Meeting of the Corporate and Strategic Committee

Date: Wednesday 19 May 2021

Time: 10.30am

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

Attachments Excluded From Agenda

Investment Strategy

1. Purpose and Background

1.1 Introduction

Section 101A of The Local Government Act 2002 requires local authorities to prepare and adopt a financial strategy as part of its Long Term Plan (LTP).

The purpose of the financial strategy is to facilitate prudent financial management by providing a guide to consider proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt and investments.

Council's (ie HBRC and HBRIC) investments are an important aspect of its financial strategy, both as a mechanism for protecting and maintaining intergenerational equity, and as a funding source to reduce rates.

Council investments are managed as per the following guiding principles:

- **Council is a custodian of its investments on ratepayers' behalf.**
- **By default, commercial investments will be considered by HBRIC whereas HBRC will operate as a passive investor.**

1.2 Background

As a result of the August 2019 initial public offering of Napier Port on the NZX, in which HBRIC sold a 45% shareholding, Council has an increasingly diverse range of investments. This growth has meant Council's investment holdings are becoming an increasingly important enabler for Council to achieve its wider LTP objectives.

Both HBRC and HBRIC own and manage investments on Council's behalf. HBRC has a number of forestry, property and managed fund holdings which are held for a range of reasons (both commercial and non commercial).

HBRIC (a CCO) is responsible for owning and managing Council's direct commercial investments. For instance, Napier Port (Council's largest direct investment) is held by HBRIC. In the future it is Council's intention for HBRIC to be the vehicle through which commercial investments are made.

HBRC benefits from HBRIC's investments through regular dividend payments which are used to meet wider Council objectives.

1.3 Purpose

The purpose of this Investment Strategy is to outline Council's approach to managing its investment assets. The Investment Strategy reflects the principles agreed upon with Councillors as part of the 2021/31 LTP process. It builds on this work by providing detail regarding the operational elements required to implement the Investment Strategy.

This Investment Strategy covers Council's investment assets. This includes:

- Council's shareholding in Napier Port;
- Council's forestry holdings;
- Council's externally managed funds; and
- Council's Wellington property holdings

Council's endowment leasehold land holdings have been excluded from this Investment Strategy. This is because the cash flow from this land was sold for 50 years to ACC in FY13. There is also limited saleability associated with this holding given existing contractual arrangements. However, from time to time properties will be sold and profits over and above the amount owing to ACC will be transferred to the sale of land reserve.

The rest of this Investment Strategy document provides an overview of the Investment Strategy along with the mechanisms required to implement it.

2. Hierarchy of Documents

Council's Investment Strategy cannot be read in isolation and interacts with many other Council documents.

It is established based on the principles in Council's LTP, Financial Strategy and Revenue and Financing Policy. These documents also outline Council's investment expectations.

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The Investment Strategy provides the broad outline and general direction for how these expectations will be met. The strategy is then implemented in the following documents that sit below it:

- Council's Statement of Investment Policies and Objectives (SIPO) details the approach to managing specific externally managed funds under the Investment Strategy.
- The HBRIC Letter of Expectation outlines Council's dividend expectations. The substance of this is then reflected in HBRIC's Statement of Intent.
- Finally, Council's Treasury Policy is also impacted by the Investment Strategy. As Council adopts the Treasury Policy, it provides greater detail on items for which Council approval is required. This includes items relating to:
    - Ethical/Responsible Investing.
    - Permitted Delegations;
    - Counterparty Risk; and
    - Investment Reporting.

Hierarchy of Documents

3. Definitions

Cash Return: The income received from Council's investments (eg Napier Port dividends, managed fund income and rental income) after fees and taxes.

Napier Port Income: Dividends received Napier Port after taxes

Gross Return: The cash return received and unrealised capital gains from Council's investments after fees and taxes.

Investment Income: Includes managed funds income, dividends and property income after fees and taxes.

Managed Fund Income: Dividend, interest payments and distributed realised capital gains received from Council's managed funds after fees and taxes.

Property Income: Rental income received from Council's property investments.

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Realised Capital Gains: Profit from the sale of some (or all) of Council's investment holdings.

Strategic Asset: An asset Council owns which is considered to have particular importance to the community and/or Council's ability to promote outcomes within the community. Strategic assets can not be sold by Council without consultation.

Target Return: Council's gross return requirement.

Unrealised Capital Gains: Appreciation in the value of Council's investments that has not been realised. An example is an increase in HBRIC's holdings in Napier Port.

4. Investment Holdings

Both HBRC and HBRIC own portions of Council's investment assets. This is a legacy of previous decisions made by Council and due to commercial implications which have meant some of the proceeds from the Napier Port IPO have remained with HBRIC and been invested.

The following table details the investment assets covered by the Investment Strategy and whom they are owned by. It also indicates whether the investment holding is strategic or not. These distinctions are important because it has implications regarding return expectations and the realisation of capital gains (refer Section 6). Portions of some investment holdings are Strategic whereas other portions are not, where this occurs two entries have been presented within the table.

Investment Asset	Owner	Current Manager	Strategic/Non Strategic
Napier Port	HBRIC	HBRIC	Strategic
Future Investment Fund (Managed Fund)	HBRIC	Jarden/Mercer	Strategic
Future Investment Fund (Managed Fund)	HBRC	Jarden/Mercer	Strategic
Long Term Investment Fund (Managed Fund)	HBRC	Jarden/Mercer	Non Strategic
Forestry	HBRC	HBRC	Strategic
Wellington Leasehold Property	HBRC	HBRC	Non Strategic

A description of each investment asset is provided below.

Napier Port: Council has a 100% ownership of HBRIC and HBRIC has a 55% ownership stake in Napier Port. As Council's objective is to maintain an ownership proportion of no less than 51%, the majority of the stake is considered Strategic.

Managed Funds: There are two funds that collectively form Council's managed fund investments:

- **The Long Term Investment Fund** is held by HBRC and was established using money set aside for discontinued projects. Council investments in this fund are considered Non Strategic.
- **The Future Investment Fund** is held by HBRC and HBRIC. It was formed using proceeds raised from the Napier Port IPO. These investments are Strategic Assets.

Forestry: HBRC owns a range of forestry assets that consist of forestry crop for logging and manuka plantings for honey.

Wellington Leasehold Property: HBRC owns various residential and commercial leasehold properties in Wellington.

5. Investment Requirements

5.1 Investment Objectives

Council has three principal investment objectives. These are outlined as follows:

1. To increase the Region's wealth and prosperity through the investment portfolio; and

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2. To increase asset values within the investment portfolio; and
3. To protect asset values so future generations can also benefit from the investment portfolio.

Underneath these objectives sit a range of sub-objectives that ensure Council can achieve these outcomes. These sub-objectives are detailed below.

Objective 1: To increase the Region's wealth and prosperity through the investment portfolio

- To generate a cash return from the investment portfolio to assist with the affordability of rates while maintaining the community's desired levels of service and to fund intergenerational or transformational projects.
- To enable HBRIC to use a portion of the cash return generated from its investment holdings to support and stimulate regional growth by making strategic commercial investments.
- To maintain a controlling stake in Napier Port.

Objective 2: To increase asset values within the investment portfolio

- To receive a target return from HBRIC on an annual basis (as detailed in Council's Letter of Expectation) whilst otherwise allowing HBRIC to operate independently and actively investing directly within the region.
- To generate capital growth in the investment portfolio to maintain at least the real capital value and to benefit future ratepayer generations.
- To use a portion of the cash return generated from the investment holdings to build up an investment reserve to manage volatility of investment returns and distributions. Further details on this reserve are provided in Section 6 of this Investment Strategy.

Objective 3: To protect asset values so future generations can also benefit from the investment portfolio

- To realise capital gains when appropriate to ensure intergenerational equity is maintained.
- To ensure investments align with Council's responsible and ethical investment requirements as detailed within Council's Treasury Policy.
- To prudently manage the investment holdings as Council is a custodian of current and future ratepayers assets.
- To manage investment risks and optimise returns.
- To establish the controls needed to enable Council management to efficiently manage the investments.

5.2 Return Targets

Investment assets held by both HBRC and HBRIC are currently expected to provide a cash return of 4% per annum and a gross return of 6% per annum. The higher gross return target reflects the need for the investment portfolio to maintain its real capital value to ensure intergenerational equity is maintained.

The return requirements will be computed into a numerical value at the start of each LTP period for each investment asset for the following three years. This ensures the cash expectation is understood and enables the effective management of the investment assets. Further, the setting of a numerical target based on a three year average rather than a percentage helps to normalise for volatility throughout the forecast period and provides clarity of requirements.

For some investment assets, the return expectations may be lower than required. For instance, Council's property holdings may only reasonably be able to provide a cash return of 2%. Where this occurs, it is expected the return requirement from Council's managed funds and other investments would adjust. This may require re-aligning the investments within the fund. Further detail is provided in Council's SIPO.

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Return Target Example (illustrative only)

The following example indicates how the return targets will be set. As part of this example, we have illustrated how the managed fund return requirement would be expected to adjust to reflect a lower return elsewhere (ie in property).

Council Investment Assets: $560m

Cash Return Required: $22.4m (560 x 4%)

Gross Return Required: $33.6m (560 x 6%)

Investment Asset	Value ($m)	Cash Return Expectation p.a.	Gross Return Expectation p.a.	Cash Return Requirement ($m)	Gross Return Requirement ($m)
Napier Port	385	4%	6%	15.4[1]	23.1[1]
Property	18	2%	4%	0.4[2]	0.7[2]
Forestry	10	4%	6%	0.4[3]	0.6[3]
Managed Funds	147	4.2%[4]	6.3%[4]	6.2[5]	9.2[5]
Total	**560**	**4%**	**6%**	**22.4**	**33.6**

[1]Cash Return = 385 x 4% = 15.4; Gross Return = 385 x 6% = 23.1
[2]Cash Return = 18 x 2% = 0.4; Gross Return = 18x 4% = 0.7
[3]Cash Return = 10 x 4% =0.4; Gross Return = 10 x 6% = 0.6
[4]Cash Return = 22 – 15.4 – 0.4 – 0.4 = 6.2; Gross Return = 33.6 – 23.1 – 0.7 – 0.6= 9.2
[5]Cash Return Expectation = 6.6 / 147 = 4.3%; Gross Return= 10.3 / 147 = 6.3%

5.3 Reviewing Return Targets

The return targets will be evaluated every three years in-line with the LTP process. To determine these targets, Council will consider its numerical cash return requirement (by dollar amount) over the following three years. This will then be converted into a percentage-based annual return target as a sense check.

This approach is preferable as it ensures the targets align with Council's funding and investment reserve requirements and has been 'normalised' to reflect changes in asset values. It also ensures a robust forecast process, allowing performance KPI's to be set. These targets will form part of the LTP process and align with plans on significant assumptions.

The capital gain target (ie to inform the gross return) will be set with reference to inflation expectations to ensure the real value of the portfolio is maintained.

5.4 Use of Investment Proceeds

A cash return will be provided to Council typically on a semi-annual basis (ie in two lump sums) or otherwise when received. This income received will be used for a range of purposes including:

- To subsidise general rates;
- To grow an investment reserve; and
- To fund regional growth initiatives.

Of these items, Council will first ensure the cash return received is sufficient to meet its rates subsidisation objectives. After this the remaining proceeds will be applied towards the other items outlined.

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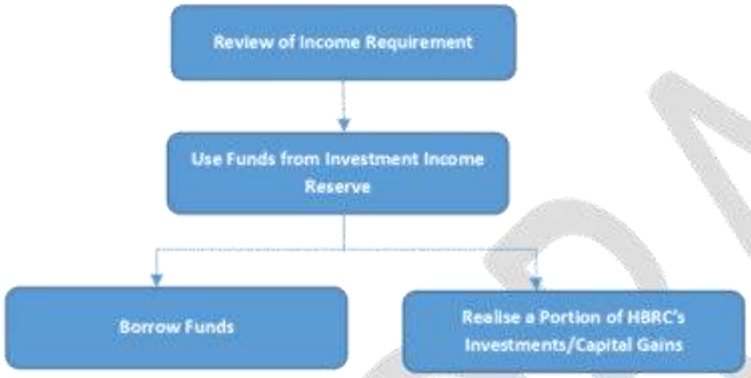
5.5 Lower Cash Returns Than Anticipated

On occasion Council may receive lower cash returns than anticipated. The protocols for dealing with these if the lower returns come from HBRIC are detailed within HBRIC's Investment Strategy. However, if these lower returns come from the HBRC portion of Council's investment portfolio, then the process detailed below should be undertaken to determine the response required (if any).

Process Waterfall When Cash Returns Are Lower Than Anticipated



As per the above diagram, Council should first review its income requirement before taking any action. Accessing any available funds in the investment income reserve would then occur prior to selling a portion of HBRC's investment holdings or increasing Council borrowing.

5.6 Realising a Portion of HBRC's Assets When Cash Returns Are Lower Than Anticipated

When realising investment assets, only returns in excess of the net capital gains target (ie 2% after transaction costs has been met) can be realised. This ensures the real capital value objectives are achieved and intergenerational equity is maintained.

Council may realise either its Strategic or Non-Strategic assets. Consultation will, however be required if realising Strategic assets.

Prior to making a decision on whether to sell investment assets, Council should consider the underlying liquidity and divisibility of its assets. For instance, this could mean realising externally managed funds before Wellington Leasehold Property.

