets and infrastructure that HBRC is directly responsible for is excluded (see risk 12 Assets and Infrastructure).

Risk Causes: Public disrespect (non-malicious), sabotage (malicious), poor public education/knowledge, natural disaster, international terrorism, recession~~ary~~ (global and domestic), data quality (science), misaligned regulations, regional policies/strategy, climate change, introduced species (fauna and flora), urban development, industry/commercialisation, TA performance (e.g. TA and RC strategy misalignment to; climate change, asset management, or town planning), third party contractors..

Inherent Risk Assessment	Likely	Extreme	High

The inherent risk assessment assumes that with no controls it would be 'likely' that activities of the public would compromise the sustainability of natural resources. With no monitoring and urgent remediation of public activities that ~~are~~ compromis~~ing~~e the natural resources (land, air and water) the impact and damage to the environment ~~could~~may be irreversible. Resulting in 'extreme' consequences and potential demise of many communities. Therefore, the inherent risk rating is considered 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment	Effective

HBRC have several controls that mitigate this risk. Some examples include specialist staff with technical qualifications e.g. environmental scientists, ecologists ~~etc. E~~ environmental benchmarking with proactive monitoring ~~using key environmental indicators.~~ 24/7 incident hotlines, ~~. P~~proactive community education programmes~~.~~, review and consultation on regional policies, TA and Iwi engagement, robust consent processes (ISO certified), pest control, erosion control, plantings etc. Therefore, the overall control assessment for this risk has been assessed as 'effective'.

Residual Risk Assessment	Unlikely	Major	Medium

The controls for this risk primarily work to reduce the likelihood of this risk event. Such as, public (including farm) education, continual scientific monitoring and proactive pest control. In addition, there are some controls that work to reduce the impact of the risk post event by expediating a response. Such as, 24/7 hotlines that target incidents and provide immediacy for a proactive response reducing any prolonged public or environmental harm. Individual critical controls and the overall control assessment to this risk are deemed effective. Therefore, the overall residual risk rating for the risk is assessed as 'medium'.

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Enterprise Risk Number & Name: 04 – Strategic Partnerships

Risk Class: Strategic

Risk Description: This risk considers those strategic partnerships that are key to the development and execution of regional policies and HBRC's strategic outcomes. For the purpose of enterprise reporting strategic partners specifically include, but are not limited to: Tangata Whenua, TLA's, ratepayers, emergency services (CDEM), other government agencies, rural, and urban.

Exclusions and Assumptions: Nil.

Risk Causes: Legislation, engagement, relationships, community diversity, societal, natural disasters, recession, staff diversity

Inherent Risk Assessment

Almost Certain	Major	High

The inherent risk assessment recognises that strategic partnerships are susceptible to social and political factors external to the region and that without proactive controls e.g. relationship management, it would be 'almost certain' to have a consequential and compounding 'major' impact on our business. HBRC Regional Planning Committee that include treaty partners is an example of a strategic and symbiotic partner where a breakdown in relationships would have catastrophic effect on our RMA obligations. Therefore, the inherent risk rating is 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment

Requires Improvement

There are several controls that are operating to manage this risk. These controls have been assessed as operating effectively. Some controls include:

- Specialist staff e.g. Maori Partnerships Team and Te Kupenga inter-council roopu-rural
- Targeted staff education/awareness e.g. CDEM, cultural capability tools
- Key relationship managers e.g. Te Pou Whakarae
- Community consultation processes

Residual Risk Assessment

Possible	Moderate	Low

The residual likelihood assessment of 'possible' acknowledges that there is always the potential that despite having key relationship managers for strategic partnerships there is always the possibility that certain groups may not engage, or, that within those groups a collective view is not shared. Through maintaining in-house specialists there is a high-level understanding of the cultural or operational needs of the key strategic partners and therefore material objects, or resources of material importance should be considered upfront mitigating the potentially for 'permanent' damage. As such the residual impact assessment has been evaluated as 'moderate' with the overall residual risk rating 'low'. The resourcing and management of quality relationships with strategic partners is instrumental toward risk mitigation.

Enterprise Risk Number and Name: 05 – Information Not Fit for Purpose (Cyber) **Risk Class:** Operational

Risk Description: Information security relates to both electronic and manual storage of data, and corporate/personal information. In addition, it considers real time information/instructions that are electronically transmitted through the operational (OT) network. Threats to information can be generated externally to HBRC or from within the organisation.

Exclusions and Assumptions: Performance and relevance of IT systems (refer Core ICT – risk 6), physical threats to staff (refer H&S and Wellbeing – risk 11), release of personal data by staff (refer legal compliance - risk 7), staff colluding through the system (refer Fraud – risk 10).

Risk Causes: cyber criminals (h~~H~~ackers, phishing, ~~opportunists, terrorism, malware,~~ ransomware), opportunists, terrorism/political, staff competency, contractor (3rd party) competency, ~~ITGC general controls, network security, physical security~~resignations, manual processes, technology failure, technology changes, natural disasters, physical parameters (work/home), portable devices/interconnectivity, bespoke systems, culture.

Inherent Risk Assessment Almost Certain | Major | High

There is an increasing global trend of cyber-crime therefore the inherent risk assessment assumes that with no controls such as firewalls it is 'almost certain' that HBRC would fall victim to an intentional or opportunistic cyber event. This type of event could have a 'major' consequence for HBRC partially impacting core services and resulting in national media coverage extending more than three days. Therefore, the inherent risk rating has been assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

HBRC have several technical preventative controls that are operating effectively e.g. firewalls, anti-virus, access controls, two factor authentication~~s~~, software upgrades etc. However, information management and security also depends on some compensating soft controls around staff and contractor competency to be alert to activities such as phishing attacks and to ensure the protection of physical information. As HBRC's risk and ~~the~~ ICT systems mature (see risk 5) the maturity of the information security management system (ISMS) will also be assessed to ensure full visibility of threats. In addition, ~~endorsement is sought to undertake~~ a review of Disaster Recovery Plan (DRP) to ensure alignment to Business Continuous Plan (BCP) was endorsed and is underway. Lastly, a project to improve staff and system capability to progress the internal management of information is being scoped.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Use the RMS maturity to prioritise and direct maturity of HBRC's ISMS. Where possible integrate ISMS into other risk-based mgmt systems.	~~Develop a workplan for ICT and include prioritisation for ISMS maturity.~~ Finalise scope and approval to initiate a project to systemise info mgmt and security. Undertake an HBRC wider stocktake of information.	Corporate Services	December 2021	On track

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Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Refresh the DRP in conjunction with critical processes identified in the BCP.	Progress the ~~Obtain endorsement for a~~ DRP review and refresh and implement technical strategies.	Corporate Services	December 2020	~~On track~~DRP project endorsed and refresh initiated - **Closed**

Residual Risk Assessment

Possible	Moderate	Medium

Despite an increasing global trend of cyber-crime, the residual ~~likelihood~~ risk rating~~assessment~~ considers that technical preventative controls are largely mitigating the possibility of a disruptive cyber- attack~~, with the residual likelihood assessed as 'possible'~~. Continued formalisation of the ISMS will focus not only on the technical controls but review the soft compensating controls to ensure any vulnerabilities with regards to people and contractors are mitigated. However, the residual likelihood has been assessed as 'likely' due to the internal management of information rather than any direct information security threat. It is assumed that if the management of information continues status quo because of; duplication of storage, increases in file sizes, and business preference for expensive storage options - storage costs could increase in excess of $500k over the next 12 month resulting in a 'moderate' financial impact to HBRC. In addition, ~~T~~the impact assessment acknowledges that the need for a DRP refresh that is now endorsed is being implemented. ~~and review to be endorsed and initiated so that the DRP aligns with the BCP. Any misalignment may result in core services being inoperative for longer than desired. The residual impact is therefore assessed as 'moderate'.~~ The overall residual risk rating is 'medium'.

11

Enterprise Risk Number and Name: 06 – Core ICT Services **Risk Class:** Operational

Risk Description: This risk considers performance, resilience and relevance of HBRC's IT (information technology) and OT (operational technology) systems. Systems include HBRC's corporate IT systems/applications, and the two OT networks currently used for river monitoring, and for pump station control (SCADA).

Exclusions and Assumptions: Cyber-attack (refer Information Security – risk 05).

Risk Causes: legacy systems, key person, enterprise architecture, technical dependencies/debt, disaster recovery, capacity planning.

Inherent Risk Assessment Likely | Major | High

The inherent risk assessment assumes that with no controls or methodologies ~~c~~Core OT and IT systems would 'likely' be susceptible to prolonged outages or corrupt data. Corrupt or lost data will lead to suboptimal decision making and potential the poor regional policies and ineffective internal operational objectives with a 'major' financial impact of greater the $1m and negative national media coverage over three or more days. The inherent risk rating has therefore been assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

The overall control assessment has been assessed as 'requires improvement'. While there is an overarching strategy to mature HBRC's ICT the absence of a permanent CIO meant the strategy was not effectively prioritised and therefore ICT strategy execution was constrained. ~~With a new risk management system and permanent CIO, a methodical risk-based approach can be developed to improve HBRC's enterprise architecture and process maturity.~~ Enterprise architecture improvements and process maturity priorities have been determined using a risk-based approach, with additional resources being recruitment to meet the priority timeframes. However, due to legacy 'ICT debt' it could take several years to exit low risk legacy systems.

Corrective Actions	Milestones	Owner	Due Date	Tracking Status
Onboard a Chief Information Officer (CIO)	Recruit a permanent CIO	Corporate Services	August 2020	~~On track~~Closed
Review ICT strategy and develop a medium-term risk based workplan	Review ICT strategy and risk assess priorities.	Corporate Services	October 2020 (to set priorities)	Closed ~~On track~~
Fully scope proritised ICT related projects	Finalise agreed project lists for year one and commence project scope	Corporate Services	July 2021	On track
Recruit full complement of ICT technical staff to meet prioritised project schedule.	Recruit required ICT technical staff.	Corporate Services	May 2021	On track

Residual Risk Assessment Likely | Moderate | Medium

The residual likelihood assessment has been rated as 'likely'. While an ICT strategy is developed the prioritisation and execution of the strategy has been constrained. As a result, ICT has been largely reactive to the business needs rather than proactive. The consequence of a reactive approach has resulted in capacity

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issues, maintenance of legacy systems and general constraints on providing 'future proofed' technology for the business. Therefore, the residual impact assessment is considered to be a 'moderate', reactive workarounds have ensured that the functionality of systems is maintained even if those systems have not been fully 'fit for purpose' in the business.

Enterprise Risk Number and Name: 07 – Legal Compliance **Risk Class:** Operational

Risk Description: This risk considers HBRC's ability to comply with regulations and legislation. This risk includes legislation and regulations that pertain to HBRC by virtue of being a: regional council e.g. CDEM, local council e.g. LGOIMA, and HBRC as an organisation e.g. Privacy or Contractual

Exclusions and Assumptions: HBRC consent issue process and consent monitoring processes are included in this risk. However, the public non-compliance with the consent is excluded. Parameters that inform the consent issue are also excluded (see People, Community and Environmental Health – Risk 3). This risk also excludes optional standards that HBRC comply with as part of strategy execution e.g. Quality Management System (QMS 90001) certification.

Risk Causes: staff capacity/competency/awareness, culture, values, risk appetite, misaligned management systems, organisational design, siloes, unstructured management systems, regulatory/legislation change.

Inherent Risk Assessment

Likely	Major	High

The inherent risk assessment assumes that with no controls HBRC staff will be unaware of all high-risk legal obligations that pertain to the organisation. Therefore, it is 'likely' that when setting strategy and establishing critical processes additional controls (procedures) maybe overlooked that ensure compliance. A breach of compliance that relates to a high-risk obligation would result in material prosecution/sanctions with a 'major' impact to HBRC. Therefore, the inherent risk has been assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

HBRC maintains high risk obligations relating to the mandated activities in the annual plan. However, there is no central obligations register for high risk corporate obligations that pertain to HBRC. HBRC employs key specialists to ensure compliance with many high-risk corporate obligations e.g. qualified accountants, procurement/contract experts, and technical HR specialists etc. However, a centralised high risk obligations register for all obligations would strengthen the overall control environment for this risk.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Add HBRC's high risk corporate obligations to the register	Establish a list of HBRC corporate obligations	Corporate Services	June 2021	On track

Residual Risk Assessment

Possible	Moderate	Medium

The residual risk likelihood rating is assessed as 'possible' while the consequence rating is assessed as 'moderate'. The overall risk rating is therefore assessed as 'medium'. The control environment is being strengthened through a centralised register that will include high-risk corporate obligations that HBRC must comply with. This register should ensure clarity of high-risk corporate obligations particularly when onboarding staff into specialist roles. Therefore, once implemented the residual likelihood rating will reduce from 'possible' to 'unlikely' and the overall risk rating will reduce to from 'medium' to 'low'.

Enterprise Risk Number and Name: 08 – Business Interruption **Risk Class:** Operational

Risk Description: This risk considers business interruption to HBRC operation and the execution of strategy through denial of core requirements including, staff, suppliers, property/equipment, technology systems, ratepayers and information.

Exclusions and Assumptions: Cyber event (refer Information Security – risk 6), denial of capital (refer financial – risk 2), asset failure (refer asset and infrastructure - risk 13), loss of key staff (refer people capability – risk 11), contractor performance (refer contractor and 3rd parties – risk 14).

Risk Causes: War / international unrest, natural disaster, civil unrest / protests, pandemic or epidemic, critical infrastructure / utility failure, political, economic (supply v demand).

Inherent Risk Assessment

Unlikely	Extreme	High

The inherent risk assessment assumes that with no controls there would be little planning and preparation to ready the business to respond to a material event that disrupts the business. Most significant events are outside of the control of HBRC e.g. natural disasters, pandemics, unrest etc. While the return period of disruptive events appears to be increasing as the world is changing the inherent assessment of these is still considered 'unlikely'. Without continuity planning the response to significant events would likely disrupt the business and jeopardise the delivery of critical services with an 'extreme' consequence. Therefore, the overall inherent assessment has a risk rating of 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment

Effective

HBRC have robust and effective business continuance plans to ensure that effective process work arounds respond to the different types of business disruptions. The business continuance plans (BCP's) where recently tested under the Covid19 lockdown. ~~It is noted that management are undertaking a staff debrief to capture any learnings from the Covid19 response as a continual improvement to the plans. In addition, HBRC also oversee the regional CDEM response to emergencies.~~ The setup of the CDEM office aligns to NZ Coordinated Incident Management System (CIMS) framework~~. The CDEM response was also undertaken effectively throughout the Covid19 lockdown.~~ Other controls include a suite of insurance policies.

