



Meeting of the Finance Audit & Risk Sub-committee

Date: 04 Aug 2021
Time: 12.30pm
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

Item	Title	Page
1.	Welcome/Notices/Apologies	
2.	Conflict of Interest Declarations	
3.	Confirmation of Minutes of the Finance Audit & Risk Sub-committee held on 5 May 2021	
4.	Risk Management Maturity Update	3
5.	Internal Assurance Programme	9
6.	Internal Audit Report – Talent Management	21
7.	2020-21 Annual Report Audit Plan	45
8.	2020-21 Annual Treasury Report	47
Public Excluded		
9.	Six Monthly Enterprise Risk Report	77

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

04 August 2021

Subject: RISK MANAGEMENT MATURITY UPDATE

Reason for Report

1. This item provides the Sub-committee with an update on Council's Risk Management Maturity.

Officers' Recommendations

2. Council Officers recommend that the Sub-committee notes that:
 - 2.1. The status of the Regional Council's risk management maturity deliverables as reported through the 'Corrective Actions Status Update' dashboard is stated as either 'behind' or 'at risk'. However, when deliverables are compared to the risk maturity roadmap that was endorsed by the Hawke's Bay Regional Council on 24 June 2020 risk maturity progress remains largely 'on track'.
 - 2.2. The focus for quarter one FY2022 is to ensure the Regional Council endorsed risk maturity roadmap remains 'on track', including:
 - 2.2.1. Finalising the 'draft' risk appetite statement with Council
 - 2.2.2. Finishing remaining enterprise risk bowties through risk workshops, and
 - 2.2.3. Completing workshops to identify the critical controls for all enterprise risks.
 - 2.3. The baseline deliverable dates for reporting progress of the Regional Council's risk maturity through the 'Corrective Actions Status Update' dashboard will be reset by:
 - 2.3.1. Considering the period that the Risk and Corporate Compliance Manager role was vacant
 - 2.3.2. Considering other high priority corrective or strategic actions that need to be embedded into the organisation, and
 - 2.3.3. Aligning the corrective action deliverables and milestones to the phases and dates outlined in the risk maturity roadmap.

Background/Discussion

3. At the Hawke's Bay Regional Council meeting on 24 June 2020, on recommendation from the Corporate and Strategic Committee, the Regional Council endorsed the risk maturity roadmap. At the Corporate and Strategic Committee (C&S) meeting held on 10 June 2020 where the risk maturity roadmap was scrutinised the Committee requested that the FARS oversee progress of the risk maturity roadmap. Oversight by the FARS was to ensure that the maturing risk management system remained on track and was providing value to the organisation. Therefore, this item provides an update to the FARS on progress of the risk management maturity against the risk maturity roadmap.
4. The status of key milestones for the Regional Council's risk management maturity initiative is reported through the 'Corrective Actions Status Update' dashboard. The dashboard is included as a separate agenda item for this meeting.
5. The overall status of the risk management maturity corrective actions reported in the dashboard are noted as either 'behind' or 'at risk'. The actions' due dates and milestones reported in the dashboard are informed by the risk management maturity project plan that was developed to implement the Regional Council approved risk maturity roadmap. However, the risk management maturity project plan contained 'bold' deliverables when

compared to the risk maturity roadmap. When risk maturity milestones delivered to date are compared to the key deliverable dates outlined for each phase of Council's risk maturity roadmap the overall status remains largely 'on track'.