Before proceeding with the sale of any investment assets when cash returns are lower than anticipated, Councillors must first agree to the proposed transaction.

6. Capital Gains Policy

Council must ensure both current and future ratepayers benefit from the investment portfolio. This means consideration must be given to whether it is appropriate to realise capital gains.

6.1 Eligible Assets

Council's capital gains policy applies to both its Strategic and Non Strategic assets. Selling strategic assets will require consultation.

6.2 Evaluation

The most appropriate time to complete the capital gains evaluation is following the end of each financial year. At this date, Council will review the performance of its investment portfolio and each specific investment asset. If the total gross return for both has on average exceeded 10% over the previous three years, then Council will proceed with its evaluation of whether to realise some of its capital gains. When realising capital gains Council must ensure its return targets are still met after the transaction (ie it still achieves a 6% gross return).

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In evaluating whether to realise capital gains Council's Investment Strategy should consider the following:

- The use of the proceeds raised and whether this aligns with Council's objective of maintaining current and future intergenerational equity.
- The importance of the item for which proceeds raised would be applied to and the impact on Council from alternative funding solutions (ie if capital gains aren't realised).
- The size of the net proceeds realised.
- Transaction costs.
- The investment outlook generally and for the asset class.
- Any relevant Environmental, Social and Governance impacts.
- The impact on Council's wider investment holdings and asset allocation.
- Any investment reserve requirements.

Ahead of making a final decision, an assessment of these considerations will be provided to Council and discussed. Once evaluated a final capital gains decision would then be made.

6.3 Process

Council management will be responsible for realising any capital gains (following Councillors approval). The process for realising capital gains will vary by asset class.

Council management will be expected to engage with relevant counterparties to ensure the funds are received in the quarter after the Councillors decision is made. This will provide management with sufficient time to ensure they are minimising any transaction costs and to avoid any short-term market risk.

Once the transaction has occurred, management will be required to present proof to Councillors along with proof the funds have been applied towards the relevant Council activity. In the absence of a specific requirement agreed with Councillors, any funds raised will be put in to HBRC's LTIF until a decision is made regarding future use. This is because the LTIF is a readily existing vehicle to earn immediate returns on any funds until any investment is made.

6.4 Unsolicited Offers

On occasion Council may receive unsolicited offers to purchase some of its investment holdings. In these instances, the following process is to be undertaken:

1. An office assessment of how the asset fits into the overall strategic objectives of the total (HBRC and HBRIC) portfolio asset allocation and risk appetite
2. An assessment of the offer – with an up to date valuation.

Once this has been undertaken, Council management is then required to take the offer along with the assessment completed to Councillors who will decide how to proceed.

7. Reserving

An investment income reserve will be established to help smooth volatility in Council's investment portfolio. This means Council will not need to raise funding from other sources (such as rates) should investment returns be lower than required. This will ensure continuity of investment income and increases capital protection within the investment portfolio.

As per Section 5.4 the investment income reserve will be created using proceeds received from Council's investment assets. The establishment of an investment income reserve still means Council's other reserves are required.

7.1 Requirement

Proceeds received that are used to establish the investment income reserve may vary over time. The intention should however be to grow the investment income reserve such that it can replace 6 to 12 months of cash return. As capital growth in the portfolio is expected, ongoing contributions to the investment income reserve will be required.

The funds received would be invested in low risk treasury investments such as bank, call and term deposits to ensure the funds are available for when they were needed. The

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reserve has been sized to reflect the opportunity cost associated with these investments (ie lower expected returns compared to the investment portfolio).

7.2 Ownership and Management

HBRC will be responsible for owning and managing the investment reserve.

8. Investment Opportunities

From time to time, Council may be presented with new investment opportunities. These may be either Non Strategic or Strategic assets (provided they generate a commercial return).

All new commercial investments will be considered by default by HBRIC. The investment evaluation criteria for these opportunities is reflected in HBRIC's investment strategy. Should HBRIC not wish to proceed with an investment, HBRC retains the option to invest directly.

As HBRC will only be a passive owner of commercial investments, only managed fund investments are likely to be evaluated by HBRC in the future.

It is expected HBRC may also evaluate investments which are held for non commercial reasons (eg forestry) but these are excluded from this Investment Strategy.

8.1 Evaluation Process

Prior to making any investment decision, HBRC must undertake a robust evaluation of the proposed investment.

Where the proposed transaction exceeds $5 million this evaluation must be presented to Councillors who will be responsible for approving the final investment decision. It is expected the investment evaluation will be presented to Council in the form of a scoping report.

The investment scoping report will need to justify why the investment is suitable and should be added to the long term investment portfolio. Amongst other items, the investment scoping report must cover the following items:

- How the investment opportunity arose;
- Historical investment returns and volatility;
- Examples of other peer Council's with such an investment
- Expected returns (over a 5 year period);
- How the investment aligns with Council's risk profile;
- Any impacts on the wider investment portfolio from making the investment;
- Any impacts on Council's overall returns from making the investment;
- How the investment will be made and how the funds will be raised;
- The investments liquidity;
- How the investment aligns with Council's objectives;
- Key investment risks and mitigants;
- The proposed approach to performance and return monitoring; and
- Upfront and ongoing costs from making the investment.

9. Role of HBRIC

9.1 Background

HBRIC Limited is a council controlled organisation and is a wholly owned subsidiary of HBRC. It was established in 2012 to manage and own various Council assets. This remit has changed over time as its investment holdings have.

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9.2 Scope

The 2021/31 LTP defined HBRIC's role in Council's Investment Strategy as being an enabler of regional growth and environmental outcomes. This means HBRIC will invest in the region as a commercial investor. The return target for these investments will reflect their risk profile. These investments are to be made using the excess returns generated by HBRIC's investment holdings. Excess returns are those exceeding the return HBRIC is required to provide to HBRC.

HBRIC's investment controls and procedures are outlined in its Treasury Policy and Letter of Expectation. HBRIC is expected to manage its investment holdings in accordance with these documents and report to Council on its compliance. Provided this occurs, HBRIC can manage its investment portfolio and determine how it meets Council's return requirements. This may include the use of borrowings (which HBRIC is permitted to do).

9.3 Dividends to Council

HBRIC is expected to provide Council with its contribution towards the overall return target. This will be provided to Council through regular dividend payments.

The annual numeric dividend expectation will be outlined to HBRIC in the Letter of Expectation. It will be calculated based on HBRIC's proportionate holding of the overall investment assets.

To the extent HBRIC's investment assets do not meet their cash return target, HBRIC has the capacity to borrow. This would supplement the cash return received and ensure the overall target is met.

10. Use of Borrowings

Any proposed borrowings by HBRC that are linked to the investment portfolio will require the approval of Councillors.

However, in fulfilling its mandate, HBRIC may borrow. This aligns with its wider objectives related to increasing the size of its in-region investments. When borrowing there will be a range of parameters and debt limits which HBRIC must comply with. These will be outlined in HBRIC's Treasury Policy. This will ensure the level of leverage is appropriate and doesn't put various Council assets (such as the Napier Port holding) at risk.

11. Asset Benchmarks

Asset class performance will be benchmarked against appropriate industry benchmarks with support provided from our advisors.

12. Review of Investment Strategy

Council's Investment Strategy will be reviewed no less than every 3 years. Reviews should coincide with the setting of Council's Long Term Plan.

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Treasury Policy

1. General Policy Context

- HBRC's Treasury Policy is consistent with its objectives, Long Term Plan (LTP), Investment Strategy and Annual Plans. All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate risk management instruments) will meet the requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy. The policy is established in accordance with the following relevant legislation:
- Local Government Act 2002, ~~in particular sections~~sections 101, 102, 104, 112, 113 and 105. The policy covers Council's management of all borrowing, as defined in section 112 of the Act, as well as management of other liabilities. Section 113 of the Act prohibits Councils' from borrowing or entering into incidental arrangements denominated in other than New Zealand currency.
- In accordance with the Local Government Act, and by resolution, Council may borrow on such terms and conditions that they consider appropriate. HBRC uses short-term and long-term funding to achieve an effective borrowing mix and to balance the requirements of liquidity and funding risk management.
- Trust~~ee~~s Act 2019~~1956~~. When acting as a trustee or investing money on behalf of others, the Trust~~ee~~s Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trust~~ee~~s Act 2019~~1956~~ Part 4~~II~~ Investments.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- The definition of Strategic and Non-Strategic assets is outlined in the Significance and Engagement Policy.

2. General Objectives

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

- to manage investments to optimise returns in the long term whilst balance risk and return considerations
- to balance the mix of financial investments and blended investments
- obtain an acceptable ongoing annual cash ~~income~~ return from the investment portfolio as a whole
- ensure sufficient cash is available (liquidity) as needed to assist with the funding of HBRC's ongoing operations and to meet known and reasonably unforeseen funding requirements
- protect and maintain long term gains in capital value of its investments for the benefit of future as well as current generations of ratepayers
- ensure externally managed investment funds protect the real capital value, and amounts available for distribution, between present and future ratepayer generations. Real capital value is the value that has been adjusted for the effect of inflation
- hold certain investments for strategic and non-strategic benefits as well as for the ~~financial~~ commercial benefits to the region
- to minimise liquidity risks and exposure to credit risk by investing and dealing with credit worthy counterparties
- develop and maintain relationships with financial institutions, credit agencies (if and when appropriate), LGFA, investment managers, investors and investment counterparties
- minimise HBRC's costs and risks in the management of its borrowings
- invest and borrow funds and transact risk management instruments within an environment of control and compliance under the Policy to protect HBRC's costs, returns and assets

- arrange and structure appropriate ~~funding~~ borrowing for HBRC at the lowest achievable credit margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this Policy
- monitor and report on financing/borrowing covenants and limits under the obligations of the HBRC's lending/security arrangements
- monitor, evaluate and report on treasury performance
- ensure that all statutory requirements of a financial nature are adhered to
- to ensure adequate internal controls exist to protect HBRC's financial assets and to prevent unauthorised transactions.

3. Investment Policy - Purpose

As set out in the Investment Strategy, Council has three principal investment objectives as follows;

- To increase the region's wealth and prosperity through the investment portfolio; and
- Increase asset values within the investment portfolio; and
- Protect asset values so future generations can also benefit from the investment portfolio.

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

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

4. Investment Policy - Scope

HBRC has a significant portfolio of investments comprising of:

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

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

There are two investment categories that HBRC may invest in.

- **Financial Investments** – the purpose of financial investments is to provide annual cash income at budgeted amounts and protect the real capital value of financial investments over time.

Blended Investments – the purpose of blended investments is to invest in projects that may have a combined objective of providing environmental or regional economic growth benefits as well as financial benefits. The return from blended investments will be taken into consideration as part of the total portfolio return requirements. ~~Blended investments are only to be invested in if the total investment portfolio can provide the annual cash income requirements of HBRC.~~

5. Investment Policy - Responsible Investment

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

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

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

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

6. Investment Policy - Ethical Investment

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

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

7. Investment Policy - Externally Managed Funds

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

Council will be responsible for the following:

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

The GMCS approves the amount and the timing of the funds available for divestment, that can be withdrawn from the externally managed funds. The funds that are available for divestment will be based on Council's cash flow requirements and the financial investment strategy. The amount will be retrospectively reported to Council.

The strategic asset allocation and tactical ranges of the externally managed funds is outlined in the approved SIPO document.

Part 7 – Policies | Wāhanga 7 - Ngā Kaupapa Here

Treasury Policy

8. Investment Policy - Mix of Investments

Equity Investments

HBRIC Ltd

Since its establishment on 1 February 2012, HBRC beneficially owns 100% of the shares in HBRIC Ltd, a company established to manage HBRC's corporate investments. HBRC's intention is for HBRIC to be the vehicle through which commercial investments are made.

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

A key requirement of HBRC is that HBRIC adopt an I~~i~~nvestment P~~p~~olicy for the management of the investments that is consistent with, and reflects the purpose, objectives and requirements of ~~this~~ Council's investment policy and strategy. This will remain the overriding policy document for all HBRIC's investments, including any investment assets and externally managed funds. HBRIC will have its own Board approved SIPO document that governs the externally managed funds.

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

[illegible]	
[illegible]	[illegible]
~~Net debt to net debt plus Equity~~	~~<10%~~
~~Interest cover (EBIT/interest paid)~~	~~>3x~~
~~EBITDA/Total Assets~~	~~3%~~
~~Return on Shareholder's Funds~~	~~3%~~

[illegible]	
[illegible]	[illegible]
~~Net debt to net debt plus Equity~~	~~<40%~~
~~Interest cover (EBIT/interest paid)~~	~~>3x~~
~~EBITDA/Total Assets~~	~~9%~~
~~Return on Shareholder's Funds~~	~~5%~~

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

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

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

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

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

Port of Napier Limited

~~As at 30 June 2017,~~ HBRC beneficially owns 55% ~~ed 100%~~ of the shares in PONL through HBRIC. PONL is considered a strategic asset. HBRC's strategic objective is to continue to beneficially hold a majority of the shares of PONL as a key means of assisting economic development of the region. The investment is expected to be a significant source of non-rate revenue and has long term prospects for growth and development.