Residual Risk Assessment

Unlikely	Moderate	Low

The controls such as HBRC's BCP's and CDEM's CIMS are considered corrective or recovery controls. Business interruption events in this risk tend to be external to HBRC and therefore HBRC has little control over preventing the event. However, post event HBRC's BCP and CDEM's CIMS structure work to minimise the disruption and ensure that critical services continue, reducing the impact. HBRC's internal response and CDEM's community response were successfully tested in during Covid19. ~~Management are undertaking a post-Covid19 review in both areas to ensure any learning are identified and implemented as continuous process improvements.~~ It is noted that in light of the recent community case in Northland of the more virulent South African strain, HBRC has stood up a small team to ensure that the documented pandemic processes and practices noted in the HBRC pandemic safety plan that were applied in 2020 remain 'fit for purpose'. In addition, this team is tasked with ensuring adequate levels of pandemic PPE remain in stock to quickly respond to any changing situation. The residual risk rating has therefore been assessed as 'medium'.

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Enterprise Risk Number and Name: 09 – People Capability **Risk Class:** Operational

Risk Description: This risk considers HBRC's 'people' assets. 'People' assets include HBRC's permanent, fixed term and temporary staff. The risk specifically looks at staff capacity and competency along with HBRC's culture and alignment to HBRC's values, strategy and purpose.

Exclusions and Assumptions: Contractors to HBRC (refer 3rd Parties and Contractors – Risk 14), health safety and wellbeing of staff and contractors (refer risk – 11), and staff fraud and corruption (refer risk – 10).

Risk Causes: job and skill market, employment brand, benefits (financial & non-financial), leadership, HR process, HR data/information, HR people capability, financial constraints, unconscious bias, ageing population, organisational change, documentation (SOP), training, strategy & value misalignment, location, work/life, advertising, organisational growth, personal life, technology.

Inherent Risk Assessment Almost Certain | Major | High

The inherent risk assessment assumes that with no controls and given the rate of change from a social, technological and economic perspective it is unlikely staff would remain competent in decision making both from a strategic and operational perspective. Therefore, the strategy may not proactively manage Hawke's Bay's natural resources, assets and infrastructure in a way that is sustainable for future generations. In addition, there would likely be insufficient transformational change within HBRC's operating model to maximise technological and operational efficiencies. With no controls due to the increasing rate of change in the world from both an environmental and technological perspective the inherent likelihood is assessed as 'almost certain'. In addition, as people capability and strong strategic and operational decision making is a core organisational competency for HBRC to ensure prosperous long-term regional outcomes the inherent impact would be 'major'. Therefore, the overall inherent risk rating in the absence of controls is assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

HBRC have in recent years developed a high-level HR strategy and continue to enhance controls to ensure HBRC staff have the right, capacity, competency, and culture. Examples of ~~these~~improvements include;

- Retention/capacity e.g. flexible working arrangements, job sizing, and remuneration
- Recruitment e.g. structured interviews, targeted advertising, and use of consultants
- Knowledge/competency e.g. PPDC~~, competency frameworks (specialists), development plans~~
- Culture e.g. corporate values aligned to strategy, ~~leadership development~~, staff surveys
- P&C Leadership e.g. ELT restructure, technical HR staff

~~Part of the HR strategy was to strengthen organisational leadership so a review of the Executive Leadership team (ELT) was undertaken resulting in an ELT restructure. In addition to the Leadership review other P&C priority areas were identified in the HR strategy, however continued implementation is pending recruitment of a P&C Manager. Therefore, while the ELT restructure is implemented, and a P&C Manager and ELT member is recruited the overall control assessment is noted as 'requires improvement'.~~ However, over the last two years there has been high staff turnover within the P&C team which has slowed the implementation of the HR strategy. Therefore, the overall control has been assessed as 'requires improvement'. Key initiatives to support strengthening critical controls that relate to HBRC's people and culture capability include: a workforce planning framework that initially focuses on talent management with a critical roles matrix, structure leadership development model supported by a values refresh, a learning and development framework with an initial focus of enhancing HBRC's competency framework to ensure technical, culture and integrated risks are covered (information (IT), quality, H&S and compliance), and lastly a relaunch/refresh of the PPDC model.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Implement new ELT structure	Recruit and reset new ELT	CE	Oct 2020	~~On track~~Closed
Reset and action P&C Strategy	Recruit P&C Manager	CE	Sept 2020	~~On track~~Closed
Implement a structured talent management framework.	Develop talent management framework and criteria. Then identify org talent and critical roles to apply framework too.	P&C Manager	TBD	On track
Strengthen HBRC's role-based competency framework and identify a system to manage the requirements.	Refresh the current competency framework to capture cultural, technical, and risk-based elements.	P&C Manager	TBD	On track
Leadership development model supported by a corporate values refresh.	Scope requirements for an HBRC leadership development model. Establish criteria to identify staff for inclusion.	P&C Manager	TBD	On track
PPDC refresh/relaunch.	Develop a plan to reset and refresh HBRC's PPDC process.	P&C Manager	TBD	On track

Residual Risk Assessment Almost Certain | Minor | Medium

While leadership are effective in strategy decision and execution. From a staff's perspective ~~operational decisions appeared to occur in siloes with inconsistencies between BU's resulting in~~ some negative staff feedback was received through the most recent staff survey regarding communication from leadership and the staffs ability provide feedback on improvements to leadership. Strong cohesive leadership that includes communication and challenge through feedback is foundational to ensuring operational excellence, staff retention, and cultural alignment.

The~~refore, an~~ ELT is now at full complement from the 2020 restructure and able to operate as ~~was initiated with an aim to provide~~ a more cohesive team. ~~In addition, the P&C Manager role is currently vacant and therefore execution of the full P&C strategy has also been delayed.~~The next stage is to strengthen leadership skills more broadly across HBRC by developing and rolling out a structured leadership development model. Leadership development will also be supported by a values refresh. While ~~repositioning of the ELT is~~these initiatives are being implemented ~~and recruitment of a P&C Manager is undertaken~~ the residual likelihood assessment is elevated to 'almost certain'. However, not all staff within any one line had provided negative feedback therefore the 'impact' assessment was not elevated from 'minor'. Providing an overall residual rating of 'medium'.

Enterprise Risk Number and Name: 10 – Fraud **Risk Class:** Operational

Risk Description: This risk considers both internal and external fraud. Fraud in this context refers to the wider definition where the act is intentional and deceptive. Fraud events may include; sabotage, corruption, information misstatement, financial theft, asset theft, willful damage and corruption.

Exclusions and Assumptions: Cyber event (refer Information Security – Risk 6).

Risk Causes: greed, political, social, opportunists, addictions, family pressure, coercion, poor leadership, ego / character, poor recruitment, disgruntled staff, financial pressure (economy)

Inherent Risk Assessment

Likely	Major	High

The inherent risk assessment assumes that with no controls to prevent fraud it is 'probable' that large fraud may go undetected for a period. However, given the limitations of HBRC's financial transactions we would not expect single or multiple occurrences to exceed $2.5m in any given year or a 'major' impact. The inherent risk rating is 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment

Effective

HBRC have several controls that are operating to ensure HBRC are not exposed to significant internal or external fraud. Examples of these include; data analytics, segregation of duties, protected disclosures (whistleblower), EAP services, gifts register, delegated financial authorities, physical security (CCTV, locks and alarms). The critical controls to reduce the likelihood or systematic nature of fraud are operating effectively and the therefore the overall control assessment is 'effective'.

Residual Risk Assessment

Possible	Minor	Low

The critical controls are considered to be working effectively and the overall control assessment has been rated as 'effective'. The residual risk likelihood rating is slightly elevated from 'low' to 'possible'. The increase in the rating acknowledges the emerging issue of Covid19 causing recessionary impacts and increasing financial pressures for both the Community and for Staff. Therefore, potentially increasing the probability of internal and external fraud or theft. The overall residual risk rating remains as 'low'.

Enterprise Risk Number & Name: 11 – Health, Safety and Wellbeing **Risk Class:** Operational

Risk Description: This risk considers both staff safety and wellbeing, and public safety. This risk specifically includes mental wellbeing. The risk focusses on the priority critical risk areas for HBRC ~~of~~that includes; stress and mental health, driving, working in various environments ~~equipment~~ (ergonomics and natural landscapes/elements), ~~mental stress (includes work type and volume),~~ public interactions, along with~~and natural landscapes (properties outside of HBRC e.g. farms). Along with the secondary key risk areas of heights, water (including rivers, lakes and marine),~~ hazardous substances, ~~confined spaces,~~ animals, viral/bacterial (epidemic/pandemic)~~, drilling, sound~~

Exclusions and Assumptions: Assumptions, the following activity is not undertaken - electrical (live power source). In addition, desk bound corporate office activities have been assessed as not material including uneven surfaces and cords (trips, slips and falls).

Risk Causes: vehicles (driving), equipment (manual handling), work pressure, personal pressures (addictions, illness, family)~~mental stress (includes work type and volume)~~, public~~ interactions~~, natural landscapes/elements (~~properties outside of HBRC e.g. farms), heights,~~sun, rain, wind, terrain~~water (including~~ rivers, lakes and marine), hazardous substances (exposure, inhalation), uneven surfaces, repetitive processes, plant/facilities/buildings, isolation, natural disasters, confined spaces, ~~animals, viral/bacterial (~~epidemic/pandemic~~)~~, ~~drilling, sound~~noise, poor culture/leadership, poor strategy/processes.

Inherent Risk Assessment Likely | Extreme | High

The inherent risk assessment notes the high-risk nature of the field work undertaken by HBRC staff involving activities such as off-road driving. With no functional health and safety system the identification of critical risks and critical controls would be inconsistent across Council. In addition, there would be lack of reported information from an actual or near miss serious harm or worse incident incidents therefore it is unlikely control corrective actions to strengthen safety processes would be identified. Given this the inherent likelihood is assessed as 'likely' and the inherent consequence 'extreme' as an incident could have a prolonged impact on staff. Therefore, the overall inherent risk assessment is conserved 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

HBRC has a systemised approach to H&S~~,~~. ~~t~~This includes; ~~a~~ specific H&S manual, identified critical H&S risks ~~and~~ and controls, embedded safe operating procedures (COP's) that are standardised and documented, competency framework, targeted H&S training, site safety and job risk assessments, and site observations ~~embedded safe operating procedures (COP's). While~~ HBRC's H&S system is considered fit for purpose and aligns in principle to agreed good practice international standards ~~it is built on the ACC WSMP framework that was expired in 2019~~. HBRC also employs technical H&S specialists that develop the H&S strategy, workplan and continual improvements to the H&S system.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Identify agree & align HBRC's H&S system to a current external standard	Develop a workplan that continues to improve HBRC's current H&S system while working towards aligning to a new agreed current standard.	People & Culture	June 2021	~~On track~~Closed

Residual Risk Assessment Possible | Major | Medium

The residual risk considers the likelihood ~~rating is assessed as 'possible' while~~an H&S incident would result in a ~~the consequence rating is assessed as~~ 'major'~~,~~ situation causing serious physical or psychological injury with permanent impairment . Given the recent improvements to the H&S system and the ongoing H&S

system improvements.~~ The overall risk rating is therefore assessed as 'medium'. This risk is contexed on HBRC's critical H&S risks which are considered high impact. Therefore, the controls focus on reducing the risk likelihood~~ that align in principle to agreed good practice international standards~~. The current H&S management system while based on the recently expired ACC WSMP framework is still considered fit for purposes as the system ensures~~ ongoing HBRC critical H&S risks and controls ~~are~~ identifi~~ed~~cation ~~with ongoing~~ training, monitoring and reporting ~~processes. An FY21 H&S workplan has been developed which aims to continually improve the current system based on WSMP while working towards implementing an HBRC H&S management system that is aligned to an existing H&S framework e.g. ISO45001~~ it is deemed 'unlikely' that a major H&S event will occur within the next 10 years.

Enterprise Risk Number & Name: 12 – Infrastructure and Assets Not Fit for Purpose **Risk Class:** Operational

Risk Description: This risk considers the management of HBRC's community (field) assets and infrastructure. Asset management aims to reduce asset related risk events by optimising the value of the asset throughout its lifecycle. Including development of asset objectives that align to the organisation's strategy then maintaining, upgrading and where appropriate disposing of assets aligned to objectives in a cost-effective way. HBRC's assets and infrastructure includes: bridges, boardwalks, stop banks, cycle trails, and forestry.

Exclusions and assumptions: excluded are financial assets and fixed assets that are specific to HBRC as an organisation e.g. building, tools and equipment etc. HBRC's public safety system (see H&S – risk 11)

Risk Causes: poor data (information management), models, regulations, financial (funding constraints~~CAPEX~~), contractors, climate change, sabotage (public damage), natural disaster, staff capability/culture, strategic alignment (1 in 100yrs), suppliers, recession/ depression, community expectations.

Inherent Risk Assessment Likely | Extreme | High

The inherent risk assessment assumes that no systemised approach to asset management would exist and therefore 'likely' assets would not be fit for purpose. This could result in a catastrophic failing of a stop bank in a significant weather event, or, significant overspend in CAPEX to maintain assets beyond their useful purpose. Both scenarios would result in an 'extreme' impact. Therefore, the overall inherent risk rating is assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment Requires Improvement

HBRC has a systemised approach to managing assets. The suite of critical enterprise controls includes: controlled documentation (COP's/Standards), procurement policy/practices, staff competency and training, physical security, maintenance and condition assessments, generators, backup pumps, BCP's/DR, Insurance, AP/LTP/AMP's and financial plans. ~~With effective a~~Asset condition assessments~~monitoring~~ and maintenance processes ~~in place~~are effective. Therefore, the high impact low probability (HILP) risks resulting from asset failure e.g. stop banks are well managed. However, due to the current asset management policy not aligning to 'best practice' for asset management systems ongoing assurance of the consistency of other HBRC's asset management practices is limited. Therefore, some continuous asset management system improvement opportunities have been identified.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Identify, agree and align HBRC's asset management system to a current external standard	Develop a workplan that continues to improve HBRC's and works towards aligning to a new agreed standard.	Asset Management	June 2021	On track

Residual Risk Assessment Rare | Extreme | Medium

The residual risk likelihood assessment is based on the probability of a stop bank breach. Stop banks being the asset/infrastructure with the potential to have the most catastrophic impact to the wider region if compromised. If a stop bank was to breach, the impact to the region would be 'extreme' due to the vast Hawke's Bay plains. However, stop banks have been designed and are maintained to withstand a 1:100-year event with an additional factor of safety. Therefore, the likelihood is assessed as 'rare'. The storm return period for this risk should be reviewed against the impacts of climate change. The overall risk rating is currently assessed as 'low'.