6. Key areas for focus over quarter one of FY2022 to ensure that risk maturity actions continue to deliver on the risk maturity roadmap phases, include:
 - 6.1. Progressing the risk appetite statement so that final sign-off can be obtained from the Regional Council
 - 6.2. Finalising the risk bowties for each enterprise risk, including:
 - 5.2.1 Undertaking risk bowtie workshops for the following enterprise risks; risk 1a strategic - decision, risk 1b strategic – implementation and delivered, risk 6 core ICT services, risk 7 legal compliance, and risk 13 third parties/contractors, and
 - 5.2.2 Using each enterprise risk bowtie to undertake further workshops to systematically identify the critical controls.
- 6 The risk management maturity project plan developed to implement the risk maturity roadmap was bold. Since the risk management maturity update to the FARS in February 2021 the Risk and Corporate Compliance Manager role has been vacant for approximately four months. Over that same period some key organisational activities that included the Long Term Plan (LTP) and TechOne implementation needed prioritisation. Therefore, implementation of risk management maturity milestones as outlined in the bold project plan was difficult. It is also acknowledged that to now speed up actions to bring the project plan back on track is difficult to achieve without additional resources and costs.
- 7 The preferred approach is therefore to reassess and reset the baseline for the risk management maturity project and provide the updated project plan and milestones to the FARS at the next meeting for endorsement. The reset of the risk management maturity baseline will also include adjusting the 'due dates' that are being reported to the FARS through the 'Corrective Actions Status Update' dashboard. Reset of the delivery dates in the risk maturity project plan will consider:
 - 7.2 The time the Risk and Corporate Compliance Manager role was vacant
 - 7.3 Delivery timeframes as per the phases outlined in the risk maturity roadmap, and
 - 7.4 The significance and focus of other high priority corrective actions or key strategic actions that will impact staff across the organisation.

Strategic Fit

- 8 Maturity of the Regional Council's risk management system contributes towards achieving all strategic goals/vision by protecting the organisation. A mature risk system provides consistent risk intelligent decision making enabling the efficient prioritisation of finite organisational resources to deliver on strategy.

Financial and Resource Implications

- 9 Maturity of the risk management system is phased to minimise budgetary implications. Some facilitated workshops will be required over quarter one of FY2022 to finalise the enterprise risk bowties. Later in the financial year it is likely risk training workshops will need to be provided to targeted staff to ensure risk intelligent decision making is consistently and effectively embed across the organisation.

Next Steps

- 10 The next steps for maturity of the Regional Council's risk management system is to ensure that momentum continues on risk maturity activities that align to the Regional Council endorsed risk maturity roadmap. The focus for quarter one FY2022 includes:
 - 10.2 Finalising the 'draft' risk appetite statement with Council

- 10.3 Finishing the remaining enterprise risk bowties through risk workshops
- 10.4 Completing workshops to identify the critical controls for all enterprise risk, and
- 10.5 Resetting the baseline of the risk management maturity project plan then seeking endorsement from the FARS to update the due dates in the 'Corrective Actions Status Update' dashboard.

Decision Making Process

- 11 Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 11.2 The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
 - 11.3 The use of the special consultative procedure is not prescribed by legislation.
 - 11.4 The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
 - 11.5 The decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
 - 11.5.1 Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place.
 - 11.5.2 Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks.
 - 11.5.3 report on the robustness of risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

Recommendations

That the Finance, Audit and Risk Sub-committee:

- 1. Receives and considers the "Risk Management Maturity Update" staff report.
- 2. Confirms that the management actions undertaken and planned adequately respond to the risk management maturity roadmap as endorsed by Hawke's Bay Regional Council on 24 June 2020.
- 3. Supports the reset of the baseline for the risk management maturity project with the new deliverable dates of the reset plan being provided to the FARS at the next meeting for endorsement.
- 4. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that adequate evidence has been provided of progress to implement the maturing risk management system in accordance with the risk maturity roadmap
- 5. Seeks the Corporate and Strategic Committee's agreement to reset the baseline of the supporting risk management maturity project plan to implement the roadmap as proposed.