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

~~The LTP contemplates an up to 49% float of Napier Port on the New Zealand stock exchange in year 2. This would reduce the ownership in Napier Port through HBRIC Ltd up to51% in 2019-20. However, the LTP is modelled and forecast on a 45% floating of Napier Port.~~

Property Investments

Napier leasehold property

HBRC owns leasehold endowment property within and around Napier City. The portfolio was acquired in 1989 during the reformation of Local Government, and under the terms of each lease, the properties can only be sold to lessees. This means HBRC will retain ownership of each lease unless the lessor is willing to buy the freehold interest in the property at a value acceptable to both lessee and lessor. HBRC intends to continue to sell freehold interests to lessors wherever an acceptable sale price can be achieved, and reserves the right to sell the annual cash flows arising from ongoing rents paid by lessors from time to time. With effect from 1 July 2013, HBRC sold the annual rentals due from this portfolio over the next 50 years (i.e. until July 2063) to ACC for a lump sum of $37.8 million. The underlying properties continue to be owned by HBRC and sales to lessors have continued, and may continue in the future, in the same way as they have done in the past.

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

Wellington leasehold property

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

Council management have the delegation to sell individual properties if the transaction amount is within its delegation and the offer exceeds ~~is~~ 10% of ~~above~~ the most recent valuation. Any valuation must have been completed within the past 3 months. The property sale details and proceeds will be retrospectively reported to Council.

Other Property Investments

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

Forestry Investments

HBRC has an existing forestry portfolio consisting of:

Site Name	Area (ha)	Assumptions
CHB	168	No material investment, maintenance only, no harvesting in LTP period
Mahia	36	No material investment, maintenance only, no harvesting in LTP period
Waihapua	213	No material investment, maintenance only, no harvesting in LTP period
Tutira	114	Harvesting proposed over the period from 2018-19 to 2022-23. Replanting after harvest
Tutira Manuka Honey	130	Maintenance continues with yearly honey income of $46,000 assumed
Tangoio	150	Harvesting proposed over the period from 2020-21 to 2021-22. Replanting after harvest
Carbon Credits	n/a	Council holds 105,640 post-1989 NZU, and 14,907 pre 1990 NZU

Returns on the forestry investments other than Carbon Credits are determined by the harvest revenue received.

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

Carbon credits are accumulated from Council's forestry portfolio and are considered a non-strategic asset. The carbon credits are valued annually. Council management has the delegation to sell the carbon credits with the sale proceeds included in the revenue account and used for the general purposes of HBRC.

NZ LGFA Limited Investments

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

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

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

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

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

Treasury investments

Council maintains Treasury Investments for:

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

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

- iInvestments which have the intention of supporting liquidity should be matched to meet future cash flow and capital expenditure projections.

- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest income may be credited to the particular fund.
- ~~The~~The CFO executes Council's investment strategy within approved policy limits by regularly reviewing cash flow and debt forecasts (incorporating plans for approved expenditure and strategic initiatives)~~.~~
- Council adopts a conservative risk position for these funds and only accepts investments that have a minimum risk of loss, a~~. A~~ccepting that a low-risk portfolio may result in lower returns~~.~~
- Treasury investments will have a maturity term of 12 months or less. The only exception relates to term deposits that are linked to an upcoming pre-funded debt maturity
- T~~t~~~~T~~reasury i~~I~~nvestments must be compliant with the ~~Investment Parameters,~~ Approved Financial Instruments and Counterparty Credit sections of this Policy~~.~~

Term deposits

HBRC currently holds both treasury investment and reserve funds on term deposit~~s~~ with approved banking institutions.

~~9. Investment Policy - Investment Parameters~~

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

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

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

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

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10. Investment Policy - Acquisition of Investments

New non-strategic and strategic investments will be acquired from time to time within the investment types specified in accordance with the policies and objectives recorded in the Investment Strategy and this P~~p~~olicy.

New non-commercial investments will be made by HBRC ~~, HBRIC~~ and its officers in accordance with the management authorities and delegations summarised below. New commercial investments will be considered by HBRIC by default in accordance with the Investment Strategy.~~,~~

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

11. Investment Policy - Disposal of Investments

~~Sale or liquidation of investments held for special purpose reserves may only occur when the funds are required for the particular purpose each reserve was established for by HBRC.~~

Any disposal of ~~unrestricted~~ non-strategic investment assets requires the approval of Council, other than those made within delegated authority granted by HBRC.

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

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

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

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

~~There will be no requirement to carry out a special consultative procedure when:~~

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

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

Any disposal of investments needs to be consistent with the approved Investment Strategy and the Significance and Engagement Policy.

12. Disposition of Income

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

13. Risk Assessment and Management

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

- HBRC will not invest where there is a significant known risk of decreased asset value or non-commercial returns, except where it has identified potential advantages to the Hawke's Bay economy in pursuit of its economic development, environmental, social and community objectives that may arise from making particular investments and has assessed whether potential economic gains could more than offset any potential decreases in asset value.
- For prudent management, while retaining a flexible approach to future investment opportunities, no more than 33% of HBRC's total investment portfolio will be invested in any one investment, or institution or groups of institutions in the same investment type, other than in institutions which are Government guaranteed (in which instance up to 100% of the portfolio may be invested). This rule does not apply to existing investments in Napier Port and Napier endowment property and the investment company established by HBRC.
- HBRC may use financial derivatives to "hedge" against fluctuations in interest rates and~~,~~ foreign currency~~, and equity indexes.~~ In some instances HBRC matches foreign currency denominated purchases with forward exchange contracts to reduce the risk of exchange rates increasing the cost of its purchases.
- HBRIC and Napier Port Holdings ~~(and subsidiary Council Controlled Organisations (CCTO's) yet to be formed~~) will from time to time use interest-rate swaps and forward exchange contracts to manage interest rate and foreign currency risk, consistent with prudent treasury and risk management practices. These instruments will be approved instruments within the respective entities Treasury Policy.

14. Investment Policy - Investment Types

HBRC can invest in the following investment types.

14.1 Investment Instruments

Investment instruments include senior unsecured and secured bonds (floating and fixed rate), ~~debt securities,~~ cash, bills, commercial paper, LGFA borrower notes and term deposits.

International and other investments are managed within the external Investment Fund and set out in the SIPO.

14.2 Investment Property

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

14.3 Forestry

This includes physical assets including trees and land for forestry and forest development. Carbon credits are an approved investment instrument.

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

14.4 Equities

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

14.5 Related Equity Investments

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

14.6 Equity Investments: Joint Ventures

Equity investments in, investment companies not considered subsidiaries and joint ventures with external partners.

~~14.7 Loans and Mortgages~~

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

14.8 Investment Portfolios

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

14.9 Internal loans

Internal ~~l~~Loans are provided for all of council's activities and are funded from either external borrowing, cash operating balances or available unrestricted reserves. ~~for the development of infrastructure and property, plant and equipment assets.~~

Interest is charged on internal loans. Interest amounts received are credited to the unrestricted reserves for investment revenue lost and otherwise used as revenue or for debt reduction.

The interest rate for internal loans is set annually during the budget process and checked for its appropriateness at financial year end.

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

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

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

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15. Counterparty Risk

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

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

T~~Internal t~~reasury investments are only made in alignment with the following parameters.

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

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

[1] Rates revenue is defined as general rates, targeted rates and uniform annual general charges. It also includes late payment penalties when rates become overdue but excludes rate remissions where they satisfy the Council's rates remission policy. Rates revenue was $25.15 million in the 2020 Annual Report.

- Foreign Exchange Risk Management (such as FECs) – Transactional Notional × the square root of the Maturity (years) × 15%.

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

15.2 ~~External Investment Portfolio (excluding the Disaster Damage Reserve)~~

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

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

~~Cash Return~~

~~Liquidity~~

~~Real Capital Value~~

~~Risk Balance – Location, Industry risk~~

~~Diversification of investments~~

~~Responsible Investment~~

~~Ethical Investment~~

~~15.3~~ Disaster Damage Reserve

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

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

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

~~New Zealand shares - up to 20% of the Reserve~~

~~International shares - up to 35% of the Reserve (fully hedged)~~The Disaster Damage Reserve requirements are met through both the liquidity buffer amount held under section 19 and through liquid assets available for disposition within the externally managed fund portfolio.

15.4 ~~Other~~ Reserves

HBRC holds a number of reserves for ~~which is holds investments for. These include~~ asset replacement provisions, disaster damage management, ~~and~~ land drainage and flood control schemes along with other reserves for specific purposes. Treasury investments are not required to be held against reserve funds. HBRC may internally borrow or utilise these funds where possible.

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

~~These funds need to be readily realisable to meet their particular purposes. All of the returns for these reserves are retained within the individual reserves.~~

~~15.5 HBRC Cash Reserves~~

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

16. Liability Management Policy – Purpose

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

Council may borrow for any of the following primary purposes:

- Funds for the acquisition of any assets expected to have a useful economic life of more than 2 years
- Funds for specific one-off projects and capital expenditures
- The acquisition of low risk investments

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- Short term debt to manage timing differences between cash inflows and outflows and to maintain Council's liquidity position and, if necessary, to fund emergency expenditure
- The pre-funding of upcoming debt maturities or capital expenditure requirements~~.~~
- Fund the balance sheet as a whole, including working capital requirements
- Raise specific debt for on-lending to CCO/CCTOs

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

- Borrowings will be repaid over the economic life of the assets being funded, or such shorter period as determined, at its discretion
- Interest costs and principal repayments will be funded by the beneficiaries of the borrowings
- The extent of borrowings will be determined by the beneficiaries' ability and willingness to pay, as determined by consultation

HBRC considers the impact on borrowing limits, and its consistency with the AP and LTP.

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

- A~~a~~vailable terms from banks, domestic capital markets and LGFA~~,~~
- T~~t~~he overall debt maturity profile to ensure concentration of debt is avoided at re-issue/rollover time~~,~~
- P~~p~~revailing interest rates and credit margins relative to domestic capital markets, LGFA and bank borrowing,
- L~~l~~iquidity, funding and interest rate risk-management parameters as detailed in this Policy,
- L~~l~~egal documents and financial covenants, together with any credit rating considerations, and
- T~~t~~he market and HBRC's outlook on future credit margin and interest rate movements.

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17. Local Government Funding Agency

HBRC is a guaranteeing borrower member of the ~~has decided to join the~~ LGFA ~~Scheme, including~~ borrowing from the LGFA and entering into the transactions relating to that borrowing.

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

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

18. Debt Repayment

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

Guarantees/contingent liabilities and other financial arrangements

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

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

~~Internal borrowing of special and general reserve funds~~

~~HBRC may authorise the funding of capital expenditure with existing special and general reserve funds. Accordingly, Council will maintain its funds in short term maturities emphasising counterparty credit worthiness and liquidity. Any internal borrowing of special funds used must be reimbursed for interest revenue lost. Interest on internally funded loans is charged annually in arrears, on year-end loan balances.~~

On-lending to Council Controlled Organisations (CCO and CCTO)

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs. Indirect debt funding relates to the CCO/CCTO becoming a member of the LGFA.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Council does not lend money, or provide any other financial accommodation, to a CCTO on terms and conditions that are more favourable to the CCTO than those that would apply if Council were borrowing the money or obtaining the financial accommodation without providing rates as security.

Any direct or indirect ~~lending~~debt funding arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the ~~CFO~~GMCS considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, -lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as

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borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.

- Accounting and taxation impact of on-lending arrangement.

All on-lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council's independent legal counsel.

Loan Advances

Council may provide advances to -charitable trusts and community organisations for strategic purposes only. New loan advances are by a Council approved resolution only.

Council will assess risk, and reviews performance of its loan advances on a regular basis to ensure its ~~strategic and economic~~ objectives are being achieved.

19. Specific Borrowing Limits

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

	HBRC	LGFA
Net external debt as a percentage of total revenue	<175~~50~~%	<175%
Net interest on external debt as a percentage of annual rates income	<20%	<25%
Net interest on external debt as a percentage of total revenue	<15%	<20%
Liquidity buffer amount comprising ~~liquid assets and available committed debt facility amounts~~external debt plus available committed loan facilities plus liquid investments relative to existing total external debt	>10%	110%~~n/a~~

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

- Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue.~~earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.~~
- Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets)
- Net debt is defined as total external debt less liquid financial assets and investments.~~funds.~~
- Liquid funds are cash and cash equivalents defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30 days
- Bank issued registered deposits no greater than 181 days
- Allowable ~~fixed interest~~ bonds as per approved investment instruments

- ~~Bank term deposits linked to pre-funding of upcoming maturing term debt exposures~~Term deposits linked to debt pre-funding activity are excluded from the liquidity ratio.

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

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

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

20. Liquidity and Funding limits

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

- Matching average expenditure closely to revenue streams and managing cash flow timing differences to its favour
- Avoiding concentrations of debt maturity dates
- Maintaining the liquidity ratio at 110% of existing external debt. ~~Maintaining operating cash balances (being less than 1 year investment timeframes) of not less than $3,000,000 and compling~~complying ~~with the liquidity amount policy.~~
- HBRC has the ability to pre-fund up to 18 months of forecast debt requirements including new and re-financed debt. Debt re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.

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

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

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 7~~5~~ years	2~~1~~5%	85~~60~~%
7~~5~~ years plus	0%~~*~~	60%

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

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

T~~Notwithstanding the $25 million external core debt threshold, at all times, t~~he LGFA require that no more than the greater of NZD 100 million or 33% of HBRC's borrowings from the LGFA mature within an immediate 12-month period.