Attachment 1

Item 4

Enterprise Risk Number & Name: 13 – Third Parties and Contractors **Risk Class:** Operational

Risk Description: This risk relates to HBRC's key contactors and 3rd parties. Specifically covered are those parties that if they were to deliver suboptimal services or suffer complete failure could significantly impact HBRC's execution of critical processes, service levels, or strategy. Given the materiality of contractor services provided by HBRC's Works Group to Asset Management and Catchment Services, while internal, the Works Group quality output is specifically covered here.

Exclusions and Assumptions: This risk for the Works Group specifically relates to their quality of output. Risks such as fraud and H&S are covered by the respective risks in the enterprise report.

Risk Causes: contract~~,~~/~~-~~SLA's/MOU disputes, poor work instructions, documentation (standards, SOP's/COP's), insufficient data, resource capacity, economic/market, capability, natural event, force majure, supply chain disruptions.

Inherent Risk Assessment Likely | Extreme | High

The inherent risk assessment assumes that with no controls in extenuating recessionary times a key contractor engaged by HBRC to undertake critical processes could 'likely' fail. Due to the material nature of work being performed by the contractor such a failure could result in HBRC's inability to execute a critical task. Therefore, the overall residual risk rating has been assessed as 'high'.

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 12 August 2020 FARS report as risk appetite is still in development as part of the risk maturity road map.*

Overall Control Assessment ~~Effective~~Requires Improvement

~~HBRC recently reviewed and implemented changes to its contractor management system, this has ensured that contracts including those that pertained to key parties are proactively managed.~~ HBRC's OPEX and CAPEX asset programmes of work are managed through the asset management system. The~~, that system ensures the~~ Asset Management Team issue clear work instructions to the Works Group. The Works Group follows total quality management (TQM) standards that ensure output/work is performed to a consistent standard and that there is adequate resourcing to execute the work. HBRC has a suite of insurance polic~~y~~ies to ~~and~~ ensure~~s~~ where appropriate 3rd parties hold suitable ~~ility liability~~ insurances.

HBRC recently reviewed and implemented changes to its broader procurement management system to work towards ensuring services and supplies are: procured, sourced, selected, negotiated, executed, and reviewed in a structured and consistent way to mitigate risk. However, it is noted that the system applies only to procurement with material financial implications. Therefore, key services provided by third parties that do not attract a high direct financial cost but that may present elevated reputational or other qualitative risks may not be subject to the same scrutiny and oversight. Therefore, the overall control assessment is noted as 'requires improvement'.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Review the feasibility of expanding the criteria to include some third-party arrangements in HBRC's contract management system.	Undertake a risk-based feasibility review of incorporating third parties. If, determined viable establish a criterion to identify key third parties for inclusion.	Corporate Services	June 2021	On track

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Residual Risk Assessment	~~Unlikely~~Possible	Minor	Low

~~The residual risk likelihood assessment has been rated as 'unlikely'.~~ With the Works Group managed inhouse ~~this has mitigated~~ the probability of complete failure of this key Contractor is largely mitigated. Therefore, the residual risk assessment considers that there are some key services provided by third parties that may not fall into the financial threshold to be managed within HBRC's formal procurement management system. However, due to the nature of the services provided these third parties do carry an elevated level of qualitative risk to HBRC e.g. OSPRI. As a result, there is always the chance within a 12-month period that one of these arrangements may not meet HBRC's quality standards and therefore the residual likelihood has been rated as 'possible'. ~~For key external contractors the improvements to the contract management system means that key contracts are actively managed also reducing the risk of complete failure.~~ The residual impact assessment is rated as 'minor' as the most likely impact for HBRC would be negative media coverage of approximately 1-3 days. ~~With the Works Group managed inhouse TQM has been applied to ensure their work is managed and maintained to an agreed quality standard. For key external contractors the improvements to the contract management system means that key contracts are actively managed.~~ Therefore, the overall residual risk rating has been assessed as 'low'.

Appendix A - Risk Likelihood Matrix

LIKELIHOOD / FREQUENCY	QUALITATIVE CRITERIA	QUANTITATIVE CRITERIA	RETURN PERIOD (FOR REFERENCE)
ALMOST CERTAIN	Expected to occur in normal circumstances; Almost inevitable; Multiple prior experiences of a similar event occurring	90-100% probability of occurrence of occurring in the next 12 months	At least once in the next 12 months
LIKELY	Expected to occur in most circumstances; Not surprised if event occurs, likely to have been observed in other Councils / Industries	50% - 90% probability of occurrence	Greater than 12 months but less than 1 in 2-yearly event
POSSIBLE	Occasional occurrence; Not completely surprised if experienced; Event may have been observed either in the past, in other industries, or other Councils	10-50% probability of occurrence within 12 months	Between 1 in 2-year and 1 in 10-year event
UNLIKELY	Event unlikely to occur; Not experienced in the past but could occur; A similar event may have been experienced in other industries	1 – 10% probability of occurrence with 12 months	1 in 10-year and 1 in 100-year event
RARE	Improbable, highly unexpected event occurring in exceptional circumstances	< 1% probability of occurrence with 12 months	Greater than a 1 in 100-year event

Item 4

Attachment 1

Appendix B - Risk Consequence Matrix

IMPACT / CONSEQUENCE	PEOPLE HEALTH, SAFETY + WELL-BEING *(HSMS & HRMS)*	ESSENTIAL INTERNAL CORE SERVICES *(HBRC's BUSINESS INTERRUPTION - BCMS and ISMS)*	REPUTATION / BRAND / SERVICE QUALITY *(QMS / AMS)*	FINANCIAL *(FMS)*	LEGAL + REGULATORY *(Comp)*	SUSTAINABILITY (CULTURAL, COMMUNITY, ENVIRONMENT) *(EMS)*
EXTREME	Mass casualties or loss of life; substantial and permanent physical + psychological harm to multiple individuals Prolonged impact on all staff.	Substantial sustained inability to deliver core services; unable to execute critical tasks Remediation results in senior management being diverted for longer than 12 months	Sustained negative national media attention (>5 days); requires urgent attention from Councillors & Executives Complete or long-term failure of infrastructure / Assets and service delivery affecting whole communities, widespread disruption. Repair/replacement longer than 12 months	$2.5M	Multiple non-conformities or breaches of law or regulations; governance model under question	Loss of resources or objects of cultural / heritage meaning. Would cause catastrophic environmental damage materially impacting the eco-system that may result in, loss of species or fauna. Breakdown in economic activity resulting in disbanding of whole towns

IMPACT / CONSEQUENCE	PEOPLE HEALTH, SAFETY + WELL-BEING *(HSMS & HRMS)*	ESSENTIAL INTERNAL CORE SERVICES *(HBRC's BUSINESS INTERRUPTION - BCMS and ISMS)*	REPUTATION / BRAND / SERVICE QUALITY *(QMS / AMS)*	FINANCIAL *(FMS)*	LEGAL + REGULATORY *(Comp)*	SUSTAINABILITY (CULTURAL, COMMUNITY, ENVIRONMENT) *(EMS)*
MAJOR	Serious physical or psychological injury with permanent impairment. Impacts on all staff for a short to medium term.	Intermittent impact; core services partially functional (less than 90%); significant impact to key strategic objectives Remediation results in senior management being diverted for longer than 6 months but less than 12 months	Negative national media coverage >3 days; requires a coordinated media response Mid-term failure of infrastructure / Assets and service delivery affecting significant parts of whole communities, widespread inconveniences. Repair/replacement between 6 and 12 months	$1M to $2.5M	Material non-compliance or breach of duty; prosecution or sanctions feasible; legal dispute involves key stakeholders	Permanent damage to objects or resources of cultural / heritage meaning Extensive environmental damage requiring significant resources rectify that maybe ongoing. Impacts within emotional and psychological capacity of the community with ongoing reduced community services Breakdown of economic activity resulting on loss of whole communities or increase in irreversible poverty of whole towns

IMPACT / CONSEQUENCE	PEOPLE HEALTH, SAFETY + WELL-BEING *(HSMS & HRMS)*	ESSENTIAL INTERNAL CORE SERVICES *(HBRC's BUSINESS INTERRUPTION - BCMS and ISMS)*	REPUTATION / BRAND / SERVICE QUALITY *(QMS / AMS)*	FINANCIAL *(FMS)*	LEGAL + REGULATORY *(Comp)*	SUSTAINABILITY (CULTURAL, COMMUNITY, ENVIRONMENT) *(EMS)*
MODERATE	Physical injury with no hospitalisation or intermittent exposure to stressful environment Impact all staff in one line of business e.g. CEC strike action	Intermittent impact; temporary workarounds required to deliver core services at 90% capacity Remediation results in senior management being diverted for longer than 2 months but less than 6 months	Negative regional media attention (2+ days); loss of stakeholder confidence possible Short-term failure of infrastructure affecting some parts of the community. Repair/replacement between 1 to 6 months.	\$500K to \$1M	Material breach of regulation, or law; likely to be investigated by a regulatory body; material breach of contract by Council	Repairable damage to resources or objects of cultural / heritage meaning Localised impact on the environment that can be readily rectified but effort required to respond. One off recovery effort. Impacts within emotional and psychological capacity of a community. Medium term breakdown of economic activity resulting medium term hardship

IMPACT / CONSEQUENCE	PEOPLE HEALTH, SAFETY + WELL-BEING *(HSMS & HRMS)*	ESSENTIAL INTERNAL CORE SERVICES *(HBRC's BUSINESS INTERRUPTION - BCMS and ISMS)*	REPUTATION / BRAND / SERVICE QUALITY *(QMS / AMS)*	FINANCIAL *(FMS)*	LEGAL + REGULATORY *(Comp)*	SUSTAINABILITY (CULTURAL, COMMUNITY, ENVIRONMENT) *(EMS)*
MINOR	Minor casualties or injuries with off-site medical attention and no long-term effects Impact some staff across several lines of business	Limited, sporadic impact; core services provided at reduced service-levels Remediation results in some senior managers being diverted periodically for up to 2 months	Localised negative media coverage (1-3 days); loss of stakeholder confidence unlikely Isolated cases of infrastructure failures, Localised inconvenience to small pockets of the community. Repair/replacement between 24 hours and 1 month. No long-term impact on integrity or operation of Assets	$250K to $500K	Dispute may require mediation or mandatory reporting of non-compliance	Slight impact on resources or objects of cultural / heritage meaning that can be instantly remediated Limited impact on the environment that can be readily rectified but effort required to respond and minimize. One off recovery effort. Short term breakdown of economic activity short term hardship Limited impacts on community emotional and psychological capacity.

IMPACT / CONSEQUENCE	PEOPLE HEALTH, SAFETY + WELL-BEING *(HSMS & HRMS)*	ESSENTIAL INTERNAL CORE SERVICES *(HBRC's BUSINESS INTERRUPTION - BCMS and ISMS)*	REPUTATION / BRAND / SERVICE QUALITY *(QMS / AMS)*	FINANCIAL *(FMS)*	LEGAL + REGULATORY *(Comp)*	SUSTAINABILITY (CULTURAL, COMMUNITY, ENVIRONMENT) *(EMS)*
INSIGNIFICANT	Minor injuries; treatable on-site with 1st aid, no long-term impairment Impacts some staff on one line of business	Minor impact on essential / critical services provided Senior management respond to disruption within BAU	Local or assorted complaints; little recognition, minimal change in stakeholder confidence Inconsequential short-term failure of Assets. Repair/replacement less than 24 hours. No disruption to public services or utilities	$100k to $250K	Minor contractual or regulatory breach or non-compliance; possibly remedied w/out notification or fines	No disturbance on resources or objects of cultural / heritage meaning. Minimal impact on the environment or pollution – little direct damage to the ecosystem that is easily rectified within budget Little adverse emotional and psychological impacts on communities Discreet and short-term impacts of economic activity Response by emergency services and agencies no CDEM coordination required

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 17 February 2021

Subject: INTERNAL AUDIT WORK PROGRAMME UPDATE

Reason for Report

1. This item updates the Finance Audit and Risk Sub-Committee (FARS) on the progress of corrective actions that respond to internal assurance review findings that have previously been reported to the FARS, along with a status update on the current annual enterprise internal assurance plan. The plan was approved by FARS at the meeting in August 2020.

Officers' Recommendation

2. Council officers recommend that the FARS members consider and note the internal assurance dashboard and corrective action status update, and the internal assurance plan status update.

Discussion

3. At the November 2020 FARS meeting the Sub-committee endorsed two 'new look' internal assurance dashboards, being the:
   - 3.1. corrective actions status update, and
   - 3.2. annual enterprise internal assurance plan status update.
4. The purpose of the corrective action status update is to provide oversight to the FARS of open internal assurance findings from previously reported internal assurance reviews. The dashboard tracks progress of the corrective actions against agreed milestones, until the action is closed.
5. The purpose of the annual enterprise internal assurance plan status update is to provide the FARS with oversight of progress of individual internal assurance reviews that were approved by the Committee as part of the annual enterprise internal assurance plan.
6. Both internal assurance dashboards have been updated as at February 2021, and are attached.

Financial and Resource Implications

7. There are no financial implications or additional resource requirements resulting from this internal audit programme update.

Decision Making Process

8. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
   - 8.1. The agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:
     - 8.1.1. The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for (1.3) the independence and adequacy of internal and external audit functions
     - 8.1.2. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to (2.6) receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)

8.1.3. The Finance, Audit and Risk Sub-committee is delegated by Council to (3.6) review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework; and (3.7) assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

8.2. As this report is for information only, the decision making provisions do not apply.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. receives and notes the '*Internal Audit Work Programme Update*' staff report and accompanying dashboards.
2. Confirms that management actions undertaken or planned for the future adequately respond to the findings and recommendations of previously reported internal assurance reviews.
3. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *Internal Audit Work Programme Update* provides adequate evidence of the adequacy of Council's internal assurance functions and management actions undertaken or planned to respond to internal assurance review findings and recommendations.