Authored by:

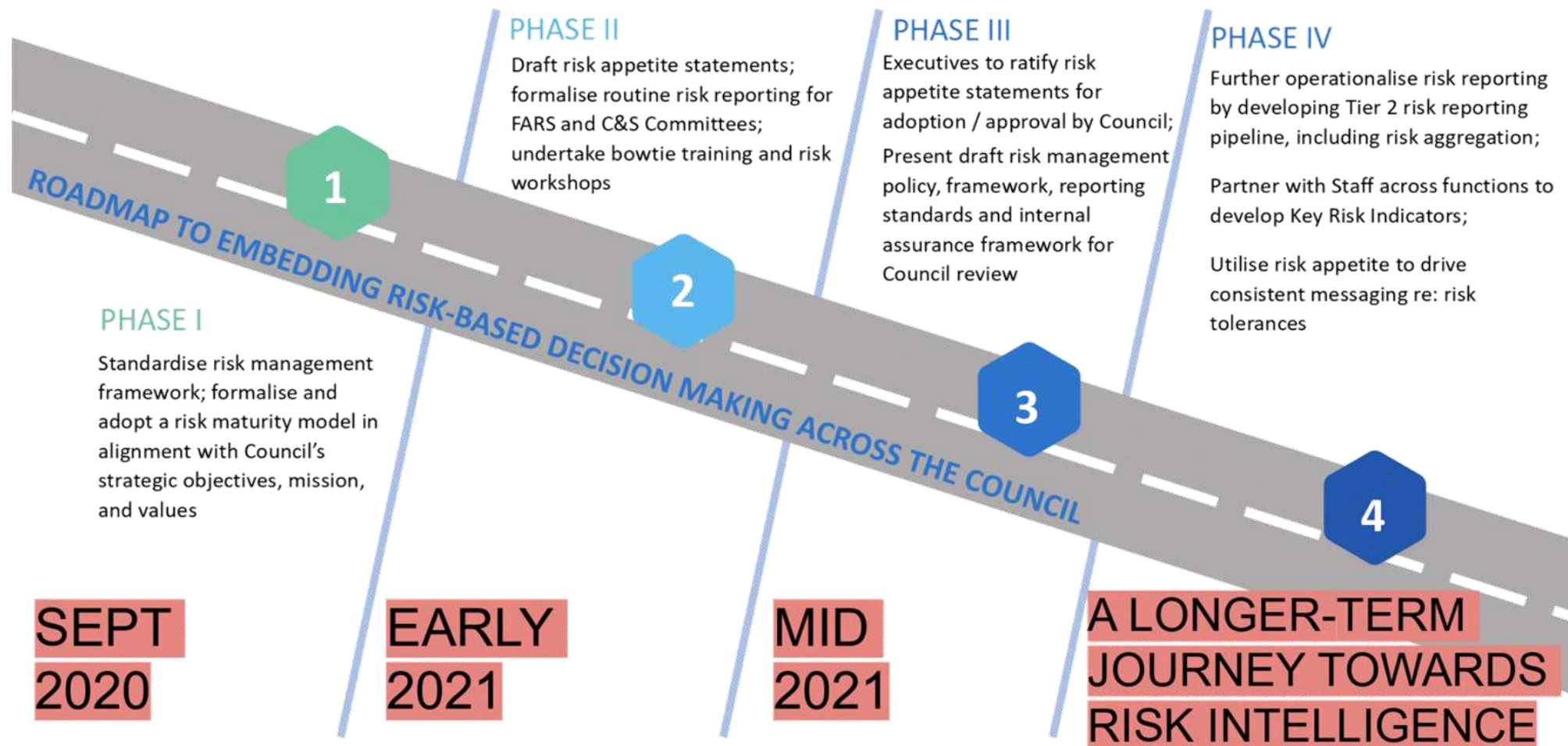
Helen Marsden
RISK AND CORPORATE COMPLIANCE
MANAGER

Approved by:

Tom Skerman
ACTING CORPORATE SERVICES
GROUP MANAGER

Attachment/s **1** Updated Risk Maturity Roadmap

HBRC RISK MATURITY ROADMAP



HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

04 August 2021

Subject: INTERNAL ASSURANCE PROGRAMME

Reason for Report

1. This agenda item provides the Finance Audit and Risk Sub-committee (FARS) with two internal assurance dashboards that update the Sub-committee on progress to deliver:
 - 1.1. Previously reported internal audit 'corrective actions', and
 - 1.2. The FY21 annual internal audit plan.

Officers' Recommendations

2. Council officers recommend that the FARS members consider and note the internal assurance dashboards that update the status of progress with corrective actions, and delivery of the FY2021 internal audit plan.