21. Security

HBRC's external borrowings and interest rate risk management instruments are secured by way of a charge over rates and rates revenue offered through the Debenture Trust Deed. Under the Debenture Trust Deed, HBRC's borrowing is secured by a floating charge over all HBRC rates levied under the Local Government (Rating) Act 2002~~Rating Powers Act~~. The security offered by HBRC ranks equally or pari passu with ~~other~~ all lenders to Council.

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

~~22. Internal Debt Management~~

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

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

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

23. Interest Rate Risk Management

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

The following interest rate risk control limits apply to forecast external core debt (as approved by the GMCS).

Debt interest rate policy parameters		
(calculated on a rolling monthly basis)		
Debt period ending	**Minimum fixed**	**Maximum fixed**
Current	40~~50~~%	90~~100~~%
Year 1	40~~5~~%	9~~5~~0%
Year 2	35~~40~~%	85~~90~~%
Year 3	30~~5~~%	8~~5~~0%
Year 4	25~~30~~%	~~8~~75~~0~~%
Year 5	20~~5~~%	70~~5~~%
Year 6	0%	65~~70~~%
Year 7	0%	60~~5~~%
Year 8	0%	50~~60~~%
Year 9	0%	50~~5~~%
Year 10	0%	50%
Year 11	0%	~~4~~25%
Year 12	0%	25~~40~~%
Year 13	0%	25~~35~~%
Year 14	0%	25~~30~~%
Year 15	0%	25%

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

24. Foreign currency

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

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

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

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

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Treasury Policy

25. Approved financial instruments

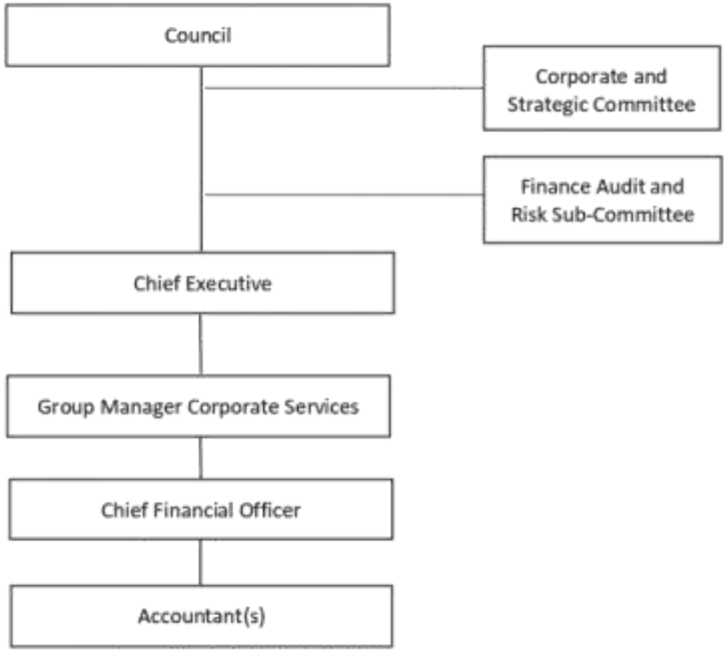
Category	Instrument
Cash management and external borrowings	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Bonds (Fixed Rate or Floating Rate) either through the LGFA or domestic capital markets Committed standby facilities offered by the LGFA Commercial paper (CP) – LGFA borrower notes Note: bonds are either fixed rate or floating rate.
Interest rate risk management (for borrowing activity only)	Forward rate agreements ('FRAs') on bank bills Interest rate swaps including: Forward start swaps (start date <36~~24~~ months, unless linked to existing maturing swap/collar with notional amount amounts not exceeding maturing swap/collar) Amortising swaps (whereby notional principal amount reduces) Swap extensions, deferrals and shortenings Interest rate options on: Bank bills (purchased caps and one for one collars) Interest rate swaptions (purchased swaptions and one for one collars with matching notionals only)
Foreign exchange risk management	Spot foreign exchange Forward exchange contracts (including par forwards)
Treasury Investments	Bank term deposits (senior unsecured) Treasury ~~bills(~~bills (senior unsecured) ~~Commercial paper (CP) (senior)~~ Bank bills, Bank certificates of deposit (RCDs) (senior unsecured) ~~Local Authority bonds (secured)~~ ~~State Owned Enterprise (SOE) bonds (senior)~~ Government ~~and Supranational~~ bonds (senior unsecured) ~~Corporate bonds (senior)~~
~~Liquidity management~~	~~Wholesale/retail bank call and term deposits no greater than 30 days~~ ~~Bank registered certificates of deposit (RCDs) maturing less than 181 days~~ ~~Committed bank funding facilities~~

26. Review of Policy

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

27. Management responsibilities

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



Council

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

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

In this respect, the Council has responsibility for:

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

Council will also ensure that:

- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the Treasury function are resolved immediately

- Approval will be gained by the GMCS for any transactions falling outside Policy guidelines.

Corporate and Strategic Committee

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

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

Finance Audit and Risk Sub-Committee (FARS)

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

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

The FARS will discuss treasury matters on a quarterly basis.

Responsibilities are:

- Recommending the ~~Liability Management and Investment~~Treasury Policy and SIPO document (or changes to existing policy) to the Council.
- Receiving recommendations from the GMCS and make submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for externally managed funds.
- Review all matters concerning the SIPO as well as providing guidance and leadership on the appointment, management, monitoring and review of the appropriate Investment Manager(s)
- Monitoring quarterly performance of externally managed funds and borrowing activity against benchmarks.
- ~~Approving allowable financial instruments~~
- Complete an annual review of all investments.

Chief Executive Officer (CE)

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

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

Group Manager Corporate Services (GMCS)

The CE formally delegates the following responsibilities to the GMCS:

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

Chief Financial Officer (CFO)

The GMCS formally delegates the following responsibilities to the CFO:

- Recommending policy changes to the FARC for evaluation
- Ongoing risk assessment of borrowing and investment activity, including procedures and controls
- Receive quarterly reporting from the Investment Manager(s)
- Proposing any new ~~funding~~ borrowing requirements falling outside the Annual Plan and LTP to the FARC for consideration and submission to the Council
- Designing, analysing, evaluating, testing and implementing risk management strategies to position Council's interest rate risk profile to be protected against adverse market movements within the approved Policy limits
- Investigating financing alternatives to minimise borrowing costs, credit margins and interest rates, making recommendations to FARC as appropriate
- Reviewing and making recommendations on all aspects of the ~~Liability Management and Investment~~Treasury Policy to the FARC including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments
- Negotiating bank funding facilities
- Managing bank, LGFA, Investment Manager(s), Trustee, Custodial and other financial institution relationships
- ~~Executing treasury transactions in accordance with approved limits. In the absence of the CFO, the GMCS will execute treasury transactions~~
- ~~Completing deal tickets for treasury transactions~~
- Overseeing a triennial review of the ~~Liability Management and Investment~~Treasury Policy, treasury procedures and all dealing and counterparty limits
- Managing the long-term financial position of the Council in accordance with Council's requirements
- Ensuring that all borrowing and financing covenants/limits to lenders are adhered to
- Ensuring management procedures and policies are implemented in accordance with this Policy
- Monitoring and reviewing the performance of the Treasury function in terms of achieving its objectives.

Accountant(s)

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

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

28. Delegation of authority and authority limits

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

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

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

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Treasury Policy

Activity	Delegated Authority	Limited
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council CE (delegated by Council) GMCS (delegated by Council)	Unlimited (subject to legislative and regulatory limitations) Subject to Council resolution and policy
Acquiring and disposing of investments other than financial investments	The Council	Unlimited
Approving charging assets as security over borrowing	The Council	Subject to terms of the Debenture Trust Deed
Approving Council guarantees	The Council	Unlimited (subject to legislative limitations)
Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Approving new and refinanced lending activity with CCO/CCTOs	Council	Unlimited
Overall day-to-day treasury management	GMCS (delegated by Council) CFO (delegated by Council)	Subject to policy
Re-financing existing debt	GMCS (delegated by Council)	Subject to policy
Approving transactions outside policy	The Council	Unlimited
Adjusting debt ~~or investment interest rate~~ risk profile	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Negotiation of lending arrangements to CCO/CCTOs	GMCS (delegated by Council)	Per approval / per risk control limits
Ongoing management of lending arrangements to CCO/CCTOs	CFO (delegated by Council)	Per approval / per risk control limits
Managing investments and funding maturities	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Maximum daily transaction amount (borrowing and interest rate risk management) excluding roll-overs under bank debt facilities.	The Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $15 million $10 million $2.5 million
Maximum daily transaction amount (investing and cash management)*	The Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $15 million $10 million $5 million
Maximum daily transaction amount (foreign exchange risk management)	The Council CE (delegated by Council)	Unlimited $1 million

	GMCS (delegated by Council) CFO (delegated by Council)	$0.5 million $0.25 million
Approving bank signatories	CE	Unlimited
Approving the opening/closing bank accounts	CE	Unlimited
Reviewing ~~the Liability Management and Investment Policies~~Treasury Policy every three years	FARS	N/A
Ensuring compliance with Policy	GMCS	N/A

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

29. Treasury Procedures – Operational Risk

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

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

Operational risk is minimised by this policy.

Dealing Authorities and Limits

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

Segregation of Duties

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

The risk will be minimised by:

- the Accountant(s) will report directly to the CE to control the transactional activities of the GMCS and the CFO
- documented approval processes for borrowing and investment activity.

Procedures and controls

- The CFO will have responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity will be undertaken in accordance with approved delegations authorised by Council.
- All treasury products will be recorded and diarised within a treasury system/spreadsheet, with appropriate controls and checks over treasury journal entries into the general ledger. Deal capture and reporting will be done immediately following execution and confirmation. Details of procedures, including templates of deal tickets, will be included in a treasury procedures manual separate to this policy.

Procedures and controls will include:

- Regular management reporting
- Regular risk assessment, including review of procedures and controls
- Organisational systems, procedural and reconciliation controls to ensure:

- All borrowing and investment activity is bona fide and properly authorised
- Checks are in place to ensure Council's accounts and records are updated promptly, accurately and completely
- All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity
- Cheque/electronic banking signatories will be approved by the CE. Dual signatures will be required for all ~~cheques and~~ electronic transfers

- All treasury counterparties will be provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive deal confirmations
- The ~~CFO~~ Accountant will record all deals on properly formatted deal tickets. Deal summary records for borrowing, investments, risk management and cash management transactions (on spreadsheets) will be maintained and updated promptly following completion of transaction
- All inward deal confirmations, including registry confirmations, will be received and checked by the Accountant(s) against completed deal tickets and summary spreadsheets records to ensure accuracy

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

Treasury Procedures – Cash Management

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

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

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

Treasury Procedures – Financial Instrument Accounting Treatment

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

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

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

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

Treasury Procedures – Reporting

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

*The ~~'Summary~~ 'Treasury Report' includes:

- Treasury exceptions report
- ~~Risk exposure positions~~
- Policy compliance
- Borrowing limit report
- Funding and liquidity report
- Debt maturity profile
- Interest rate report
- Investment management report (see below)
- Treasury investments
- Cost of funds report
- Cash flow and debt forecast report.
- Debt and Interest rate strategy and commentary
- Counterparty credit report

Investment Management Report

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

1. Reporting annually

For all equities, (including HBRIC, PONL, CCTOs and other subsidiary companies, and New Zealand and international shares):

- Dividends and other payments received
- Sales and acquisitions; gains and losses on disposal (if any)
- Changes in capital values of the assets (based on market or independent valuation)
- Financial and operating results
- Economic impacts (if any) generated during year.

For property investments (including the Napier endowment property):

- Movements in rental renewals
- Sales and acquisitions of leases and property over the year
- Any transfers of leasehold properties between lessees
- Gains and losses on disposal (if any)
- Net income and change in capital values of the underlying assets (based on market or independent valuation)
- Economic impacts (if any) generated during the year.

2. Reporting quarterly

For all treasury investments:

- Dividends, interest and other income received during the quarter
- Sales and acquisitions; gains and losses on disposal (if any)
- Changes in capital values of the assets (based on market or independent valuation)
- Economic impacts (if any) generated during quarter.

For all externally managed investment funds:

- Fund valuation
- ~~Fund duration~~
- Compliance reporting (including approved exceptions)
- Performance summary for the Fund and by asset class
- Performance against benchmarks
- ~~Fund I~~income and capital return
- Asset transactions summary
- Cash transactions
- Investment management fees
- Custodial fees
- Individual fund management fees
- Brokerage and other transaction costs.

3. Individual issue papers submitted to ~~HBRC~~ Council dealing with matters of relevance (including changes in investment policy) to the investment portfolio that may arise during the year.

4. Additional requirements on HBRIC, PONL, CCTOs and other subsidiary companies reporting through HBRIC, including:

- Agreeing financial and other relevant strategic and performance targets for these businesses through an annual Statement of Intent
- Confirm appointment of directors having appropriate expertise to their boards
- Where requested, for HBRC's strategic planning purposes, review businesses strategic plans, annual ~~budgets and~~budgets and financial forecasts for their medium and long term future operations
- Receiving 6 and 12 month reports on financial performance and position and operating results of these businesses
- Being briefed by the Chairperson of Directors and Chief Executive Officer of the businesses as required by the HBRC, but no less than twice a year
- Being consulted, and where necessary, making decisions as shareholders, at any time on new developments or significant departures from anticipated performance.