Authored by:

Helen Marsden
RISK AND ASSURANCE LEAD

Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** Dashboard 1 - Internal Assurance Dashboard - Corrective Action Status Update

⇩**2** Dashboard 2 - Internal Assurance Annual Plan FY20-21 Status Update

HBRC Covid-19 Response Debrief Report – November 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Business Continuity, Pandemic Plans and Technology To enable a holistic based response and maintenance of critical pandemic supplies (e.g. PPE) for future pandemic events HBRC's pandemic safety plan should be linked to business continuity plan (BCP) Consider feasibility of restructuring HBRC's BCP's to take a denial type approach rather than an external hazard approach i.e. denial of: people, systems, suppliers, facilities. Strengthen the Disaster Recovery (DR) and BCP linkage.	Medium	Review current suite of BCP documents to identify improvements. Develop an implementation plan. ***Risk & Assurance Lead & Senior Health and Safety Advisor*** **Refer -** Cyber security audit - resilience finding and action	March 2021	Reviewed current Covid response plan to reflect MOH updates. IT DR test scheduled for March 27th 2021.	Develop project plan to prioritise updating HBRC's BCP documents. Add reviewed Covid19 response plan to the BCP suite of docs in Herbi. Analyse the feasibility of restructuring the BCP approach. If required, develop a roadmap. IT DR test to be executed. Review lessons learnt from DR test and allocate resourcing to quick wins / high risks.	**On track** **On track**

Item 5

Attachment 1

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Communication (Internal & External)	Low					
Internal communication in lockdown were positive. Therefore, the approach should be documented to ensure it is repeatable for future requirement to work remotely.		Update BCP suite of documents. ***Marketing and Communications***	March 2021		Capture internal comms practices that were initiated as part of the Covid19 lockdown response and link to the BCP Suite iof docs on Herbi	**On track**
There are a number of key stakeholder groups that may need to be specifically commuicated with tailored messages depending on the event.		Identify HBRC's key stakeholdder groups through developing a key stakeholder wheel and document in HBRC's BCP. ***Marketing and Communications***			Finalise key stakeholder wheel and link to HBRC's BCP suite of documents in Herbi.	**On track**
Telephony processes need to be consistent regardless of whether the call is being responded to by Council or Contact Centre staff.		Taking into account new capability of the recently upgraded telephony system. Review and improve processes for calls currently managed by the Palmerston North Contact Centre in a BCP situation. ***Corporate Support Manager***			Review current telephony BCP practices to identify improvements. Develop a project plan for implementation	**On track**
The corrective actions to control the risk of cross contamination of work bubbles at Guppy Road should now be documented.	Low	Ensure the pandemic safety plan is up to date with the most recent pandemic response process. ***Senior Health and Safety Advisor***	Febuary 2021		Review underway for Guppy Road staff bubbles to ensure continuity in case of a second Covid wave.	**On track**

HBRC Covid-19 Response Debrief Report – November 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Improve the rostering system for prolonged and slow-moving events (e.g. pandemics) with the aim of ensuring equitable distribution of tasks.	Medium	Improved rostering system to better manage staff resourcing requirements. ***Team Leader Hazard Reduction***	December 2020	Worked with HBRC ICT to present draft proposal October 2020 to HBCDEM using rostering app.	Obtain approval from HBCDEM of proposed rostering app.	**Behind** – due to Napier Flood and *HBCDEM* staff departures.

Internal Audit – Risk Management Maturity – June 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Risk, Governance, Policy and Accountabilities - to improve risk and assurance challenge. With clearer risk escalation.	Not Stated	Develop risk management policy and framework that includes roles and responsibilities. ***Risk & Assurance Lead***	September 2020	Council approved single Regional Council risk management policy and framework.		**Closed as at Nov 2020 FARS**
Leadership and Direction - Improve linkage of risk informed decision making to strategy. Improving clarity of boundaries for decision making.	Not Stated	Develop a comprehensive risk appetite statement that defines tolerance levels for individual enterprise risks. ***ELT***	March 2021	Bowties for six enterprise risks completed and update the FARS risk report one pagers..	Finalise bowties for remaining enterprise risks and run risk appetite workshop. Subject to accessibility of facilitator.	**At risk** – *borders may limit access to trainer / facilitator. Viability of Zoom v delay will be analysed*
Leadership and Direction - Risk system continuous improvement.	Not Stated	Incorporate into the risk policy and framework a risk vision. Tailor the Council's risk policy and framework to align to the strategy. Develop a risk maturity roadmap to execute the risk vision. ***Risk & Assurance Lead***	September 2020	Council approved risk policy includes a risk vision that aligns to the C&S approved risk maturity roadmap. And, the risk policy and framework tailored based on HBRC's strategy.		**Closed as at Nov 2020 FARS**

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
People and Development - Risk roles ad responsibilities beyond the risk and assurance lead were not defined. With no risk related training.	Not Stated	Develop a competency framework to upskill staff on risk and embed the risk policy. Communicate and train BU on the risk policy and framework. Provide targeted training to specialist risk roles e.g. risk champions. ***ELT and Risk and Assurance Lead***	October 2021		In conjunction with Group Managers identify a Risk Champion in each Group. Risk and Assurance Lead to develop Risk Champion Training..	**On track**
Processes and Tools - For risk assessment and mitigation.	Not Stated	Through a single risk management policy and framework ensure that clear risk and control identification and assessment criterion exists. ***Risk and Assurance Lead***	September 2020	Council approved risk framework includes a criteria of risk and control identification and assessment. With recommended tools.		**Closed *as at Nov 2020 FARS***
Processes and Tools - For assurance.	Not Stated	Develop a formal assurance framework based on the 'three lines of defence model'. Framework should ensure assurance targets critical council functions and activities applying a risk based approach. ***Risk and Assurance Lead***	July 2021	Regional Council assurance framework drafted and awaiting ELT approval.	Develop a targeted approach to implement the framework subject to ELT and FARS approval.	**On track**
Process and Tools - For risk monitoring and reporting.	Not Stated	Reformatted risk reporting to enhance visibility can be developed when the risk policy and framework is approved by Council. However, risk reporting will be subject to continuous improvement as the risk system matures e.g. the incorporation of key risk/control indicator trend reporting. ***Risk and Assurance Lead***	September 2021	Enterprise risk report updated to reflect completed bowties.	Update risk reporting to reflect insights from risk bowties as thes final bowties are completed. Update risk report to reflect approved risk appetite.	**On track**

Internal Audit – Risk Management Maturity – June 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Business Performance – Strategic risk management.	Not Stated	Strategic planning cycle to include a review of enterprise risks to better link and integrate the risk register and LTP. ***Risk & Assurance Lead & Strategy and Governance Manager***	September 2021	Complete bowties for six enterprise risks and update the FARS risk report one pagers accordingly.	Finalise bowties for remaining enterprise risks and update risk report to enable a better linkage to the LTP.	**On track**
Business Performance – Managing Risk in Partnerships.	Not Stated	Develop risk and performance monitoring of key third parties. Ensure contingency planning is included. ***Risk & Assurance Lead***	December 2020	Bowtie analysis undertaken for the enterprise risk for third parties. With the risk report updated accordingly.	Finalise bowtie and identify the top 20 highest risk third parties.	**At risk** – *this enterprise risk is not prioritised for bowtie pre Xmas*
Business Performance – Business resilience ensure continuity planning is sufficient to cover HILP events.	Not Stated	Develop a process to assess disruptive and extreme events (low probability high impact 'HILP' events). ***Risk & Assurance Lead***	December 2021		Develop a roadmap to enhance continuity plans include business impact risk assessments based on HILP events. Stress test on a 'denial' premise.	**On track**
Business Performance – Change and transformation.	Not Stated	Develop a change management framework to ensure a portfolio view of risks related to significant change is managed. ***Marketing & Communications Manager***	September 2021	Recruited fixed term Change Management Resource to focus on corporate maturity / readiness that can develop a change management framework and strategy while managing current change projects. Has been recruited. It is expected to transition the role into a permanent position through the LTP.	The new Change Manager to draft a change management framework for approval.	**On track**

Item 5

Attachment 1

Internal Audit – Procurement & Contract Management – May 2018						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Lack of evidence for procurement decisions.	High	Procurement plan template designed based on MBIE/NZTA best practice guidelines; implemented ***Procurement Lead***	Sept 2020	Completed as part of amendments to procurement manual, approved by Council Sept 2020.		**Closed *as at Nov 2020 FARS***
Lack of contract evaluation.	Medium	Policy and manual updated; evaluation criteria included in selection and post contract performance evaluation ***Procurement Lead***	Sept 2020	Policy and manual amendments approved by Council Sept 2020 - Completed.		**Closed *as at Nov 2020 FARS***

Internal Audit – Health and Safety – Sept 2018						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Improve indicator risk control reporting.	High	Bow tie analysis for identified critical risks to ensure hierarchy of controls To enhance lead indicators. ***Senior Health, Safety & Wellbeing Advisor and Risk & Assurance Lead***	March 2021	H&S bowtie analysis complete.	Now bowtie analysis complete the Lead Indicator Action below captures next steps	**Closed**
Update of Health and Safety Manual.	Medium	Review Manual ***Senior Health, Safety and Wellbeing Advisor***	October 2020	Health and Safety Manual scheduled for Executive Leadership Team final sign off February 2021.	Safety Plan to be signed off.	**Behind –** Bowtie analysis now complete and awaiting Safety Plan sign off.
Move towards Lead Indicators.	Medium	Health and Safety Manual to include Lead Indicators ***Senior Health, Safety & Wellbeing Advisor***	June 2021	Key lag/lead indicators now reported as part of ELT Organisational Performance reporting.	Further develop ELT lead and lag indicators.	**On track**

Internal Audit – Health and Safety – Sept 2018						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Improve Incident reporting detail to include Root Cause Analysis (5 Why's).	**High**	Update incident reporting form to include root cause analysis (5 Why's) ***Senior Health, Safety & Wellbeing Advisor***	June 2021	Updated incident formto include (5 Why's).		**Closed**
Increased reporting to ELT.	**High**	Create dashboard report for health and safety reporting. ***Senior Health, Safety & Wellbeing Advisor***	March 2021	Agreement with Organisational Performance to specifically include health and safety as part of performance reporting.	Finalise key H&S measures to include in HBRC performance reporting.	**On track**
Increased visibility of health and safety activity by ELT.	**High**	ELT representative attends quarterly Health and Safety Committee Meeting ***Senior Health, Safety & Wellbeing Advisor***	March 2021	Process for regular attendance by ELT at quarterly meetings established.		**Closed**
Improvement in Contractor Inductions.	**Medium**	Review induction process of contractors and service providers ***Senior Health, Safety and Wellbeing Advisor***	September 2020	Review of induction process via survey to be developed, delivered and corrective outcomes identified.	Linked to below item – collaborate with procurement to confirm induction process and complile list of contractors that require corrective actions. Establish timetable for corrective actions.	**Behind**
Improvement in Contractor Engagement process.	**Medium**	A full review of contractor inductions across all risks ***Senior Health, Safety & Wellbeing Advisor***	August 2021	Procurement have endorsed working with H&S to oversee that H&S inductions and risk assessments. That occur as part of the wider procurement management system.	Continue to work with Procurement to finalise contractor processes so that these include H&S risks.	**On track**

Internal Audit – Cyber Security – August 2019

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Asset management – Software & application inventory– **IT oversight and value as a service.**	High	Automate as many software updates as possible. ***Chief Information Officer***	Sept 2020	Software updates now automated.		**Closed *as at Nov 2020 FARS***
As above	High	Update and review software list annually. ***Chief Information Officer***	Sept 2020	2020 Annual Review completed		**Closed *as at Nov 2020 FARS***
Asset management – Software & application inventory – **Legacy Systems.**	High	Develop an architecture strategy that considers long term phased replacement of legacy systems, including documenting the legacy software components and systems. ***Chief Information officer***	December 2021 – if funding request accepted	IT Projects have been identified and described in 1 page briefs.	Projects are prioritised by exec team. Resourcing is recruited to begin scoping and delivery of prioritised projects. Resourcing is recruited to develop enterprise architecture artefacts.	**On track** *Note action is defining the strategy – implementation for legacy systems will take over 10 years with current resourcing*
Asset management – Software & application inventory– **Inventory**	High	Reviewed and documented all software used at HBRC. ***Chief Information officer***	Oct 2019	Documented software inventory reviewed.		**Closed *as at Nov 2020 FARS***
Asset management – Software & application inventory – **Legacy Systems.**	High	High-level documentation of software components. ***Chief Information officer***	Dec 2019	High level documentation complete.		**Closed *as at Nov 2020 FARS***
As above.	High	Review software versions in use and compare to latest available. ***Chief Information officer***	Mar 2020	IT Support team reviewed the list of active software, and updated old versions – starting with areas of highest risk.	Our current approach to this has been adhoc. Reporting will be provided on the size of this issue, progress to date and target state.	**Behind**

Internal Audit – Cyber Security – August 2019						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
As above.	**High**	Finance System Replacement ***Chief Information officer***	June 2021	Enterprise Budgeting is live.	FMIS planned to go live 1/7/21. Payroll to go live 14/4/21	**On track**
Access Control – Principle of least privilege – **Periodic Review.**	**High**	Perform an annual review of access to HR and Regulatory systems (adding this to the current AuditNZ reviews of core and finance systems). ***Chief Information officer***	Sept 2019	Reviewed access of HR and Regulatory systems. Request for new HR system in LTP. This included HR access review.	If HRIS is prioritised – access review will be included as part of the project. If not, a thorough access review will be performed on the current system.	**Behind**
Access Control – Principle of least privilege – **Enforce the principle of least privilege.**	**High**	Reviewed and reduced domain administrator access. ***Chief Information officer***	Oct 2019	Domain administrator access reviewed and reduced.		**Closed *as at Nov 2020 FARS***
Access Control – Principle of least privilege – **Legal & Regulatory requirements.**	**High**	Identified systems containing confidential data and tightened up processes for assigning access rights for new users ***Chief Information officer in conjunction with Risk and Assurance Lead***	Oct 2019	Information Management Advisor recruited- due to commence in role on 30 November 2020.	Stocktake with business to assess what information and records are held and where including PII. With Information re-baseline due date based on scope of remediation and linkage to ICT Governance below.	**Behind -** *Date needs rebaselining. Part of wider information management project – dedicated resource to strengthen data management now recruited*
Access Control – Principle of least privilege – **Periodic Review.**	**High**	Reviewed Active Directory Accounts – archiving accounts by last logon date > 60 days ***Chief Information officer***	Oct 2019	Accounts directory reviewed with >60days archived.		**Closed *as at Nov 2020 FARS***

Item 5

Attachment 1

Internal Audit – Cyber Security – August 2019

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Access Controls – External Information Systems – **Password Managers.**	Medium	Investigate and evaluate solutions for single sign-on / password management. ***Chief Information officer***	Sept 2020	Requested resourcing to evaluate solutions for implementation.		**Behind**
Business Environment – Resilience requirements –– **IT Disaster Recovery Plan – resilience requirements.**	High	Implement DR Technology Changes and Test Disaster Recovery processes and environment. ***Chief Information officer***	Dec 2021	Scoped and designed a Disaster Recovery solution for when funding is available.	IT DR test scheduled for March 27th 2021. Scenario - simulating the loss of the Dalton St building	**On track**
As above.	High	Develop cybersecurity incident management processes based on CERT NZ guidelines. Including, developing templates for incident repsonse and post incident review. ***Chief Information officer***	Mar 2020	Response process drafted and response templates complete.		**Closed** ***as at Nov 2020 FARS***
Governance – Information security policy framework – **Policy Review Required.**	Medium	ICT Governance - firstly, assess the quality of Councils ICT policy framework against good practice including the development of a RACI matrix for cybersecurity roles outlined in the matrix. ***Chief Information officer in conjunction with Risk and Assurance Lead***	June 2020		Define Council's risk appetite for enterprise risk 5 'information security'. Assess gap to systemise, develop business case and project plan that incorporates updating ICT governance documentation.	**Behind** – *broader Information security strategy – also links to PII, DR and third parties*
Anomalies & events, Security Continuous Monitoring & Detection Processes – Monitoring/Detection – **Alerts.**	Medium	Setup a central mailbox for system alerts. ***Chief Information officer***	Oct 2019	Central mailbox activated for alerts.		**Closed** ***as at Nov 2020 FARS***