Background/Discussion

3. The purpose of the corrective action status update is to provide oversight to the FARS on open internal audit findings from previously reported internal audits. The dashboard tracks progress of the corrective actions against agreed milestones, until the action is closed. Key points to note from the dashboard includes:
 - 3.1. All actions are now completed for the Health and Safety Review from September 2018, and
 - 3.2. A discrete agenda item has been prepared for this meeting to update the Sub-committee separately on the Risk Management Maturity due to the number of individual actions reported as 'at risk'.
4. The purpose of the annual internal audit plan status update dashboard is to provide the FARS with oversight and progress of individual internal audits that form part of the Corporate and Strategic Committee (C&S) approved annual internal audit plan. The completion and presentation of the Talent Management internal audit to the FARS closes out the FY2021 internal audit plan. A separate paper has been prepared for this meeting to report to the FARS the findings from the Talent Management internal audit.

Financial and Resource Implications

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

Decision Making Process

6. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 6.1. The agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:
 - 6.1.1. The purpose of the Finance, Audit and Risk Sub-committee is to report to the Corporate and Strategic Committee to fulfil its responsibilities for (1.3) the independence and adequacy of internal and external audit functions

- 6.1.2. The Finance, Audit and Risk Sub-committee shall have responsibility and authority to (2.6) receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s)
- 6.1.3. The Finance, Audit and Risk Sub-committee is delegated by Council to (3.6) review the objectives and scope of the internal audit function, and ensure those objectives are aligned with Council's overall risk management framework; and (3.7) assess the performance of the internal audit function, and ensure that the function is adequately resourced and has appropriate authority and standing within Council.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the "Internal Assurance Programme" staff report.
2. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the Internal Assurance Programme Update provides adequate evidence of the adequacy of Council's internal assurance functions and management actions undertaken or planned respond to findings and recommendations from completed internal audits.

Authored by:

Helen Marsden
RISK AND CORPORATE COMPLIANCE
MANAGER

Approved by:

Tom Skerman
REGIONAL WATER SECURITY
PROGRAMME DIRECTOR

Attachment/s

- 1 [↓](#) Internal Audit Annual Plan FY2020-21 Status Update
- 2 [↓](#) Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit Annual Plan FY20-21 Status Update

Approved Audit FY2020-21	Provider	Quarter Due	Date Commenced	Management Comments	Reported to FARS
Data Analytics	Crowe	Q3	December 2020		May 2021
Talent Management	Crowe	Q4	March 2021	May 2021 to ELT	August 2021
Retained Audit Capacity – 40 hrs					

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Continuity Documentation To enable a holistic based response and maintenance of critical pandemic supplies (e.g. PPE) for future pandemic events HBRC's pandemic safety plan should be linked to business continuity plan (BCP) Consider feasibility of restructuring HBRC's BCP's to take a denial type approach rather than an external hazard approach i.e. denial of: people, systems, suppliers, facilities.	Medium	Review current suite of BCP documents to identify improvements. Develop an implementation plan. <i>Risk & Corporate Compliance Manager & Senior Health and Safety Advisor</i>	March 2021	<i>Due to the vacant Risk Manager role these actions were on hold and will now need to be rebaselined</i>	Add reviewed Covid19 response plan to the BCP suite of docs in Herbi. Analyse the feasibility of restructuring the BCP approach. If required, develop project plan to prioritise updating HBRC's BCP documents.	Behind
Strengthen the Disaster Recovery (DR) and BCP linkage.	Medium	Refer - Cyber security audit - resilience finding and action <i>CIO</i>	March 2021	IT DR Plan completed		Closed