Organisational Performance Report
Quarter 3: 1 January to 31 March 2021
Prepared on 12 May 2021
HAWKES BAY
REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Contents

Executive Summary

This Organisation Performance Report provides Council with information to understand the situation-specific factors affecting performance. It reports on how well we are performing across a number of corporate-wide measures and uses the Groups of Activities from the current 2018-28 Long Term Plan to present actual non-financial and financial performance using a traffic light reporting approach.

Its secondary purpose is to provide the Chief Executive, Executive team and staff with information to ensure alignment of Council's work programmes across different groups and teams to achieve the Council's Strategic Plan outcomes and to ensure a steadfast focus on performance and accountability.

This report covers the period of 1 January to 31 March 2021. The report covers:

- Significant events and programmes this quarter
- Business improvement metrics
- Groups of Activities

Highlights

- The Provincial Development Unit has allocated $5 million to accelerate investigations into a water storage development in the Heretaunga near Bridge Pa, including $1.3 million for feasibility on developing a lowland stream flow maintenance scheme using above-ground water storage.
- The permanent swimming ban for Lake Tūtira has been lifted due to improvements in water quality. There is still the risk of algal blooms or faecal contamination in the future, particularly after rainfall but we are now able to put out real-time warnings.
- Successful prosecution of dairy company, Maxwell Farms Ltd, resulting in a fine of $48,750 for illegally discharging 80,000 litres of effluent into the Mangatutu stream, a tributary of the Tūtaekurī River.
- Council adopted the 2019-20 Annual Report on 24 February 2021 with an unmodified audit opinion.
- Te Kupenga digital cultural App was launched late February 2021 by Regional Local Government leaders, as at the end of Q3 there have been 900+ downloads.
- The Draft Regional Land Transport Plan was released for public consultation in February 2021, 67 submissions were received.
- Two consultation processes occurred; 1) whether to establish Māori Constituencies for Hawke's Bay Regional Council in time for the 2022 Local Elections and 2) whether to establish two CCTOs to operate FoodEast, an innovative food hub in the region.
- The Whatumā Management Group (WMG) has been appointed by the respective trusts to lead the management of Lake Whatumā and are looking to develop a long-term management plan for the lake.
- The Enviroschools team ran a very successful Youth Climate Action Camp held at Riverbend Camp in March.
- This quarter the first of the harvest at Tutira has been carried out, removing trees to make way for road and skid construction which will be completed by the end of May (2021).
- A spotted skink survey, coastal bird survey, NZ bat survey and State of the Environment (SOE) wetland monitoring programme have been completed. This work started in December (Q2) and finished in February (Q3).
- This quarter has seen the completion of the Recreational Water Quality monitoring programme, the Estuarine Ecology Monitoring programme, and routine sampling of estuarine and nearshore water quality.
- Results of the six-week Climate Change campaign were presented to the Council in February.

- The majority of major municipal historical landfills have been identified and spatially mapped with climate change and inundation risk analysis to take place Q4. This is part of the Hazards Activities & Industries List (HAIL) work programme.
- Throughout January, 78% of feedback was responded to within required timeframe. In both February and March, 88% of feedback was responded to within the target. Compared to 64% last quarter.

Lowlights

- We were unable to quickly recruit a suitably skilled replacement Hill Country Erosion Workshops and Works Coordinator. As a result, progress with workshop planning and delivery to farmers slowed temporarily.
- Scarcity of contract labour to carry out thinning has delayed the general forestry maintenance in the Tangoio Soil Conservation work programme.

PART 1: SIGNIFICANT EVENTS AND PROGRAMMES THIS QUARTER

1.1 Long Term Plan (LTP) 2021 – 31

The LTP project is on-track with significant milestones achieved this quarter. Council adopted "Time to Act- Kia Rite! 2021-2031" the consultation Document (CD) for the 2021-2031 Long Term Plan on 24 March. The CD and the supporting information received an unmodified audit report and was adopted unanimously. This was the culmination of many months of work by Councillors and staff to review and develop asset management plans, levels of service including performance measures, Financial and Infrastructure strategies and finalise budgets. Consultation was open from 1 April to 2 May with hearings and deliberations scheduled for 17 May and 26 May respectively. The final LTP will be adopted by Council on 30 June.

1.2 Financial Upgrade Systems and Efficiencies (FUSE)

The implementation of the TechnologyOne OneCouncil solution is continuing. The introduction of the Payroll solution to manage employees pay in preparation for the deployment of the remaining modules focusing on Finance, Inventory, Work Orders and Job Costing is being prepared for implementation at the start of July. Adequately resourcing the project, both internally and from TechnologyOne, remains challenging and will impact the budget.

1.3 Climate Change

Efforts have been focussed on translating the previous quarter's climate action campaign learnings into resource allocations for the 2021-31 Draft Long Term Plan. Results of the six-week campaign, including a community perceptions survey, were presented to the Council in February. The initiative was the starting point of long-term, region-wide engagement with the public and key stakeholders on the climate crisis. The goal for the climate crisis engagement has been to progressively build motivation for change through sustained engagement with businesses, primary industry, communities and whānau to lower their carbon footprint and live more sustainably.

Key learnings from the campaign included:

a) The survey results revealed a lack of concern about the impact of climate change in the region, considerable barriers to personal action and a lack of understanding about the impact of climate change. The findings from the survey highlighted the need for the proposed Climate Change Ambassador role and further education.

b) The need for more sustained long-term engagement with a diverse group of regional stakeholders, including tāngata whenua, local authorities, businesses, and environmental groups.

c) To have far-reaching impact and create the community partnerships required for transformational change, Council representatives need to be seen in the community more often, and engage the public meaningfully in a more sustained, structured way.

d) A better understanding is needed of the community's perceptions, views, issues, and problems in order to address them, and create a region wide action plan.

e) Going to community events and to where the community normally gather is necessary to have more successful engagement in future.

f) Involving the youth perspective on climate change work going forward is important.

1.4 Risk Management

On 10 June 2020, the Corporate and Strategic Committee (C&S) endorsed a roadmap to mature Council's risk management system. The longer-term vision for maturity of Council's risk system is to establish value creating, risk intelligent decision-making that is embedded consistently throughout Council.

The risk maturity roadmap is made up of four phases. We currently sit between phase two and three (phase one having been completed in August 2020). In February the draft Internal Assurance Framework was endorsed by the

Executive Team, which will be submitted to the Finance Audit and Risk Sub-committee (FARS) for approval in Q4. In March 2021 the Executive Team and the Council attended a virtual workshop on Risk Appetite which has produced a draft Risk Appetite Statement for the Council. This statement will be presented to the Council for adoption in Q4. Also in this quarter a further five bowties have been drafted (applying the bowtie method helps us understand our risk scope and critical controls):

- Third Parties/Contractor
- Finance
- Core ICT Services
- Strategic Partnerships
- People, Community and Environmental Health

The remaining bowties (Strategic and Legal Compliance) are to be drafted in Q4.

In February the Information Management advisor presented to FARS on the critical work priorities required to be investigated in response to the escalation of the enterprise risk 05 Information Not Fit for Purpose (Cyber).

1.5 Regional Development Activity

Council continued involvement in regional development via three key streams: Hawke's Bay Tourism (HBT), Regional Business Partners Programme (RBP) and Matariki Hawke's Bay Regional Development Strategy for Economic, Inclusive & Sustainable Growth (Matariki).

Hawke's Bay Tourism (HBT)

GM Corporate Services met with HBT during the quarter, with a presentation to be made to C&S Committee on 19 May 2021. Funding focus continues on domestic marketing and destination management. The Tourism sector, in general, is feeling pretty healthy with visitor spend results for Hawke's Bay reflecting the best December and January on record for some time. February was understandably down on last year as 2020 saw two Elton John concerts, a Michael Bublé concert, the Art Deco Festival and a bumper international and cruise season. Business event companies are experiencing positive forward bookings and enquiries; and the upcoming Hawke's Bay Marathon is a sell-out. There was a great turn out for Little Easy (Central Hawke's Bay) and Big Easy cycle events over Easter. The upcoming Winter F.A.W.C! is almost sold out and plans are underway for a Summer F.A.W.C! in November 2021. Due to MBIE STAPP (Strategic Tourism Asset Protection Programme) funding, HBT was in a position to invest in an autumn campaign focusing on the North Island.

Regional Business Partnerships (RBP)

The RBP team, who are all Council employees, have decreased in numbers due to the end of fixed term contracts as part of the COVID recovery funding period. RBP has continued to see businesses seeking advice. Although all the RBP capability development funds have been allocated, the team continues to provide support and recommendations by leveraging existing business support mechanisms and initiatives. New funds are due 1 July 2021. The transition of the RBP contract into MBIE is underway with the current RBP contract now extended to 31 December 2021. Callaghan Innovation is a partner in the cross government Agritech Industry Transformation Plan (ITP) and the RBP hosted the project team for three days of visits to key growers for consultation on needs and visits to tech innovators.

Matariki – Hawke's Bay Regional Development Strategy for economic, inclusive & Sustainable growth

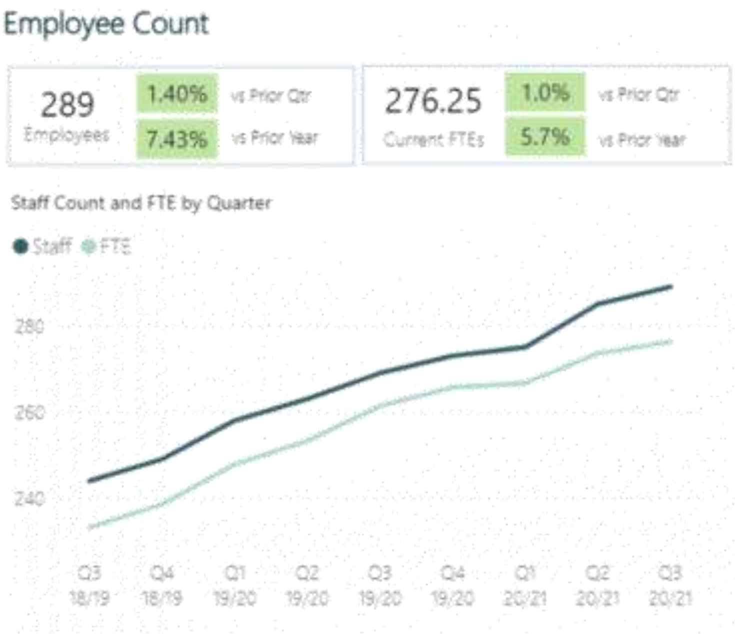
Council's CEO and Chairman attended Matariki meetings over the quarter. The Regional Recovery Manager continues to help support programme management. In the absence of an Economic Development Agency, Matariki is playing a significant role in ensuring Hawke's Bay has a clear set of aligned regional priorities for any new funding opportunities come 1 July 2021.

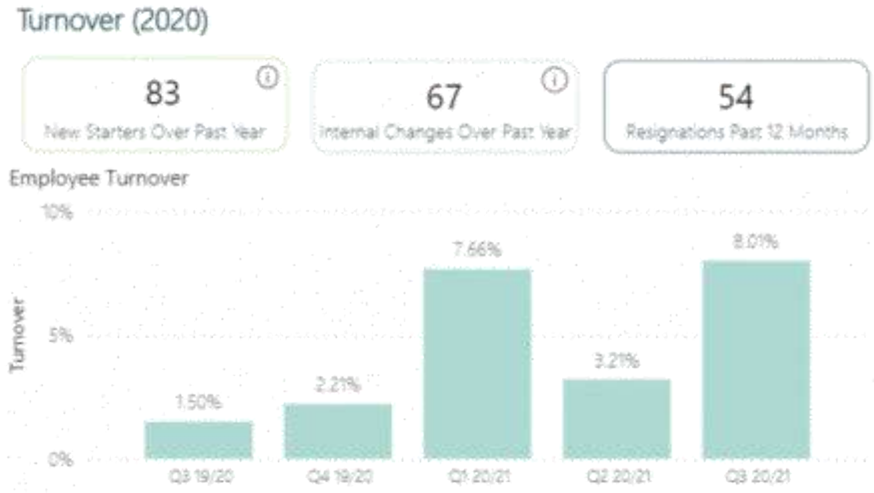
The review of economic development delivery for Hawke's Bay continues and Business Hawke's Bay is working through their wind-up process. A status update will be provided to Council in the coming month.