Internal Audit – Cyber Security – August 2019

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
As above.	Medium	Add critical alerts to our monitoring dashboard. ***Chief Information officer***	Mar 2020	Central mailbox above is sufficient.		**Closed** ***as at Nov 2020 FARS***
Information Protection Processes & Procedures – Third parties – **Contractors Responsibilities.**	Medium	As part of policy review , ensure risk based decision is made around contractors including system access by contractors and third parties are covered by policy. ***Chief Information officer in conjunction with Risk and Assurance Lead***	June 2020		Define Council's risk appetite for enterprise risk 5 'information security'. Assess gap to systemise, develop business case and project plan that incorporates managing information risks from third parties.	**Behind** – *refer update under ICT governance due date needs rebaselining as the solution requires integration with other key management systems.*
Maintenance – remote access is managed (third parties) – **Maintenance.**	Medium	Implement 'enable on demand' access for third party providers. ***Chief Information officer***	Oct 2019	Accounts disabled by default, and enabled when requested for a fixed period.		**Closed** ***as at Nov 2020 FARS***
Access control – Remote access is managed (mobile devices)– **Mobile device management.**	Low	Continue the planned deployment of asset management tools for mobile devices. ***Chief Information officer***	Ongoing	Implemented Microsoft Intune to manage mobile devices. Completed June 2020.		**Closed** ***as at Nov 2020 FARS***

Tracking Status	Key
On track	Milestones on track to meet due date
At risk	Milestones falling behind putting at risk delivery on due date
Behind	Milestones outstanding due date will not be met
Closed	Corrective action fully implemented since last update
Closed	Corrective action fully implemented in previous period

Dashboard 2

Internal Assurance Annual Plan FY20-21 Status Update

Approved Audit FY20-21	Provider	Quarter Due	Date Commenced	Management Comments	Reported to FARS
Data Analytics	Crowe	Q3	December 2020		
People, Recruitment, Retention and Wellbeing	Crowe	Q4	IA scope and LOE being finalised with Crowe		
Retained Audit Capacity - 40 hours	Crowe				

Item 5

Attachment 2

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 17 February 2021

Subject: ASSURANCE FRAMEWORK RELEVANT TO S17A REVIEWS

Reason for Report

1. This item updates the Finance Audit and Risk Sub-committee (FARS) on progress made with the drafting of a Regional Council (Council) Internal Assurance Framework, and key next steps.
2. A specific focus of this update is how, within the draft framework, it is proposed requirements of S17a will be met and then operate in practice.

Background

3. At the Corporate and Strategic Committee meeting held on 10 June 2020 the Committee endorsed the risk maturity roadmap for Council. At that meeting it was decided the FARS would oversee implementation of the maturing risk management system. A key element of risk maturity is assurance.
4. Through the risk roadmap it was agreed that by mid-2021 Council would focus on embedding a structured and consistent approach to assurance. Therefore, the first step requires the development of an overarching assurance framework for Council.

Discussion

5. The intent of the assurance framework is to bring together the many different assurance review types that are undertaken across the business and apply a systematic and structured approach, therefore, improving oversight to Councillors and to the Executive Leadership Team (ELT). Examples of the different types of assurance reviews include internal audits, post incident debrief, post implementation review, and S17a.
6. The first draft of the assurance framework is complete and currently being prepared for presenting to the Executive Leadership Team (ELT) for endorsement on 23 February 2021. Once endorsed by the ELT the framework will then be presented to the FARS for recommending to C&S for Council adoption.
7. With the application of a structured and systematic approach to assurance output between reviews can be easily compared and analysed improving the prioritisation of resources. In addition, Councillors and ELT are provided with a reasonable level of comfort that the spread of assurance reviews provides a good breadth and depth across council's activities, strategy and risks. Opportunities sought for efficiencies and cost reduction are a key element of S17a.
8. The framework outlines that the FARS is responsible for identifying reviews that are contained in the enterprise annual internal audit plan. Internal audits are one of the main review types that make up the internal assurance programme. With an improved understanding of the breadth and depth of reviews a proactive risk-based approach can be applied to identify future internal audits.
9. While the framework encourages a proactive and risk-based approach to identifying future reviews it is noted that identification of S17a reviews are prescribed in legislation. S17a reviews prescribes the following.
   - *9.1. A local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions. A review must be undertaken (a) in conjunction with consideration of any significant change to relevant service levels; and (b) within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure,*

service, or regulatory function; and (c) at such other times as the local authority considers desirable, but not later than 6 years following the last review.

10. The S17a exception to identifying reviews is noted in the framework. Therefore, while the FARS will be updated on the S17a reviews being undertaken the identification of these reviews will come from other channels.

11. All final reports for reviews that are undertaken as part of the annual enterprise internal audit plan are first reported to the FARS. However, for other assurance reviews that are not necessarily under the remit of internal audit e.g. S17a the final may first be provided to the appropriate oversight Committee for accepting. However, in these cases the final report will also subsequently be made available to the FARS Committee for noting.

Next Steps

12. Present the draft internal assurance framework to ELT for endorsement.

13. On ELT endorsement the internal assurance framework will be presented to the next scheduled FARS meeting for recommendation to Council for approval.

Decision Making Process

14. 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:

    14.1. This agenda item is in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically:

        14.1.1. "The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for (1.3) the independence and adequacy of internal and external audit functions" and

        14.1.2. "The Finance, Audit and Risk Sub-committee is delegated by Council to (3.6) review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework; and (3.7) assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council."

    14.2. As this report is for information only, the decision making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee:

1. receives and notes the "*Assurance Framework Relevant to S17a Reviews*" staff report

2. reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction with progress made to draft a Regional Council Internal Assurance Framework.

Authored by:

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Approved by:

Jessica Ellerm
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Attachment/s There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 17 February 2021

Subject: QUARTERLY TREASURY REPORT FOR 1 OCTOBER - 31 DECEMBER 2020

Reason for Report

1. This item provides compliance monitoring of Hawkes Bay Regional Council (HBRC) treasury activity and reports the performance of Council's investment portfolio for the quarter ended 31 December 2020.

Overview of the Quarter - ending 31 December 2020

2. The investment portfolio continued its strong performance with the global economy seemingly continuing its recovery from the lows seen in Q3 2019-20.
3. Managed Funds have provided a year-to-date gross income net of fees of ~9%, enabling a combined (Council and HBRIC) divestment of $7.7m. This ensures that previous gains are now realised, and a $2.6m reduction of the Covid-19 Impact Loan.
4. Napier Port paid a final dividend to HBRIC of $5.5m, of which HBRIC passed through dividend of $4.0m; $1.0m greater than the budgeted $3.0m in the Covid-19 impacted 2020-21 Annual Plan.
5. Earlier collection of rates resulted in a strong liquidity position right throughout the quarter.

Background

6. The Investment management reporting requirements, outlined within Council's Treasury Policy, requires quarterly reporting to the Financial Audit & Risk Sub-Committee (FARS) of current investment allocation and investment performance.
7. All Treasury investments are to be reported on quarterly. As at 31 December 2020, Treasury Investments to be reported on consist of:
    - 7.1. Liquidity
        - 7.1.1. Cash and Cash Equivalents
        - 7.1.2. Debt Management
    - 7.2. Externally Managed Investment Funds
        - 7.2.1. Long-Term Investment Fund (LTIF)
        - 7.2.2. Future Investment Fund (FIF)
    - 7.3. Investment properties
    - 7.4. HBRIC Ltd
    - 7.5. 2020-21 Year to Date Performance Summary.
8. Since 2018, HBRC has procured treasury advice and services from PwC. Their quarterly compliance report is attached.

Discussion

Liquidity - Cash & Cash Equivalents

9. To ensure HBRC has the ability to adequately fund its operations, current policy requires HBRC to maintain a liquid balance of $3.0m.

10. The following table reports the cash and cash equivalents as at 31 December 2020.

31 December 2020	$000
Cash	**4,534**
HBRC Held Cash	3,817
Works Group	432
Other – managed trusts	286
Short-term bank deposits	**9,000**
Cash & and cash equivalents	**13,534**

11. HBRC liquidity throughout Q2 benefited from the early collection of rates (~$18.0m), HBRIC Dividend ($4.0m), and divestment of returns achieved from the LTIF and FIF managed funds ($6.5m).

12. Any cash surplus to operating requirements is placed on term deposit. For 81 of the possible 91 days in the quarter an average of $5.5m was held in term deposits, returning an average of 0.36% or $4.3k for the period.

13. To further manage its liquidity risk, HBRC currently retains a Standby Facility with BNZ. This facility provides HBRC with a same day draw down option, to any amount between $0.3-$5.0m, and with no minimum draw period. The cost of the current facility is an annual line fee 0.30% ($15,000) + a margin above BKBM of 1.1% on any borrowings.

14. This facility is due to expire in April 2021 and Officers are currently pursuing options to extend this Facility for a further 3 years.

    14.1. Currently BNZ 3-year indicative cost is an Annual Line Fee 0.35% ($17,500) and a margin above BKBM of 1.3%. This pricing remains competitive when compared to the 15-month Standby Facility being offered by the LGFA whom price the Annual Line fee of 0.20% ($10,000) + a margin above BKBM of 0.90%. Additionally, the LGFA requires a business days' notice, a minimum draw down of $1.0m and a 30 day minimum draw period.

15. The graph below shows the daily closing cash position and Term Deposits held throughout Q2.

16. Low interest rates are expected to remain throughout the remainder of the financial year impacting the 2020-21 budgeted income received from cash deposits - budgeted at $0.4m or 4.5%. A recent revised forecast based on current interest rates is $0.2m or 1.5%. The $0.2m shortfall will be offset by lower than budgeted borrowing rates.

Debt Management

17. As at 31 December 2020, current external debt was $22.2m, $38.9m when taking into consideration the internal $16.7m HBRIC Loan. All financial covenant ratios are currently at least 4 times under any internal or external limit. The financial covenant ratios can be seen in the attached PwC report.

18. The year end position is forecast at $38.1m. Accounting for the existing $22.2m plus forecast $15.9m requirement detailed below. This is slightly above that forecast in the 2018-28 LTP, which forecast borrowing to be $35.5m at the end of the 2020-21 year.

19. As the current debt profile continues to mature, and the 2020-21 forecast borrowing is not required yet, HBRC is currently outside its interest rate risk management policy. The policy is written to minimize any adverse movements in interest rates which could affect future Council Cash Flows. As per the Policy, Officers now have 90 days to correct the interest profile before it becomes a policy breach.

20. The borrowing discussed below will be raised with the LGFA via the scheduled March 2021 tender. Officers will work with PwC to ensure that HBRC realigns to its Interest Rate Risk Policy by the end of the next quarter.

21. The table below details forecast debt requirements compared to the 2020-21 Annual Plan.

Loan Requirements	**2020-21 Annual Plan $000**	**2020-21 Debt Requirement $000**	**Variance $000**
Sustainable Homes	3,527	3,527	-
Systems Integration	1,913	1,275	(638)
Building Accommodation	2,000	500	(1,500)
HBRC Recovery Fund	1,000	100	(900)
Integrated Catchment	2,250	4,700	2,450
Covid-19 Budget Impacts	7,584	5,000	(2,584)
Other	755	755	-
Total	19,029	15,857	(3,172)

22. 2020-21 borrowing is forecast at $15.9m, $3.2m lower than planned.

23. As at 31 December 2020, the borrowing forecast of $15.9m is based on the expected full year expenditure for 2020-21. The adjusted forecast requirements for “Systems Integration” and “Building Accommodation” is due to the timing of expenditure and request to carry forward this borrowing into 2021-22 is expected.

24. Borrowing required for the Covid-19 related reduction in investment income is subject to change. Any upside in investment income, from either an additional HBRIC dividend or managed fund returns, will reduce the current requirement.

25. The Recovery Fund has committed spend of $300k, $200k in outer years.

Managed Funds

26. For the purposes of this report, the following terms have been referred to and have the following meaning.

Term	**Meaning**
Gross Income Net of Fees	The full amount the fund has returned for the period, net of any fees paid to the fund managers. This amount remains in the funds unless divested.
Capital Protection	The amount the fund must earn in relation to the rate of inflation to retain its real purchasing power.
Funding Council Operating Costs	The amount the fund must earn to fund Council operating costs (offsetting rating requirements).

Term	Meaning
Divested Capital	Unrealised Gross Income Net of Fees less Capital Protection and have now been withdrawn from the funds.
Undivested Funds Available	Unrealised Gross Income Net of Fees less Capital Protection that are still invested within the funds.

27. The first six months of 2020-21 saw better than expected results achieved with an average gross income net of fees of 9% (annualised 17%) compared to the Post Covid-19 2020-21 Annual Plan of 3% (6% annualised).

28. This performance aligns with general market expectation given the results of the US election and the announcement of a successful COVID-19 vaccine trial. Both events reduce uncertainty either by reducing a tariff-inspired manufacturing recession or a clearer pathway out of the pandemic.

29. Officers remain cautiously optimistic regarding the expected full year 2020-21 performance. In mid-December, Officers, with FARS endorsement divested $6.4M from the Funds. Thereby ensuring prior gains are realised and available to fund operating costs.

30. Council's current policy is silent on triggers which define at what point divestment from the managed fund should occur. With global markets seemly at a high in December 2020 Officers made the prudent decision to divest $6.4m, de-risking the future possibility of losing any of the unrealised gains.

31. At the time of the divestment, $6.4m equaled the current policy limit of what could have been withdrawn less the required capital protection for the remaining six months of the 2020-21 year ($1.1M).