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
<p>Communication (Internal & External)</p> <p>Internal communication in lockdown were positive. Therefore, the approach should be documented to ensure it is repeatable for future requirement to work remotely.</p> <p>There are a number of key stakeholder groups that may need to be specifically communicated with tailored messages depending on the event.</p> <p>Telephony processes need to be consistent regardless of whether the call is being responded to by Council or Contact Centre staff.</p>	Low	<p>Update BCP suite of documents. Marketing and Communications</p> <p>Identify HBRC's key stakeholder groups through developing a key stakeholder wheel and document in HBRC's BCP. Marketing and Communications</p> <p>Taking into account new capability of the recently upgraded telephony system. Review and improve processes for calls currently managed by the Palmerston North Contact Centre in a BCP situation. Corporate Support Manager</p>	March 2021	<p>Due to conflicting priorities milestones were not delivered for this reporting period and have been carried forward to the next reporting period</p> <p>The Contact Centre/CX Project Plan has been updated to include the BCP practices. Solutions have been selected to improve customer experience process to enable first contact resolution this includes contact centre module, knowledge base and service ticketing tool</p>	<p>Capture internal comms practices that were initiated as part of the Covid19 lockdown response and link to the BCP Suite of docs on Herbi</p> <p>Finalise key stakeholder wheel and link to HBRC's BCP suite of documents in Herbi.</p> <p>Roll out and staff training in progress.</p>	Behind

Internal Assurance Dashboard - Corrective Action Status Update

HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
The corrective actions to control the risk of cross contamination of work bubbles at Guppy Road should now be documented.	Low	Ensure the pandemic safety plan is up to date with the most recent pandemic response process. Senior Health and Safety Advisor	February 2021	Reviewed Guppy Road staff bubbles to ensure continuity in case of a second Covid wave.		Closed as at April 2021 FARS
Improve the rostering system for prolonged and slow-moving events (e.g. pandemics) with the aim of ensuring equitable distribution of tasks.	Medium	Improved rostering system to better manage staff resourcing requirements. Team Leader Hazard Reduction	December 2020	Initial changes to CDEM MS Teams roster allows those on roster, managers and team leaders to see who is on roster and when (not on HBRC MS Teams but links can be shared). These initial changes have resolved immediate issues and HBRC ITC have agreed to work with CDEM on an ideal future state process.	Future developments in operational capabilities will be reported through the Coordinating Executive Group.	Closed as at April 2021 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Leadership and Direction - Improve linkage of risk informed decision making to strategy. Improving clarity of boundaries for decision making.	Not Stated	Develop a comprehensive risk appetite statement that defines tolerance levels for individual enterprise risks. <i>ELT</i>	March 2021	Draft version of Risk Appetite state completed. <i>Due to the vacant Risk Manager role some actions were on hold and will now need to be rebaselined</i>	Complete remaining two bowties. Submit Draft Risk Appetite Statement for approval.	Behind
People and Development - Risk roles and responsibilities beyond the risk and assurance lead were not defined. With no risk related training.	Not Stated	Develop a competency framework to upskill staff on risk and embed the risk policy. Communicate and train BU on the risk policy and framework. Provide targeted training to specialist risk roles e.g. risk champions. <i>ELT and Risk & Corporate Compliance Manager</i>	October 2021	<i>Due to the vacant Risk Manager role these actions were on hold and will now need to be rebaselined</i>	In conjunction with Group Managers identify a Risk Champion in each Group. Risk and Assurance Lead to develop Risk Champion Training.	At Risks
Processes and Tools - For assurance.	Not Stated	Develop a formal assurance framework based on the 'three lines of defence model'. Framework should ensure assurance targets critical council functions and activities applying a risk based approach. <i>Risk & Corporate Compliance Manager</i>	July 2021	Developed a targeted approach to implement the framework, approved by ELT and submitted to May FARS for approval. Internal Assurance Framework adopted at Council May 2021		Closed