PART 2: BUSINESS IMPROVEMENT MEASURES

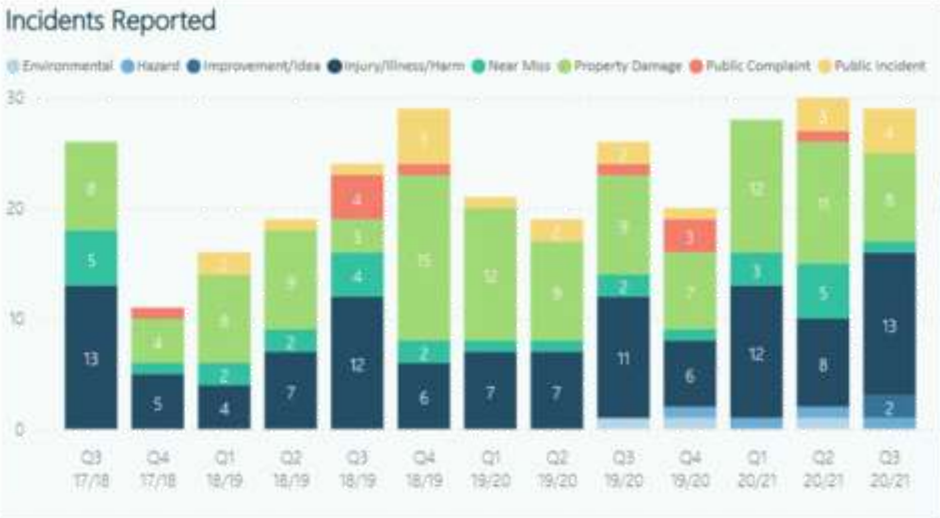
2.1 People & Capability

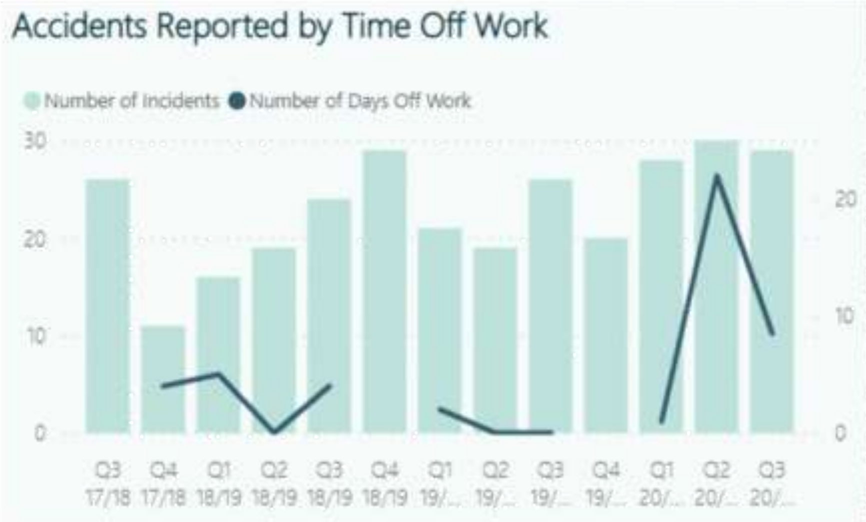
EMPLOYEE COUNT
FTEs count slightly up from last quarter with positions increasing by 7.





2.2 Health & Safety (H&S)





HEALTH & SAFETY

23 Incidents were reported during the quarter:

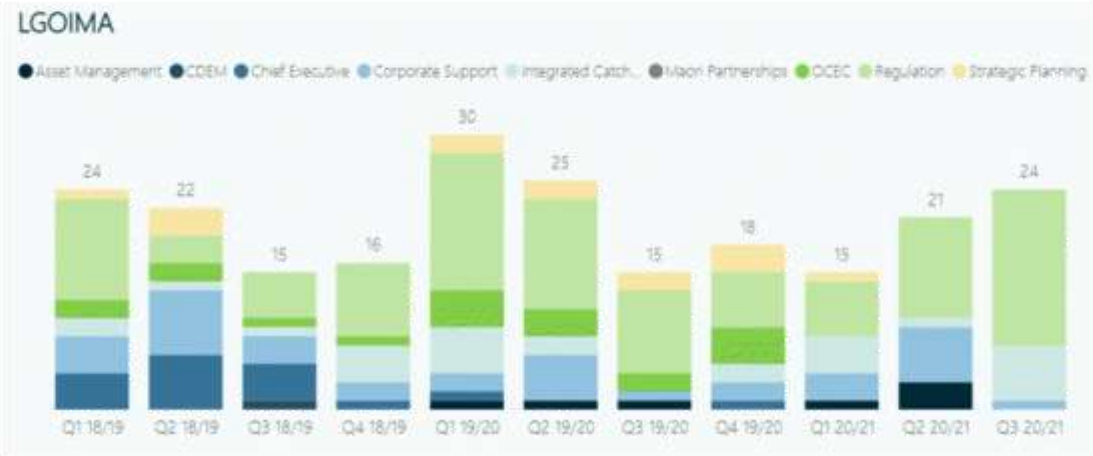
- 1 Hazard
- 2 Improvement/Idea
- 10 Injury/Illness/Harm
- 1 Near Miss
- 5 Property Damage
- 4 Public Incidents

Out of the 10 Injury/Illness/Harm incidents:

- 4 were First Aid treatment,
- 2 were MTI (Medical Treatment),
- 2 were LTI (Lost Time).

The majority of injury/illness/harm were caused by stings/bites or being hit by moving objects.

2.3 Communications and Customer Experience

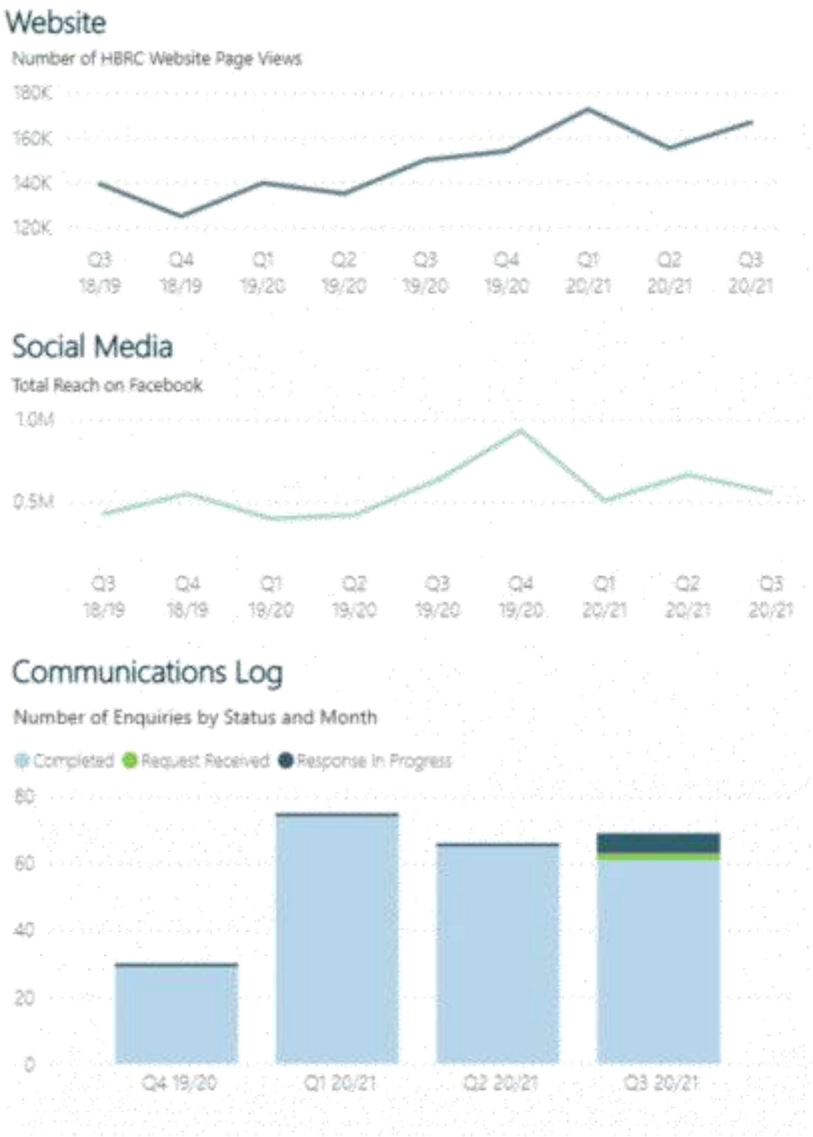


LGOIMA
All 25 LGOIMA requests received were responded to within the required timeframes, including one which was transferred to a Territorial Local Authority (TLA) and one refused.

CUSTOMER FEEDBACK
Feedback received through our website totalled 74 entries. Of the feedback entries received:

- 69 were comments
- 4 were complaints
- 1 compliment was received.

Throughout January, 78% of feedback was responded to within required timeframe. In both February and March, 88% of feedback was responded to within the target. Compared to 64% last quarter.



COMMUNICATIONS LOG

Most media queries were from local journalists, with interest in:

- climate change,
- the acid spill in the Napier Estuary,
- swimming in Lake Tutira,
- the Regional Land Transport Plan,
- water issues including a $5 million PGF grant
- the stream drying up at Mangaroa Marae
- Long Term Plan previews.

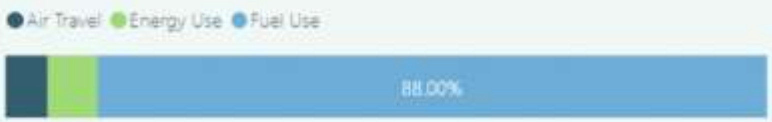
Of note, the March earthquake trifecta and subsequent tsunami warning was of intense media interest locally and nationally, with 12 media queries around warning in the red zone and the CDEM computer system crashing.

There were 18 queries from Hawke's Bay Today, 11 from Stuff (Dominion Post), 2 from Māori Television and 2 from One News.

Many calls were following up on our media releases including the Regional Land Transport Plan, the permanent swimming ban lifted in Lake Tutira, Tukituki Land Use consent deadlines, Maxwell farm sentencing and PDU $5 million grant for Bridge Pa water storage option.

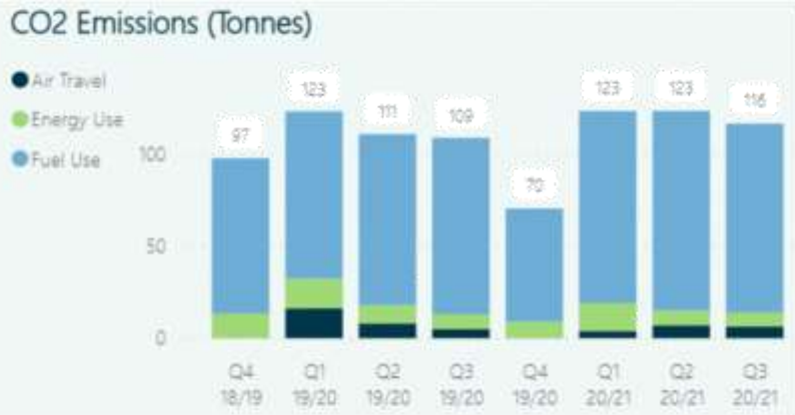
2.4 Corporate Carbon Footprint

CO2 Quarterly Emissions



Category	CO2 Tonnes Emitted	Prior Qtr Change	Prior Year Change
Air Travel	6.40	-8%	25%
Energy Use	7.54	-5%	-5%
Fuel Use	102.24	-5%	7%
Total	116.18	-18%	28%

CO2 Emissions (Tonnes)



CARBON EMISSIONS

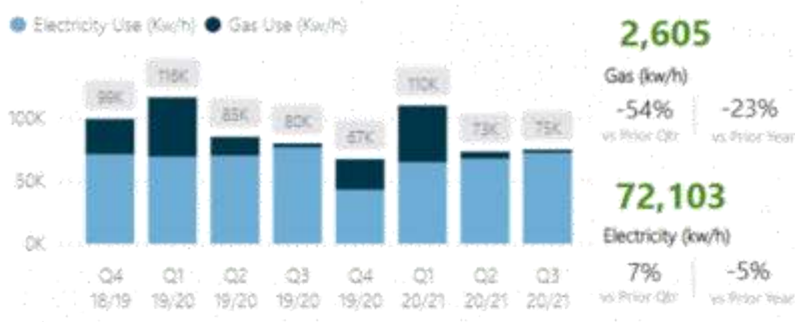
Emissions associated with energy use at Council's main office in Napier equated to 7.54 tonnes.

A total of 102.24 tonnes of CO2 can be attributed to Council fuel use (excluding the Works Group). Of that 85.45 tonnes of CO2 can be associated with diesel consumption and 16.79 with petrol use. Note that next financial year, the Works Group fuel reporting will be included into the organisational report figures.

A total of 72,103 kWh were consumed at the Council's main office.

Gas use monitoring is showing that 2,605 kWh were consumed in this quarter. Over recent months it has become evident through invoicing that monthly readings are at times estimates due to contractors not being able to access the meter afterhours, so this is an area that will be worked on to enable more consistent reporting.

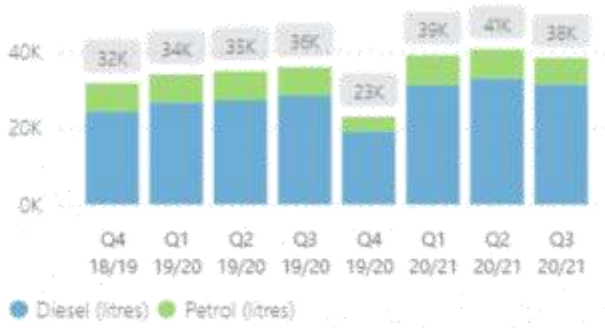
Energy Usage



Fuel Usage

$42,438
Fuel Quarterly Spend ($)

10% vs Prior Qtr | -2% vs Prior Year



Vehicles

81
Total Fleet Vehicles
1% vs Prior Qtr | -5% vs Prior Year

6
Total Plug In Hybrid Vehicles
0% vs Prior Qtr | 0% vs Prior Year

3
Total Hybrid Vehicles
0% vs Prior Qtr | 0% vs Prior Year

VEHICLES & FUEL

There is an appetite for more electric vehicles (EVs) in the organisation and the next pool car will be an EV. However, due to the nature of work the organisation does and the lack of ability to operate without utes, there are currently no full EV options available. This is set to change in the future with Ford Ranger EV and other options coming to market.