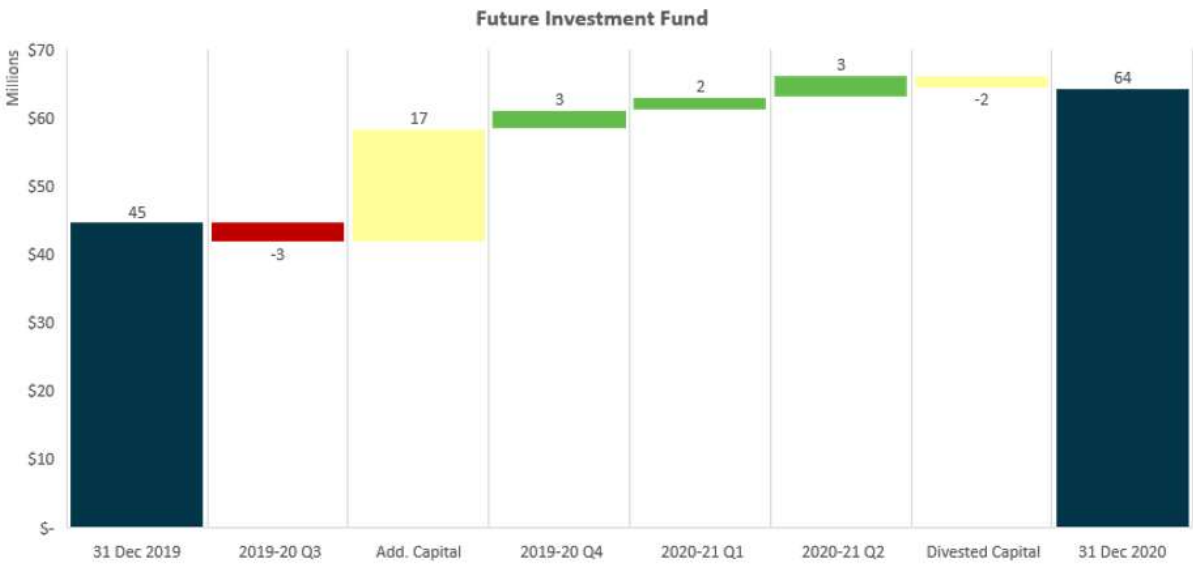
32. After the December 2020 divestment, the Q2 actual closing position reflects that an additional $3.4m could have been divested, or $2.2m whilst still protecting the capital base until June 2021.

33. If the current strong performance of the funds continues, there will be potential for further divestment, reducing the forecast borrowing requirement arising from the Covid-19 adjusted 2020-21 Annual Plan.

34. The table and graphs below summarise the quarter end fund balances over the last 12 months.

Fund	**31 Dec 2019 $000**	**31 Mar 2020 $000**	**30 Jun 2020 $000**	**30 Sep 2020 $000**	**31 Dec 2020 $000**
Long-Term Investment Fund	50,674	46,305	49,950	51,810	49,925 *
Future Investment Fund	44,724	41,712	61,128	63,094	64,300 *
Total	**95,398**	**88,017**	**111,078**	**114,904**	**114,224**

***** *December 2020 saw Funds being divested for the first time, which explains the reduced fund balance.*



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Long-term Investment Fund

35. Invested since November 2018, the fund provides a return which, protects capital value first and then funds Council's operating costs.

36. The table below shows the LTIF income earned YTD against the 2020-21 Annual Plan.

Income	Full Year Annual Plan 2020-21		YTD Ann. Plan		YTD Q2 Actuals		Variance to YTD Ann. Plan
	$000	%	$000	%	$000	%	$000
Capital Protection	838	2%	419	1%	480	1%	61
Fund Operating Costs	1,876	4%	938	2%	3,973	8%	3,035
Gross Income Net of Fees	**2,715**	**6%**	**1,357**	**3%**	**4,453**	**9%**	**3,096**

37. The table below shows the key balances of the LTIF as at the end of Q2.

	1 July 2020 – Opening Balances			31 December 2020 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	$000	$000	$000	$000	$000	$000
LTIF	47,996	1,954	49,950	48,476	1,449	49,925

38. The table above has been prepared as at 31 December 2020 (Q2), it should be noted, that the LTIF needs to earn a further $480k, to meet the required annual capital protection of $980k. This amount is slightly different to the 2020-21 Annual Plan, due to the budgeted numbers being set off the Fund Balances in March 2020.

Future Investment Fund (FIF)

39. Invested since September 2019, the fund provides a return which, protects capital value first and then funds Council's operating costs.

40. The table below shows the FIF income earned YTD against the 2020-21 Annual Plan.

Income	Full year Annual Plan 2020-21		YTD Ann. Plan		Q2 YTD Actuals		Variance to YTD Ann. Plan
	$000	%	$000	%	$000	%	$000
Capital Protection	974	2%	487	1%	618	1%	131
Fund Operating Costs	1,690	4%	845	2%	4,496	7%	3,651
Gross Income Net of Fees	**2,665**	**6%**	**1,332**	**3%**	**5,114**	**8%**	**3,781**

41. The table below shows the key balances of the FIF as at the end of Q2.

	1 July 2020 – Opening Balances			31 December 2020 – Closing Balances		
	Capital Protected Balance $000	Undivested Funds Available $000	Total Fund Balance $000	Capital Protected Balance $000	Undivested Funds Available $000	Total Fund Balance $000
FIF	61,775	(647)	61,128	62,394	1,906	64,300

42. As mentioned previously, the table above has been prepared as at 31 December 2020 (Q2), similar to the LTIF, the FIF will need to earn a further $618k, to meet the required annual capital protection of $1,236k.

Investment Property

43. In the current financial period, 2020-21, 5 Napier Endowment Leasehold Properties have been freeholded totaling $776k. $693k of this has been subsequently paid to ACC as settlement for the remaining 42 years rent for these properties.

44. HBRC has recently been contacted by a Leasehold occupier in Wellington regarding the Freeholding of the land. The Leasehold offer and how this aligns to HBRC investment strategy will be presented at the Corporate and Strategic Committee in March 2021 (publicly excluded).

HBRIC

45. On 18 December 2020, HBRC received a dividend payment of $4.0m from HBRIC, $1m favourable to the $3.0m budgeted in the Covid-19 adjusted Annual Plan.

46. Per Council Policy, HBRIC will separately provide a six-monthly update to Corporate at Strategic committee in March 2021. Main matters of relevance are:

    46.1. PONL advised it would pay $0.05 per share as its interim dividend. HBRIC holds 110M shares (55%) resulting in a $5.5m dividend

    46.2. There is potential in that the PONL will pay a final dividend in June 2021

    46.3. The following table shows the key balances of the FIF (HBRIC) as at the end of Q2.

	1 July 2020 – Opening Balances			31 December 2020 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	$000	$000	$000	$000	$000	$000
FIF	46,584	(964)	45,620	47,000	1,314	48,314

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2020-21 Year to Date Performance Summary

47. The following table shows investment income to date against the 2020-21 Annual Plan.

Income	Annual Plan 2020-21 $000	YTD Ann. Plan $000	Q2 Actuals $000	Variance to YTD Ann. Plan $000
Other financial assets	**4,195**	**2,097**	**7,387**	**5,290**
Managed Funds	3,567	1,783	7,371	5,588
Other Interest*	628	314	16	(298)
Investment property	**2,343**	**1,171**	**830**	**(131)**
Endowment leasehold land	1,502	751	620	(131)
Wellington Leasehold land	841	420	420	-
Dividends	**5,369**	**4,184**	**7,012**	**4,328**
PONL Dividend	3,000	3,000	5,500	2,500
Managed Fund	2,369	1,184	3,012	1,828
Total	**11,907**	**7,452**	**16,729**	**9,487**

* Includes Interest budgeted to be earnt on scheme reserves.

48. The $9.5m favourable YTD performance should be considered cautiously. It is likely that the majority of this performance will be a point in time variance and it potentially will reduce significantly over the next 6 months, particularly when considering the performance of the managed funds. 20-year historical data suggests that an expected annual return for the funds should currently be 5.16%. With the funds returning an average six-month return of 8.64%, it would be prudent to expect that the future returns will equalise over the next six months and come more inline with a 5.16%. If performance does equalise, it could be expected that the full year performance will be ~$2.0m ahead of budget; not the current $7.4m.

49. The other material significant change could arise via Napier Port paying HBRIC an interim dividend in June 2021. Unlike the managed funds, this would continue to improve the actual performance when compared to the 2020-21 Annual Plan

Decision Making Process

50. 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:

    50.1. The agenda item is in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically “The Finance, Audit and Risk Sub-committee shall have responsibility and authority to (2.4) monitor the performance of Council’s investment portfolio”.

    50.2. 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 *“Quarterly Treasury Report for 1 October - 31 December 2020”* and confirms that the performance of Council’s investment portfolio has been reported to the Sub-committee’s satisfaction.

Authored by:

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Approved by:

Jessica Ellerm
GROUP MANAGER CORPORATE SERVICES

Attachment/s

⇩**1** PWC HBRC Treasury Reporting to 31 December 2020

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 31 December 2020

1

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1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was $162.5 million as at 31 December 2020, comprising $49.92 million in the Long Term Investment Fund (LTIF), $64.30 million in the HBRC Port Future Investment Fund (HBRC PFIF) and $48.31 million in the HBRIC Port Future Investment Fund (HBRIC PFIF). Total AUM is slightly up from $162.24 million as at 30 September 2020. The 31 December 2020 amount includes a withdrawal of $7.67 million.

Total capital contributed to the three portfolios since inception is $152.2 million; adjusted for inflation, this equates to $157.92 million, meaning the portfolio value at 31 December 2020 was $4.62 million above the inflation adjusted contribution figure.

The Mercer sleeve of the LTIF returned 4.4% net of fees over the December quarter, bringing the total cumulative return since inception to 19.4% (9.5% annualised). The Jarden sleeve of the LTIF returned 5.7% net of fees over the December quarter, bringing the total cumulative return since inception to 17.8% (8.8% annualised).

The Mercer sleeve of the PFIF returned 4.4% net of fees over the December quarter, bringing the total cumulative return since inception to 9.6% (7.3% annualised). The Jarden sleeve of the PFIF returned 5.4% net of fees over the December quarter, bringing the total cumulative return since inception to 10.1% (7.6% annualised).

Short-term domestic swap rates moved higher following the RBNZ's November Monetary Policy Statement (MPS), despite the RBNZ still describing the medium-term outlook as 'weak' and OCR forecasts being unchanged from the August MPS. Over the following weeks negative swap rates were fully-priced out of the forward interest rate curve. Short term interest rates are expected to remain at current low levels for an extended period of time.

Long-term domestic swap rates also moved higher over the last quarter driven by vaccine optimism and expectations for further fiscal stimulus under a Biden administration. Looking ahead, the outlook for long-term swap rates is for them to consolidate in a range around current levels.

Treasury activity remains compliant with policy except for the interest rate risk management risk position. Years 2-5 years are policy non-compliant. Upon receiving the approved debt forecasts an interest rate strategy will be implemented to at least return the risk position to policy compliance.

Council remains compliant to the LGFA borrowing limits.

2.0 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	No
	Treasury investment parameters	Yes
	Counterparty credit limits	Yes
SIPO	Asset allocations	Yes

3.0 Investment Management Reporting

Performance Summary - Mercer

The portfolios each returned 4.4% net of fees over the quarter, outperforming the benchmark by 0.6%. Strong relative performance was particularly felt within the Socially Responsible Portfolios and the International Listed Property Portfolio.

Quarter ending	Mercer Net Returns: LTIF HBRC	Mercer Net Returns: HBRIC (port proceeds)	Mercer Net Returns: HBRC (port proceeds)		Mercer Benchmark Returns: LTIF HBRC	Mercer Benchmark Returns: HBRIC & HBRC (port proceeds)
31/12/2018						
31/03/2019	3.7%				4.5%	
30/06/2019	2.7%				3.1%	
30/09/2019	3.0%	0.7%	0.7%		3.2%	0.7%
31/12/2019	1.2%	1.2%	1.2%		1.4%	1.4%
31/03/2020	(7.9%)	(7.9%)	(7.9%)		(8.7%)	(8.7%)
30/06/2020	7.6%	7.6%	7.6%		7.0%	7.0%
30/09/2020	4.0%	4.0%	4.0%		2.8%	2.8%
31/12/2020	4.4%	4.4%	4.4%		3.8%	3.8%
Financial YTD	8.6%	8.6%	8.6%		6.5%	6.5%
Days Invested in Financial Year	184	184	184		184	184
Financial YTD (annualised)	17.8%	17.8%	17.8%		13.3%	13.3%
Cumulative Return Since Inception	19.4%	9.6%	9.6%		17.3%	6.2%
Annualised Return Since Inception	9.5%	7.3%	7.3%		8.5%	4.8%
Inception Date	18-Jan-19	16-Sep-19	16-Sep-19		18-Jan-19	16-Sep-19
Days Invested	713	472	472		713	472
Reported balance as at 31-Dec-20 ($)	24,990,296	32,881,278	23,347,259	81,158,833		
Total Capital Contributions ($)	23,288,784	30,812,898	21,978,760	76,080,432		
Net Returns ($)	3,881,894	2,844,017	2,065,163	8,791,074		

Performance Summary - Jarden

The LTIF and PFIF portfolios returned 5.7% and 5.4% respectively net of fees over the quarter; the LTIF return outperformed the benchmark by 1.1%, whilst the PFIF outperformed the benchmark by 0.8%. Returns were driven by another solid quarter for equity markets and property, as the economic outlook continues to be better than expected.

Quarter ending	Jarden Net Returns: LTIF HBRC	Jarden Net Returns: HBRC - Port Consolidated		Jarden Benchmark Returns: LTIF HBRC	Jarden Benchmark Returns: HBRIC & HBRC (port proceeds)
31/12/2018	0.3%				
31/03/2019	2.7%			4.3%	
30/06/2019	2.3%			3.9%	
30/09/2019	1.8%	0.0%		3.7%	0.2%
31/12/2019	3.3%	1.0%		1.9%	1.9%
31/03/2020	(9.2%)	(5.4%)		(6.9%)	(6.9%)
30/06/2020	8.0%	6.5%		8.8%	8.8%
30/09/2020	3.5%	2.9%		3.5%	3.5%
31/12/2020	5.7%	5.4%		4.6%	4.6%
Financial YTD	9.3%	8.4%		8.3%	8.3%
Days Invested in Financial Year	184	184		184	184
Financial YTD (annualised)	19.4%	17.4%		17.1%	17.1%
Cumulative Return Since Inception	17.81%	10.01%		25.6%	12.3%
Annualised Return Since Inception	8.8%	7.6%		12.4%	9.4%
Inception Date	18-Jan-18	15-Sep-18		18-Jan-18	15-Sep-18
Days Invested	713	473		713	473
Reported balance as at 31-Dec-20 ($)	24,994,371	56,384,664	81,379,035		
Total Capital Contributions ($)	23,288,784	52,791,648	76,080,432		
Net Returns ($)	3,938,092	5,241,841	9,179,933		

Long Term Investment Fund (LTIF)

Mercer (3 months ending 31 December 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	120,193.46	64,175.8				0.3%	-	20.0%	Y
Index Cash Portfolio	1,008,067.96	1,004,227.5	0.1%	0.1%	0.0%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	3,847,403.08	3,721,953.5	(2.4%)	(2.9%)	0.5%	14.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,126,366.39	2,972,294.4	1.2%	0.1%	1.1%	11.9%	5.0%	25.0%	Y
Global Credit	2,772,834.87	2,742,629.3	2.4%	2.3%	0.1%	11.0%	5.0%	25.0%	Y
Other Fixed Interest*	1,741,679.60	1,729,995.0	3.0%	0.1%	2.9%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,845,343.88	1,824,925.7	12.3%	11.5%	0.8%	7.3%	-	16.0%	Y
Socially Responsible Overseas Shares	7,465,475.58	7,018,706	9.4%	8.2%	1.1%	28.2%	17.0%	37.0%	Y
International Listed Property	798,036.78	715,852.6	11.3%	13.3%	(2.0%)	2.9%	-	10.0%	Y
Unlisted Property	1,244,266.96	1,189,223.7	2.4%	1.6%	0.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	781,032.66	729,440.1	6.0%	6.8%	(0.7%)	2.9%	-	10.0%	Y
Unlisted Infrastructure	1,290,353.22	1,216,881.6	6.0%	3.1%	2.8%	4.9%	-	10.0%	Y
Total	**26,041,054.42**	**24,930,295.40**	**4.7%**	**3.8%**	**0.9%**	**100.0%**			

Jarden (3 months ending 31 December 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	1,579,937.0	1,179,305.0	(0.4%)	0.1%	(0.5%)	4.7%	2.0%	8.0%	Y
NZ Fixed Income	5,379,965.0	4,540,785.0	(0.1%)	(1.1%)	1.0%	18.2%	15.0%	24.0%	Y
International Fixed Income	6,123,957.0	5,869,372.0	0.8%	0.8%	(0.0%)	23.5%	23.0%	28.0%	Y
NZ Property	629,166.0	713,688.0	7.9%	8.5%	(0.6%)	2.9%	1.0%	4.0%	Y
NZ Equities	3,637,458.0	3,914,165.0	18.9%	11.4%	7.5%	15.7%	13.0%	18.0%	Y
Global Equities	8,014,654.0	8,035,427.0	9.0%	8.0%	1.0%	32.1%	25.0%	34.0%	Y
International Property	406,474.0	741,629.0	7.0%	11.0%	(4.0%)	3.0%	1.0%	4.0%	Y
Total	**25,771,611.00**	**24,994,371.0**	**5.7%**	**4.6%**	**1.1%**	**100.0%**			

- The Long Term Investment Fund (LTIF) was $49.925 million in size as at 31 December 2020, down from $51.813 million as at 30 September 2020. The portfolio experienced positive net returns of $2,590 but reduced in size due to the withdrawal of $2.246 million from the Mercer sleeve and $2.232 million from the Jarden sleeve ($4.478 million total broken down in appendix 14.0).
- Total capital invested into the LTIF is $46.578 million in January 2019. Adjusted for inflation (assuming a 2% annual rate), this was $48.476 million as at 31 December 2020, leaving $1.448 million in inflation reserves.
- The Mercer sleeve of the LTIF returned 4.4% net of fees over the December quarter, bringing the total cumulative return since inception to 19.4% (9.5% annualised).
- The Jarden sleeve of the LTIF returned 5.7% net of fees over the December quarter, bringing the total cumulative return since inception to 17.8% (8.8% annualised).
- Portfolio Compliance with Statement of Investment Policies and Objectives - both the Mercer and Jarden portfolios are compliant.

Port Future Investment Fund (PFIF)

Mercer (3 months ending 31 December 2020)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. v s Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	148,958.4	84,643.3				0.3%	-	20.0%	Y
Index Cash Portfolio	1,249,320.9	1,324,504.3	0.1%	0.1%	0.0%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	4,768,171.7	4,908,990.9	(2.4%)	(2.9%)	0.5%	14.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,874,575.0	3,920,230.8	1.2%	0.1%	1.1%	11.9%	5.0%	25.0%	Y
Global Credit	3,436,435.6	3,617,332.1	2.4%	2.3%	0.1%	11.0%	5.0%	25.0%	Y
Other Fixed Interest*	2,158,500.8	2,281,739.8	3.0%	0.1%	2.9%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	2,286,975.5	2,406,946.7	12.3%	11.5%	0.8%	7.3%	-	18.0%	Y
Socially Responsible Overseas Shares	9,252,130.2	9,257,172.2	9.4%	8.2%	1.1%	28.2%	17.0%	37.0%	Y
International Listed Property	989,024.6	944,158.4	11.3%	13.3%	(2.0%)	2.9%	-	10.0%	Y
Unlisted Property	1,542,047.6	1,568,501.1	2.4%	1.6%	0.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	967,951.0	962,079.3	6.0%	6.8%	(0.7%)	2.9%	-	10.0%	Y
Unlisted Infrastructure	1,599,163.3	1,604,980.0	6.0%	3.1%	2.8%	4.9%	-	10.0%	Y
Total	**32,273,254.58**	**32,881,279.1**	**4.7%**	**3.8%**	**0.9%**	**100.0%**			

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. v s Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	106,432.2	80,100.7				0.3%	-	20.0%	Y
Index Cash Portfolio	892,651.4	940,460.5	0.1%	0.1%	0.0%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	3,406,902.9	3,485,615.0	(2.4%)	(2.9%)	0.5%	14.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,768,419.8	2,783,548.8	1.2%	0.1%	1.1%	11.9%	5.0%	25.0%	Y
Global Credit	2,455,365.1	2,568,476.4	2.4%	2.3%	0.1%	11.0%	5.0%	25.0%	Y
Other Fixed Interest*	1,542,268.9	1,620,142.9	3.0%	0.1%	2.9%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,634,065.2	1,709,045.7	12.3%	11.5%	0.8%	7.3%	-	18.0%	Y
Socially Responsible Overseas Shares	6,610,732.9	6,573,028.9	9.4%	8.2%	1.1%	28.2%	17.0%	37.0%	Y
International Listed Property	706,667.3	670,397.0	11.3%	13.3%	(2.0%)	2.9%	-	10.0%	Y
Unlisted Property	1,101,807.3	1,113,709.8	2.4%	1.6%	0.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	691,610.0	683,121.7	6.0%	6.8%	(0.7%)	2.9%	-	10.0%	Y
Unlisted Infrastructure	1,142,617.0	1,139,611.5	6.0%	3.1%	2.8%	4.9%	-	10.0%	Y
Total	**23,059,539.91**	**23,347,258.8**	**4.7%**	**3.8%**	**0.9%**	**100.0%**			

Total Future Investment Fund (PFIF)	55,332,794.5	56,228,537.9	4.7%	3.8%	0.9%

Jarden (3 months ending 31 December 2020)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	4,573,474.0	2,970,890.0	(0.6%)	0.1%	(0.7%)	5.3%	2.0%	8.0%	Y
NZ Fixed Income	12,283,857.0	10,304,714.0	(0.8%)	(1.1%)	0.3%	18.3%	15.0%	24.0%	Y
International Fixed Income	12,712,861.0	13,471,000.0	0.8%	0.8%	(0.0%)	23.9%	23.0%	28.0%	Y
NZ Property	1,185,631.0	1,503,739.0	9.7%	8.5%	1.2%	2.7%	1.0%	4.0%	Y
NZ Equities	7,750,393.0	9,192,798.0	18.3%	11.4%	6.9%	16.3%	13.0%	18.0%	Y
Global Equities	15,955,036.0	17,257,138.0	8.8%	8.0%	0.8%	30.6%	25.0%	34.0%	Y
International Property	634,100.0	1,684,385.0	5.4%	11.0%	(5.6%)	3.0%	1.0%	4.0%	Y
Total	**55,095,352.00**	**56,384,664.0**	**5.9%**	**4.6%**	**1.3%**	**100.0%**			

Total Future Investment Fund (PFIF)	55,095,352.0	56,384,664.0	3.4%	2.7%	0.8%

- The Port Future Investment Fund (PFIF) was $112.61 million in size as at 31 December 2020, up from $110.428 million as at 30 September 2020. The portfolios returned positive net returns of $5.377 million and was reduced by a withdrawal of $1.544 million from the Mercer sleeve and $1.649 from the Jarden sleeve ($3.192 million total broken down in appendix 14.0).
- Total capital invested into the PFIF is $105.583 million as at September 2019. Adjusted for inflation (assuming a 2% annual rate), this was $109.446 million as at 31 December 2020, leaving $3.168 million in inflation reserves.
- The Mercer sleeve of the PFIF returned 4.4% net of fees over the December quarter, bringing the total cumulative return since inception to 9.6% (7.3% annualised).
- The Jarden sleeve of the PFIF returned 5.4% net of fees over the December quarter, bringing the total cumulative return since inception to 10.1% (7.6% annualised).
- Portfolio Compliance with Statement of Investment Policies and Objectives - both the Mercer and Jarden portfolios are compliant.

Summary of Assets Under Management (AUM)

A summary of quarterly AUM can be found below. The inflation adjusted column adjusts the initial capital contribution by an annual inflation rate of 2% (or 0.5% per quarter).

Long Term Investment Fund (LTIF)

	LTIF - AUM				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	6,577,589
30/09/2019	24,960,088	24,579,337	49,539,425	47,268,577	
31/12/2019	25,259,718	25,391,673	50,651,390	47,502,910	
31/03/2020	23,247,769	23,057,262	46,305,031	47,740,425	
30/06/2020	25,039,125	24,910,760	49,949,885	47,995,695	
30/09/2020	26,041,054	25,771,612	51,812,666	48,235,674	
31/12/2020	24,930,295	24,994,371	49,924,666	48,476,852	

Port Future Investment Fund - HBRC (PFIF)

	PFIF HBRC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					43,957,500
30/09/2019	22,102,336	21,988,515	44,090,851	44,177,288	
31/12/2019	22,367,660	22,335,538	44,703,198	44,398,174	
31/03/2020	20,586,068	21,125,782	41,711,847	44,620,165	16,606,302
30/06/2020	22,172,324	38,955,296	61,127,620	61,776,078	
30/09/2020	23,059,540	40,056,333	63,115,873	62,083,953	
31/12/2020	23,347,259	40,952,383	64,299,642	62,394,373	

Port Future Investment Fund - HBRIC (PFIF)

	PFIF HBRIC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					61,625,795
30/09/2019	29,665,878	29,509,416	59,175,293	61,933,924	
31/12/2019	30,021,998	29,991,361	60,013,359	62,243,594	
31/03/2020	28,811,474	29,640,790	58,452,264	62,554,812	-16,606,302
30/06/2020	31,031,541	14,588,491	45,620,032	46,584,135	
30/09/2020	32,273,255	15,038,719	47,311,974	46,817,056	
31/12/2020	32,881,279	15,432,281	48,313,560	47,051,141	

Combined Funds (LTIF & PFIF)

	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	112,160,864
30/09/2019	76,728,303	76,077,266	152,805,569	153,377,789	
31/12/2019	77,649,376	77,718,572	155,367,947	154,144,678	
31/03/2020	72,645,309	73,823,833	146,469,142	154,915,401	
30/06/2020	78,242,991	78,454,546	156,697,537	156,354,908	
30/09/2020	81,373,849	80,866,664	162,240,513	157,136,683	
31/12/2020	81,158,833	81,379,035	162,537,868	157,922,366	

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD $m)	Maturity	Interest Rate
31-Dec-2020	BNZ	Cheque/call	3.82	N/A	0.05
24-Dec-2020	Westpac	Term Deposit	2.50	15-Jan-2021	0.15%
24-Dec-2020	Westpac	Term Deposit	1.50	29-Jan-2021	0.15%
24-Dec-2020	Westpac	Term Deposit	2.50	19-Feb-2021	0.20%
24-Dec-2020	Westpac	Term Deposit	2.50	05-Mar-2021	0.20%
Total			12.82		

5.0 Liability Management Policy Compliance Checklist

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

Hawke's Bay Regional Council Interest Rate Position			
			31-Dec-20
Liquidity Buffer:	10%		
Actual	**80%**		
Policy Compliance	Y		
Funding Maturity Profile:			
Years	**0 - 3 years**	**3 - 5 years**	**5 years plus**
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	**33%**	**42%**	**25%**
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding		**3.81 Years**	
Fixed Rate Portfolio (swaps and fixed rate loans)		**4.9 Years**	
Weighted average fixed rate (swaps & term loans/bonds)		**5.32%**	
All up cost of borrowing (On Drawn Debt)		**3.36%**	

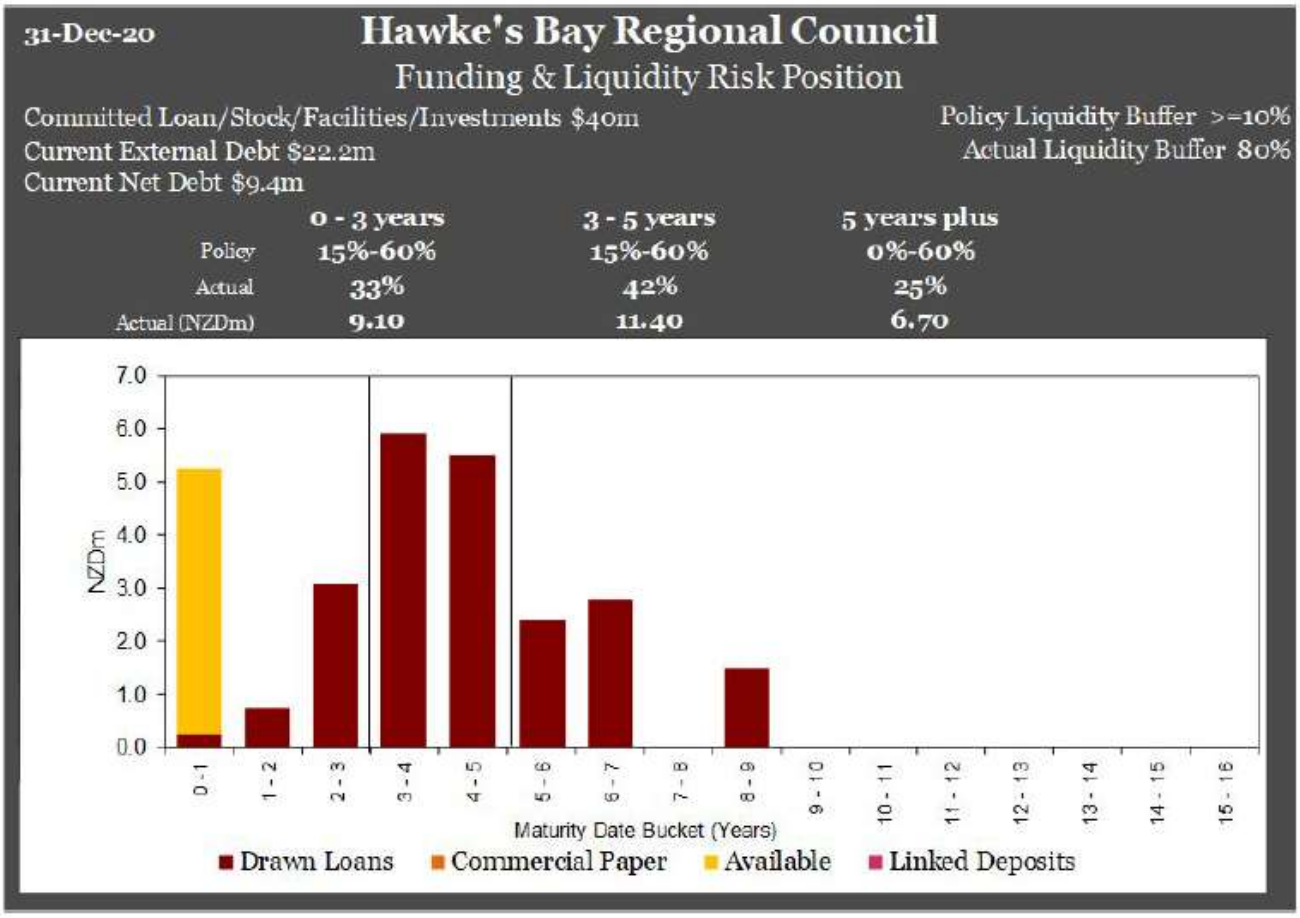
New treasury transactions in the period are outlined in Appendix 1.