Investigation into Bio Fuel underway (this will not be cheaper but will reduce our carbon footprint a little with the amount of diesel utes we run)

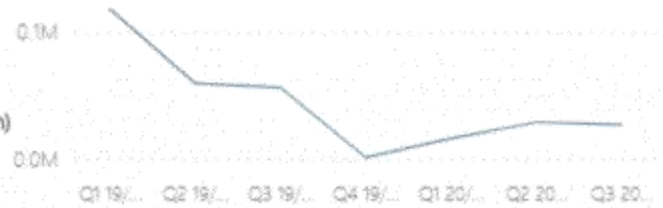
*Data relates to Dalton Street vehicles only (not Guppy Rd vehicles). Plant not included.

AIR TRAVEL

A total of 26,774 kms were travelled via air by HBRC staff, air travel still remains below pre-COVID levels.

Air Travel

26,774
Total Distance Traveled (Km)
-7% vs Prior Qtr | -52% vs Prior Year



PART 3: LEVELS OF SERVICE BY GROUP OF ACTIVITIES

Under the Local Government Act 2002 the Regional Council is required to present its financial and non-financial information in groups of activities for ease of understanding. In the 2018-28 Long Term Plan the Regional Council aggregated its activities into seven Groups of Activities (GOAs), being:

1. Governance and Partnerships
2. Strategic Planning
3. Integrated Catchment Management
4. Asset Management
5. Consents and Compliance
6. Emergency Management
7. Transport

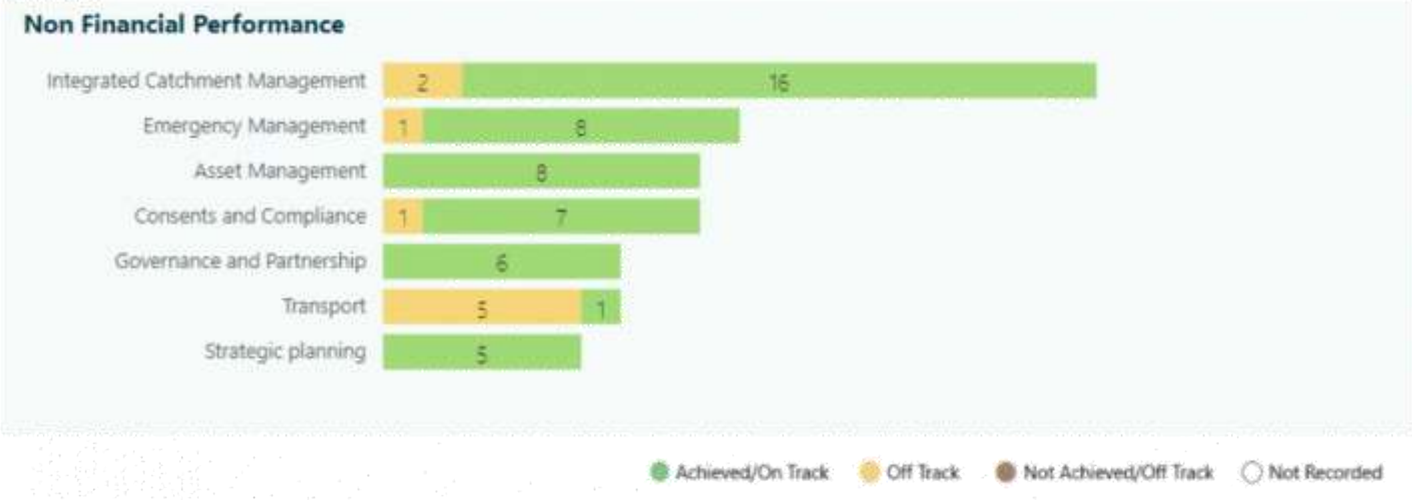
The seven GOAs are made up of 19 activities, 39 levels of service statements, 60 levels of service measures and 120 budget codes (as per Opal3). This report covers the activities within the 2018-28 Long Term Plan.

A traffic light reporting approach is used top show financial and non-financial results.

Non-financial status	🟢	Achieved or On Track
	🟡	Off Track or at risk of not being achieved
	🔴	Not Achieved or Off Track
	⚪	Result not provided
Financial status	🟢	Actual results are within 5% and $15,000
	🟡	Actual results are within 5-10% and $15,000-$30,000
	🔴	Actual results are > 10% or $30,000 over or under budget

3.1 Level of Service Measure Reporting

Summary



Exception Reporting

The exception reporting below provides commentary regarding measures that are currently off track or forecasted to be 'at risk' of not being achieved. Council monitors the measures throughout the year to enable proactive action to improve performance.

Group Of Activity	LOSM	Status	Non-financial comments / explanations	Target
3. Integrated Catchment Management	Additional area of highly erodible land planted in trees (ha).		Expected to be off target but steadily improving as shown below. Available budget, plants/fencers will be limiting factors to continued growth. Note that quarters 2 and 3 are the quiet periods, either side of Christmas. This quarter 67 ha of erodible land planted in trees (967 ha first two quarters of 20/21) Financial YTD: 1035ha compared with 676ha for all of 2019/20	2000 Ha
3. Integrated Catchment Management	Additional kilometres of riparian margin protected annually to reduce sediment, nutrient and/or bacterial contamination of water		Expected to be off target but steadily improving - Protected = both sides of the stream Note that quarters 2 and 3 are the quiet periods, either side of Christmas This quarter 9.7km of stream protected. Financial YTD: 34km of stream protected, 28km for all of 2019/20	100 Km

Group Of Activity	LOSM	Status	Non-financial comments / explanations	Target
5. Consents and Compliance	Percentage of monitored consents which receive and overall grade of full compliance.		For Q3 FY21 87% of all consents monitored (3351) to Q3 FY21 achieved full compliance with all conditions. To Q3 FY21, 90% water take consents (2136) were compliant and 228 non-compliant, 16 Low, 211 moderate and 1 significant. The increase in moderate non-compliance is as a result of bores missing verification/bore security checks being identified during a project this quarter, many of these are anticipated to be graded fully compliant once required works are undertaken in Q4 FY21. To Q3 FY21, 73% discharge consents (1217) were compliant and 220 non-compliant, 122 low, 75 moderate and 23 significant. Compliance gradings are subject to change during the compliance period and may be different following a final compliance report assessment.	95 %

Group Of Activity	LOSM	Status	Non-financial comments / explanations	Target
6. Emergency Management	A 5-yearly Hazard Research Plan is approved by and reported on annually to the CDEM Group Coordinating Executives Group.		Current 10-Year Hazard Research Plan approved by CEG with on-going research commissioned in accordance with this plan. In ongoing negotiations with GNS re Level 3 Modelling for Tsunami as initial Feb 21 proposal very cost prohibitive. Landslide run-out modelling for Bluff Hill and updating HB tectonic vertical land movement estimates (VLM) also in consideration along with an earthquake sensor trial. Last annual report to CEG 19 Oct 2020	Achieved

Group Of Activity	LOSM	Status	Non-financial comments / explanations	Target
7. Transport	Annual passenger kilometres travelled on the Hawke's Bay bus services.		The annual average for the last 5 years 2015 - 2020 was 6,818,848km. The average monthly km for 2019/2020 463,608km. So far this year the average monthly passenger kilometres travelled is 445,902	Maintain or increasing trend
7. Transport	Annual patronage on the Hawke's Bay bus services.		Bus patronage is tracking about the same or slightly less for the previous three months with the monthly average so far this year being 45,729. The monthly average over the past 5 years has been has been 53,462.	Maintain or increasing trend
7. Transport	Incidence of fatal and injury crashes in our region (5 year rolling average).		Statistics for the five year rolling average of deaths and serious injuries in road crashes (combined) are below: Deaths and Serious Injuries (calendar years) 2011-15 93 2012-16 100 2013-17 105 2014-18 112 2015-19 113 2016 - 20 106 In 2020 - 19 deaths and 84 serious injuries (103)	Decreasing trend
7. Transport	Percentage of residences and businesses within 500m (under normal conditions) and 600m (in low density/outer areas) walking distance of a bus stop within existing bus routes.		The 2020 transport study has calculated 69.2% of households are within a 400 metre walk of a bus route. However, providing coverage can mean meandering routes and longer journey times, making bus journeys less attractive and slower than driving. Many of the local bus routes in Napier and Hastings offer limited hours and days of operation, and low frequency services that provide a poor alternative to the convenience of driving. Only 20.1% of households are within a 400 metre radius of a frequent route (30 minute frequency or less). . Based on current urban growth rates, this performance indicator is unlikely to change significantly. There are no bus services in rural townships.	90% Hastings; 75% Napier
7. Transport	Proportion of total service costs that is covered by fares.		Fare recovery for 2016/17 was 38.5% Fare recovery for 2017/18 was 36.5% Fare recovery for 2018/19 was 33.6% Fare recovery for 2019/20 was 23.5% Average monthly fare recovery so far this quarter 20.93% (up from 17.43% last quarter). Fare recovery is improving as a result of COVID-19 but isn't reaching the levels in previous years. The fare recovery changed when we introduced the Bee Card system from a concession fare system to a low flat fare and this reduced fare recovery. Public transport is supported by NZTA contribution of xx % of costs.	Maintain or increasing trend

PART 4: ACTIVITY REPORTING BY GROUP OF ACTIVITIES

4.1 Activity Reporting Summary[1]

[1] Many of the variances (over and under spend) shown as red in the financial reporting are the result of the current financial systems inability to phase budgets through the year. The current budget is pro rata'd evenly across the 12 months which does not reflect the actual timing of work programme delivery. The new financial system due to be implemented from 1 July 2021 will address this.

Group Of Activity	Activity	Non Financial Status	Financial Status
1. Governance and Partnership	Community Representation and Leadership	Green	Red
1. Governance and Partnership	Tangata Whenua Partnerships and Community Engagement	Green	Red
2. Strategic planning	Planning	Green	Red
2. Strategic planning	Strategy	Green	Red
2. Strategic planning	Sustainable Regional Development	Green	Green
3. Integrated Catchment Management	Biodiverstiy and Biosecurity	Green	Amber
3. Integrated Catchment Management	Catchment Management	Green	Red
3. Integrated Catchment Management	Science and Information	Green	Red
4. Asset Management	Coastal Hazards	Green	Green
4. Asset Management	Flood Protection and Control Works (Rivers, Drainage and Small Schemes)	Green	Red
4. Asset Management	Flood Risk Assessment and Warning	Green	Red
4. Asset Management	Open Spaces	Green	Red
5. Consents and Compliance	Compliance and Pollution Response	Green	Green
5. Consents and Compliance	Consents	Green	Red
5. Consents and Compliance	Maritime Safety	Green	Amber
6. Emergency Management	Hawke's Bay CDEM Group	Amber	Red
6. Emergency Management	HBRC Emergency Management	Green	Red
7. Transport	Passenger Transport	Amber	Red
7. Transport	Transport Planning and Road Safety	Green	Red

4.2 Governance and Partnerships

Below are the non-financial and financial reporting (operating only) for the two activities within Governance and Partnerships Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
1. Governance and Partnership	Community Representation and Leadership		Q3 has been a busy time with five workshops to finalise the budgets and consultation material for the 2021-31 Long Term Plan in addition to 11 Council and Committee meetings being held. Two other consultation process were embarked upon to consult on whether to establish Māori Constituencies for Hawke's Bay Regional Council in time for the 2022 Local Elections and to establish CCTOs to operate FoodEast. Council adopted the 2019-20 Annual Report on 24 February 2021 with an unmodified audit opinion.
1. Governance and Partnership	Tangata Whenua Partnerships and Community Engagement		Strategic Relationships with Tangata Whenua (TW) expanded through Q1 to Q3 beyond formal committees (RPC, MSC) to representatives from both committees sitting on almost all of Council's committees (not FAR) including Regional Council Committee. As a result TW contribution has increased exponentially. Water Storage, Three Waters, Long Term Planning, Hot Spot, FIF, TriPartite, Whakatipu Mahia, Māori Constituencies, Plan Changes have been specific areas of engagement with tangata whenua relevant to geographic or catchment locations. Whilst TW and representation is a key activity and feature of the majority of HBRC business, the impact on TW capability and capacity to maintain the level of representation and engagement has become increasingly challenging. This will require management over the balance of the year.

Group of Activity	Activity	F Status	Comments
1. Governance and Partnership	Community Representation and Leadership		Budget is 28% overspent due to External Costs attributed mainly to unbudgeted consultancy costs related to LTP development ($140k for PWC Investment & Funding Strategy Review and Significant Assumptions advice), unbudgeted computer software licensing ($41k Infocouncil & Stellar, normally contained within IT budgets), and the donation to the NCC Mayoral Flood Relief Fund ($100k paid for from Disaster Damage Reserves). Unbudgeted items will be addressed in 2021-22 budgets.
1. Governance and Partnership	Tangata Whenua Partnerships and Community Engagement		Whilst TW and representation is a key activity and feature of the majority of HBRC business, the impact on TW capability and capacity to maintain the level of representation and engagement has become increasingly challenging. This will require management over Q4 and balance of the year.The EOY forecast to 30 June 2021 is projected to come in slightly under-budget. This is attributable to active management over normal RPC & MSC BAU (and director costs) following greater representation of RPC & MSC on all of Council's committees and remuneration. Expansion of TW representation was a resolution of Council with consequential unbudgeted cost increase for directors fees, travel and incidental cost. The 15% underspend is also attributable to a reconciliation issue around coding practices between Governance Group and Māori Partnerships Group. This will be resolved over Q4.

4.3 Strategic Planning

Below are the non-financial and financial reporting (operating only) for the three activities within Strategic Planning Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
2. Strategic planning	Planning		Q3 has again been a very busy period for the Policy & Planning Team with a significant amount of staff time and resource focused around delivering our programmed work, in particular the TANK plan change (review and analysis of the submissions and further submissions and development of the s42a report). Work continues on Kotahi in particular through papers and workshops for the RPC. Co-design of the Mohaka chapter has also been a focus this quarter, with greater resourcing, development of the work programme and the Maori-led workstream to support the plan development. Within the Statutory Advocacy space hearings have been held for both the WCO and MACAA. All work programmes are on track. The Senior Planner for TANK has continued in the role of Acting Manager Transport during this quarter.
2. Strategic planning	Strategy		Major focus for Q3 was preparing consultation material for three consultation processes - FoodEast, Maori Constituencies and Long Term Plan. Other highlights included the publication of the 2019-20 Annual Report Summary and new Org Perf Report (reduced from 80+ pages to 25) with supporting dashboard presented to Exec, staff and C&S Committee.
2. Strategic planning	Sustainable Regional Development		HBRC management met with HB Tourism during Q3, presentation to be made to C&S Committee on 19 May. The review of Economic Development delivery for Hawke's Bay continues, Business HB due to wind up operations on 30 June at which time a status update will be provided to Council. The Hawke's Bay Regional Business Partners (RBP) and have issued all 2020/21 funds with additional funding due 1 July 2021. RBP has supported 1353 HB businesses and issued $2,056,128 COVID Business Advisory Funding, $135,755 Tourism Transition Funding and $350,000 Capability Voucher funding (50% co-funding for business leader capability training) which is $120k more than the BAU regional annual funding pool. Callaghan Innovation is a government partner in the recently launched cross government Agritech Industry Transformation Plan (ITP) and RBP has hosted the project team for 3 days of visits to key growers for consultation on needs and visits to technology innovators.

Group of Activity	Activity	F Status	Comments
2. Strategic planning	Planning		The YTD pro rata budget remains underspent for this quarter due to a further COVID level change resulting in the WCO hearing being postponed to June 2021. There will be significant costs in Q4 of the financial year associated with second week of the WCO, plus the TANK hearings scheduled for May/June 2021. The OWB decision is still to be released and the invoices associated with the preparation of the decision are still to be received. This will mean that the Statutory Advocacy budget will likely be overspent and the Strategy and Planning budget will be spent.
2. Strategic planning	Strategy		Over budget by 13% due to overspend in internal time. Budgeted labour hours do not reflect staff numbers in the team since reorganisation in July/August 2020, offset by reduced hours in ex OCEC.
2. Strategic planning	Sustainable Regional Development		On track

4.4 Integrated Catchment Management (ICM)

Below are the non-financial and financial reporting (operating only) for the three activities within Integrated Catchment Management Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
3. Integrated Catchment Management	Biodiverstiy and Biosecurity		The Catchment Services teams focus has completed 1,098 possum monitoring lines within the Possum Control Area programme, managed 19 different pest plant programmes, has progressed the Whakatipu Mahia possum eradication and predator control work, has completed the regional rook control programme, has completed work at the additional Ecosystem Prioritisation sites and is undertaking a full review of the Possum Control Area programme.
3. Integrated Catchment Management	Catchment Management		Busy work programs with some projects well ahead of anticipated position for the time of year. The ECS is looking to be well ahead in terms of project delivery/LOS and costs for this time of year and most other projects are on track.
3. Integrated Catchment Management	Science and Information		Work programmes generally on track apart from regional groundwater research which has been affected by external contracted services. Corrective action has been initiated and the programme will be restored to schedule in the coming months.

Group of Activity	Activity	F Status	Comments
3. Integrated Catchment Management	Biodiverstiy and Biosecurity		The Biosecurity and Biodiversity budgets are currently on track. Pro rata forecasts do not accurately reflect programme expenditure. The majority of works happen over summer with many contracts being completed and paid for in May 2021. Please note we are aiming for an underspend in the pest animal budget this FY, in agreeance with the finance team, to start rebuilding the Biosecurity reserve fund which has been depleted.
3. Integrated Catchment Management	Catchment Management		Variance of pro rata budget is due to greater uptake of the ECS in the first 3 quarters of the year, including Jobs4Nature, and the timing differences for FEMPS and future farming. The EICC has approved bringing borrowing forward to cover the increased cost due to improved uptake and momentum in the ECS and Jobs4Nature projects and this is reflected in the available budget.
3. Integrated Catchment Management	Science and Information		Under budget generally due to seasonal nature of the work, with significant invoicing and work delivery expected in Q4.

4.5 Asset Management

Below are the non-financial and financial reporting (operating only) for the four activities within Asset Management Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
4. Asset Management	Coastal Hazards		The Engineering team has been progressing the Joint Coastal Strategy design work stream. The Westshore nourishment work is completed and under budget due to some savings in sourcing material.
4. Asset Management	Flood Protection and Control Works (Rivers, Drainage and Small Schemes)		Flood Protection and Control Works are being carried out by the Regional Assets section in accordance with asset management plans and annual maintenance contract. Significant projects are in progress Heretaunga Plains level of service review, Waipawa River above SH50, Napier Nov 2020 flood repairs, and pump station renewals.
4. Asset Management	Flood Risk Assessment and Warning		Engineering team working on catchment reviews, hydrodynamic modelling for flood hazard planning, mapping. This is part of the Capital work (HPFCS Level of Serivces).
4. Asset Management	Open Spaces		LoS for all Regional Parks on track and met. The new Asset Management Plan is complete and signed off by Council. The AMP will improve overall understanding of the asset and current/ future management, planning and budgeting for the Parks and forestry portfolio.

Group of Activity	Activity	F Status	Comments
4. Asset Management	Coastal Hazards		The Westshore nourishment was under budget due to savings in source material. The consultancy cost for coastal strategy is on track.
4. Asset Management	Flood Protection and Control Works (Rivers, Drainage and Small Schemes)		Additional work outside of the maintenance contract is in progress and expected to be delivered in the final quarter pending programming and contractor availability.
4. Asset Management	Flood Risk Assessment and Warning		Expenditure is under spent due to staff time being coded to Capital work. Ngaruroro and Tutaekuri analysis is being funded through the capital project
4. Asset Management	Open Spaces		There has been incorrect coding of project work to the Opex budget (corrected but not reflected in Opal3). Provision has been made in the LTP for additional opex for the growing Regional Parks portfolio and asset.

4.6 Consents and Compliance

Below are the non-financial and financial reporting (operating only) for the three activities within Consents and Compliance Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
5. Consents and Compliance	Compliance and Pollution Response		Increased enforcement work across both the monitoring & pollution teams as well as a greater requirement for permitted activity monitoring (i.e. Forestry NES) has resulted in a number of successful prosecutions. Currently recruiting for a Compliance Manager & Pollution Response TL.
5. Consents and Compliance	Consents		Consents team consents processing. 1 Jan - 31 Mar 2021 Applications Received 140 Decisions Made 93 Bore Permits 18 Transfers 35 Timeframes All met S133's 4 Time spent advising on consenting requirements for production land use consents (were due at end of Feb). Also in preparation for NES Freshwater. Omaranui and Silver Fern Farm applications notified. WDC consent remained in process over this period. Expert conferencing needed to be organised.
5. Consents and Compliance	Maritime Safety		This item applies to the Harbourmaster section of the Policy and Regulation Team. The recreational boating side of things went without incident or casualty as more and more people heed the advice regarding lifejackets and 2 waterproof forms of communication. Our navigation aids remained functional throughout the summer, with the high visibility poles at Mahia Beach and the buoys at Onepoto being particularly successful Prior to Christmas (in Q2) there was of course a major fire in a cargo ship in the Breakwater Harbour. Whilst there was significant damage to the cargo there were no human casualties. The fire was dealt with in a professional manner by emergency services and has since been thoroughly investigated by TAIC, MNZ and FENZ.

Group of Activity	Activity	F Status	Comments
5. Consents and Compliance	Compliance and Pollution Response		Less recoverable time (permitted activity monitoring) in conjunction with a necessary requirement for increased enforcement action has put pressure on the income received and required a greater legal spend.
5. Consents and Compliance	Consents		The project is underspent on internal costs and under recovered in terms of income. Net funding required at the end of the 3rd quarter is $100,000 over budget and is projected to increase above this level. This depends partly on under/over recovery provisions. Reason for this is that more time has been spent on non recoverable activities. E.g. in answering enquiries, providing advice, understanding new NES provisions and modifying forms and processes to accommodate these, participating in national forums on their interpretation and consistent implementation.
5. Consents and Compliance	Maritime Safety		Covid has impacted on a YTD basis on our recreational activities and school visits.

4.7 Emergency Management

Below are the non-financial and financial reporting (operating only) for the two activities within Emergency Management Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
6. Emergency Management	Hawke's Bay CDEM Group		Overall most objectives in the emergency management area have been achieved. However the ongoing response to COVID-19 and the Napier rain event in Nov 20 and support to the subsequent recovery processes, has meant that some parts of the work programme have been delayed or re-prioritised.
6. Emergency Management	HBRC Emergency Management		No issues in this area - on track.

Group of Activity	Activity	F Status	Comments
6. Emergency Management	Hawke's Bay CDEM Group		This is showing as an overspend due to operational response expenditure for COVID-19 and a number of other responses late in 2020. There has also been a significant increase in the rent charged by HDC for the Group Coordination Centre in Hastings of $70,000 per year which was unbudgeted. It is anticipated that there will be reduced spending in the last quarter due to gaps in recruiting new staff to fill vacancies. There will however be some unbudgeted expenditure in the last quarter on communications collateral in support of the "know your zone" campaign which is being rolled out to all ratepayers in tsunami evacuation zones. This have been provisionally costed at $30-40,000.
6. Emergency Management	HBRC Emergency Management		The overspend in this area is attributed to unbudgeted expenditure in HBRC supporting the COVID-19 and Napier rain event responses

4.8 Transport

Below are the non-financial and financial reporting (operating only) for the two activities within the Transport Group of Activities (GOA):

Group of Activity	Activity	NF Status	Comments
7. Transport	Passenger Transport		Patronage is not increasing as hoped with the low fares, although now back to pre-Covid levels. The transport study indicated that bus services are probably not meeting the needs of the community. Consultation on a change to the service delivery to an on-demand ride share service is underway and appears to be well supported.
7. Transport	Transport Planning and Road Safety		The Draft RLTP has been consulted on with 67 submissions received. The RTC is to deliberate on submissions at their meeting on the 14th May. The transport team is about to commence work on the public transport plan review

Group of Activity	Activity	F Status	Comments
7. Transport	Passenger Transport		Bus patronage is getting back to pre-covid levels, however, the flat fare low cost bus fare structure is resulting in reduced fare revenue. Increased costs as result of ERA requirements still evident
7. Transport	Transport Planning and Road Safety		Not all income streams have been received, including NZTA claims and contributions by other councils. Slight underspend in the Road safe budget but we expect to be on budget by year end.

PART 5: GLOSSARY

AMP	Asset Management Plan
BAU	Business as Usual
CCTO	Council Controlled Trading Organisation
CDEM	Civil Defence Emergency Management
C&S	Corporate & Strategic Committee
CEG	Coordination Executives Group
CRM	Customer Relationship Management System
ECS	Erosion Control Scheme
EICC	Environment Integrated Catchment Committee
ERA	Employment Relations Act
ECS	Erosion Control Scheme
EOY	End of Year
FARS	Financial Audit and Risk Subcommittee
FEMP	Farm Environmental Management Plans
FENZ	Fire and Emergency New Zealand
FIF	Freshwater Improvement Fund
FTE	Full Time Equivalent
HPFCS	Heretaunga Plains Flood Control Scheme
HBRC	Hawkes' Bay Regional Council
HBT	Hawkes' Bay Tourism
HDC	Hastings District Council
HPUDS	Heretaunga Plains Urban Development Strategy
LGOIMA	Local Government Official Information and Meetings Act
LOS	Level of Service
LOSM	Level of Service Measure
LTP	Long term Plan
MACAA	Marine and Coastal Area Act
MBIE	Ministry of Business, Innovation & Employment
MNZ	Maritime New Zealand
MSC	Maori Standing Committee
NCC	Napier City Council
NES	National Environmental Standards
NPS-FW	National Policy Statement for Fresh Water
NZTA	New Zealand Transport Agency
OCEC	Office of the Chief Executive and the Chair
OWB	Outstanding Water Bodies
PCA	Possum Control Area
PONL	Port of Napier Limited
PPDC	Personal Performance Development Charter
RBP	Regional Business Partners
RCEP	Regional Coastal Environment Plan
RLTP	Regional Land Transport Plan
RMA	Resource Management Act
RPC	Regional Planning Committee
RPTP	Regional Public Transport Plan
RRMP	Regional Resource Management Plan
RTC	Regional Transport Committee
SOE	State of the Environment
TAIC	Transport Accident Investigation Commission
TANK	Tutaekuri, Ahuriri, Ngaruroro, Karamu
TLA	Territorial Local Authorities
WCO	Water Conservation Order
WDC	Wairoa District Council
YTD	Year to Date