6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	Actual (as at 31 December 2020)
Net external debt as a percentage of total revenue	<150%	<175%	32.6%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.4%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	3.7%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	80.3%

7.0 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.

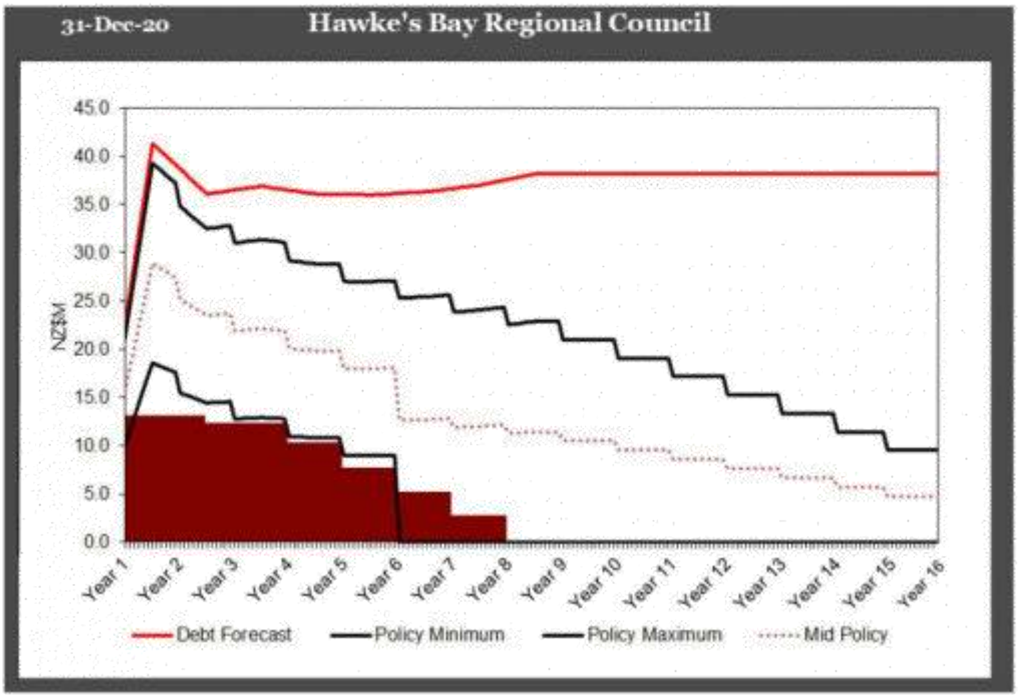


Debt Funding Strategy

Ongoing debt funding requirements continue to be reviewed given the economic uncertainties potentially impacting Port Napier and the Investment Portfolios. It will be that additional debt funding is required at upcoming LGFA tenders to support the capital programme which is considered on an ongoing basis.

8.0 Interest Rate Risk Position

This section is based on the long-term debt forecast and may change upon the adoption of the new LTP. 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.



Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
	Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)				
Year 1	22	45%	95%	59%	Yes
Year 2	39	40%	90%	34%	No
Year 3	36	35%	85%	34%	No
Year 4	36	30%	80%	28%	No
Year 5	36	25%	75%	21%	No
Year 6	36	0%	70%	14%	Yes
Year 7	37	0%	65%	8%	Yes
Year 8	38	0%	60%	0%	Yes
Year 9	38	0%	55%	0%	Yes
Year 10	38	0%	50%	0%	Yes
Year 11	38	0%	45%	0%	Yes
Year 12	38	0%	40%	0%	Yes
Year 13	38	0%	35%	0%	Yes
Year 14	38	0%	30%	0%	Yes
Year 15	38	0%	25%	0%	Yes

Interest rate strategy

As can be seen from the chart and table above, the interest rate risk position is outside policy compliance in years 2, 3, 4 and 5. This is being monitored and a strategy will be implemented to meet policy requirements upon the approval of the LTP debt forecast.

With short-term interest rates expected to be lower for longer, as the RBNZ stimulates with loose monetary policy settings, the fixed rate position will be maintained at minimum policy limits. The strategy is therefore to maintain exposure to floating interest rates over the next couple of years.

Long-term interest rates have risen over the past quarter due to better than expected economic fundamentals and central banks' willingness to accept higher inflation for sustained periods. However, global central banks will continue to use QE programmes to cap interest rates from rising substantially higher in the near term. The longer term interest rate risk position will be maintained around minimum to mid policy limits through the use of interest rate swaps or fixed rate debt issuance.

9.0 Funding Facility

Bank (Facility maturity date)	Maturity Date	Drawdown Amount ($m)	Facility Limit ($m)
BNZ	10-Apr-21	0.00	5.00
TOTAL		0.00	5.00

Available bank facility capacity (liquidity buffer)	Last quarter ($m)	31/12/20 ($m)
Gross amount	5.00	17.82
Policy liquidity buffer requirements*	3	3
Excess amount	**2.00**	**14.82**

*Section 20 of the Treasury Policy requires at least $3m.

10.0 Cost of Funds vs Budget

Month		YTD	
Actual ($m)	Budget ($m)	Actual ($m)	Budget ($m)
0.2	0.1	0.5	0.8

11.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy.

Counterparty Credit Risk (Interest Rate Risk Management Instruments and Investments)				
Rates Revenue			$	24,803,536
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	9.00	Yes	
ANZ	0.00	0.00	Yes	
ASB	0.00	0.00	Yes	
BNZ	0.00	3.82	Yes	
Kiwibank	0.00	0.00	Yes	
LGFA	0.00	0.00	Yes	

12.0 Market Commentary

Equity markets

Equity markets finished 2020 very strongly, amid fresh optimism for the year ahead. Despite the outbreak of a second wave (and second strain) of COVID-19 throughout much of the world, particularly across Europe and the US, the launch of a global vaccine raised expectations for economic and corporate earnings growth. On top of this, central banks across the globe remain committed to dovish monetary policy and governments continue to provide fiscal stimulus packages in various forms. It was also a period of geo-political uncertainty, but ultimately resolution in the West, as the US presidential election, Brexit, and our own general election were resolved over in the quarter.

Given that interest rates are at all-time lows, there has been a widespread move towards risk assets – most commonly equities – as investors search for the promise of yield in any form, in what is being called the "TINA" (there is no alternative) trade. This is particularly true of retail investors who: (i) are dissatisfied with the low returns offered by term deposits of retail banks, (ii) have more access than ever to equity markets via digital trading apps, and (iii) are generally passive in nature, making them less concerned with arguments around short-term valuation, and more concerned with indicators of long-term quality. All in all, demand for equities remains strong going into 2021.

All major equity indices delivered very strong returns over the quarter, which were only tempered in NZD terms by the strength of the NZD, especially against the USD. For instance, the MSCI World Index was up 14.1% in headline terms, but this translated to just 4.6% in NZD terms. In NZD terms, the S&P 500 was up 2.4%, the Nikkei up 11.3%, the MSCI European Index up 6.5%, and the MSCI Emerging markets Index up 9.9% helped by a strong performance in the Chinese market. Most markets had subdued performances throughout October, and then achieved most of their gains after the major COVID-19 vaccine announcements in early November.

The New Zealand market also had an exceptional end to the year, as Auckland came out of its second lockdown and NZ remained essentially COVID-19-free. The headline NZX50 index rose a very strong 11.4% for the three months to 31 December, with a2 Milk the only real large cap stock which dragged on performance after delivering an earnings downgrade in December. On the positive side, strong earnings performances from Fletcher Building and Mainfreight, as well as a (initially rebuffed) takeover offer for Infratil, were key names which lifted the index higher.

It is worth noting that an interesting example of themes mentioned above took place in NZ over the quarter, as all three of Meridian, Contact, and Mercury Energy delivered 25%+ returns for the quarter. It appears as if the key driver of these incredible short-term returns for such stable businesses has been newly created offshore green/sustainable ETFs. These funds have been forced buyers of these names as they maintain their programmed portfolio weights regardless of price. This is despite the large inflows of new investor money, particularly retail investors, who are more interested in this kind of thematic investing. With green investment a likely ongoing structural theme, the absence of investment options globally, and NZ's perception as an environmentally responsible nation, green ETF buying could have a sustained impact on the NZ equities market.

The Australian market was similarly strong, up 12.4% over the period in NZD terms. This was driven by several pro-cyclical names which have exposure to any sort of global economic recovery, particularly the mining/metal companies such as Rio Tinto and Fortescue. Australia's relative political stability/freedom from COVID-19 has meant that it has been better placed to take advantage of the demand for metals than competing nations such as Brazil. The extent to which this continues in 2021 will be a decisive factor in the performance of the ASX.

Funding markets

A total of 24 local government borrowers raised $707 million in the fourth quarter of 2020. This comprised 56 separate funding transactions, of which all but two were conducted via the LGFA. Borrowing volumes remained relatively strong over the quarter, almost $300 million greater than the corresponding quarter in 2019. Over the quarter, a total of 86% of all borrowing was undertaken on a floating interest rate basis and the weighted average term of all borrowing was 6.5 years.

LGFA credit margins generally trended lower over the quarter, although the spread between shorter-dated and longer-dated credit margins increased, steepening the funding curve. This was influenced largely due to the RBNZ's Large-Scale Asset Program (LSAP) which targets medium-term bonds. However, globally long-term interest rates also started to move higher in late 2020, further contributing to this dynamic.

In the quarter, the RBNZ purchased approximately $9.8 billion of NZ government bonds and $261 million of LGFA bonds in the secondary market across various bond maturities (source: RBNZ). Of the LGFA bonds purchased by the RBNZ in the quarter, 77% had a term less than 10 years.

Considering both international and domestic economic data is proving to be more resilient than earlier anticipated, the outlook for high grade credit spreads remains relatively positive. With significant liquidity in the banking system, largely as a result of central bank stimulus measures, the return on retail and wholesale cash will remain depressed over 2021. Separately, the economic outlook is still uncertain with further domestic business failures likely. In this environment, highly-rated, quasi-government bonds will remain well supported, both from banks seeking to invest excess liquidity, and from other investors looking for a small, yet positive return on capital employed.

Interest rate markets

Short-term domestic swap rates moved sharply higher following the RBNZ's November Monetary Policy Statement (MPS), this all despite the RBNZ still describing the medium-term outlook as 'weak' and OCR forecasts being unchanged from the August MPS. Instead, what drove interest rates higher was a 100 basis point increase to the 'unconstrained OCR' track - the forecast OCR level necessary to achieve the inflation and employment mandate if there was no 'effective lower bound'. This suggested to markets that a lot less monetary policy support was now needed.

Over the following weeks negative swap rates were fully-priced out of the interest rate forward curve. This was caused by a combination of better than expected NZ economic data, vaccine development news and a red-hot housing market being heavily criticised by the government suggesting that maybe the RBNZ's 'least regrets approach' taken so far was no longer appropriate. The RBNZ then implemented a Funding for Lending Programme (FLP) whereby retail banks could borrow at the cost of the OCR and lend these funds out to borrowers. Assistant Governor Christian Hawkesby followed this up by noting that if retail banks want the OCR to remain positive then mortgage rates needed to be driven lower through takeup of this programme.

Takeup under the FLP was minimal at first ($40 million by 14 December 2020), but another $1 billion has subsequently been drawn (by one bank we believe), suggesting support for retail mortgage rates to move lower. Our expectation now is that one further OCR cut will occur is warranted. While the points above suggest the RBNZ is likely to take more caution in implementing further cuts, the RBNZ's inflation and employment mandates (inflation at 2.0% and for employment to be at maximum sustainable levels) are far from being met. The lack of international tourism over the key summer months has seen more job losses influencing JobSeeker numbers rising to 214,000 (after being virtually flat across October/November at 204,000), and while inflation in the December quarter was better than expected at 0.5%qoq (1.4%yoy) this is still far from the 2.0% target.

Long-term domestic swap rates also moved higher over the last quarter driven by vaccine optimism and expectations for further fiscal stimulus under a Biden administration. Looking ahead, the outlook for long-term swap rates is to remain near current levels with upside pressures currently muted: global inflation rates remain below central bank expectations, US economic activity tapered in the final months of 2020 and jobless claims remain at very elevated levels. Federal Reserve Chairman Jerome Powell noted in January's 2021 Federal Reserve meeting that while inflation expectations are improving it should be treated as transitory given the disinflationary pressures that have been observed over the past decades. As such, we expect long-term domestic swap rates to consolidate near current levels.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
1/2/2021	Interest rate policy limit non-compliance	Y	Review risk positions with updated LTP debt forecast

14.0 Appendix

New Treasury Transactions up to 31/12/2020

Borrowing activity

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

Interest Rate Borrower Swaps

Bank	Notional Amount (NZDm)	Deal Date	Start Date	Maturity Date	Swap Rate
	NIL				

Monies withdrawn from the Funds

Mercer

Date	HBRC LTIF	HBRC FIF	HBRIC	Cumulative total
31/12/2020	2,245,923	727,058	816,444	3,589,425

Jarden

Date	HBRC LTIF	HBRC FIF	HBRIC	Cumulative total
31/12/2020	2,232,506	1,164,615	384,209	3,881,330