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Process and Tools - For risk monitoring and reporting.	Not Stated	Reformatted risk reporting to enhance visibility can be developed when the risk policy and framework is approved by Council. However, risk reporting will be subject to continuous improvement as the risk system matures e.g. the incorporation of key risk/control indicator trend reporting. Risk & Corporate Compliance Manager	September 2021	Due to the vacant Risk Manager role these actions were on hold and will now need to be rebaselined	Update risk reporting to reflect insights from risk bowties as the final bowties are completed. Update risk report to reflect approved risk appetite.	At Risk
Business Performance – Strategic risk management.	Not Stated	Strategic planning cycle to include a review of enterprise risks to better link and integrate the risk register and LTP. Risk & Corporate Compliance Manager & Strategy and Governance Manager	September 2021	Due to the vacant Risk Manager role these actions were on hold and will now need to be rebaselined	Finalise bowties for remaining enterprise risks and update risk report to enable a better linkage to the LTP.	At Risk
Business Performance – Managing Risk in Partnerships.	Not Stated	Develop risk and performance monitoring of key third parties. Ensure contingency planning is included. Procurement Lead	December 2020	All contracts now risk assessed at inception and on completion. Assessments inform future selection.		Closed
Business Performance – Business resilience ensure continuity planning is sufficient to cover HILP events.	Not Stated	Develop a process to assess disruptive and extreme events (low probability high impact 'HILP' events). Risk & Corporate Compliance Manager	December 2021	Due to the vacant Risk Manager role these actions were on hold and will now need to be rebaselined	Develop a roadmap to enhance continuity plans include business impact risk assessments based on HILP events. Stress test on a 'denial' premise.	At Risk
Business Performance – Change and transformation.	Not Stated	Develop a change management framework to ensure a portfolio view of risks related to significant change is managed. Marketing & Communications Manager	September 2021	Regular status reports given on transformational projects (FUSE, Accommodation and CX Project)	Business to determine strategy for Change Management	At Risk

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Risk, Governance, Policy and Accountabilities – to improve risk and assurance challenge. With clearer risk escalation.	Not Stated	Develop risk management policy and framework that includes roles and responsibilities. Risk & Assurance Lead	September 2020	Council approved single Regional Council risk management policy and framework.		Closed as at Nov 2020 FARS
Leadership and Direction - Risk system continuous improvement.	Not Stated	Incorporate into the risk policy and framework a risk vision. Tailor the Council's risk policy and framework to align to the strategy. Develop a risk maturity roadmap to execute the risk vision. Risk & Assurance Lead	September 2020	Council approved risk policy includes a risk vision that aligns to the C&S approved risk maturity roadmap. And, the risk policy and framework tailored based on HBRC's strategy.		Closed as at Nov 2020 FARS
Processes and Tools - For risk assessment and mitigation.	Not Stated	Through a single risk management policy and framework ensure that clear risk and control identification and assessment criterion exists. Risk and Assurance Lead	September 2020	Council approved risk framework includes a criteria of risk and control identification and assessment. With recommended tools.		Closed as at Nov 2020 FARS

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit – Health and Safety (H&S) – Sept 2018						
Finding / Theme	Priority Rating	Action and Owner	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Move towards Lead Indicators.	Medium	Health and Safety Manual to include Lead Indicators <i>Senior Health, Safety & Wellbeing Advisor</i>	June 2021	ELT Lead and lag indicators in place		Closed
Increased reporting to ELT.	High	Create dashboard report for H&S reporting. <i>Senior Health, Safety & Wellbeing Advisor</i>	March 2021	Work with Governance to finalise H&S reporting in Organisational Dashboard		Closed
Improvement in Contractor Inductions.	Medium	Review induction process of contractors and service providers <i>Senior Health, Safety and Wellbeing Advisor</i>	September 2020	Improved H&S obligations as part of organisational sign in at reception. H&S expectations included in procurement induction process in consultation with Procurement.		Closed
Improvement in Contractor Engagement process.	Medium	A full review of contractor inductions across all risks <i>Senior Health, Safety & Wellbeing Advisor</i>	August 2021	Contractor processes reviewed ensuring inclusion into H&S expectations related to risks.		Closed
Improve indicator risk control reporting.	High	Bow tie analysis for identified critical risks to ensure hierarchy of controls To enhance lead indicators. <i>Senior Health, Safety & Wellbeing Advisor and Risk & Assurance Lead</i>	March 2021	H&S bowtie analysis complete.	Now bowtie analysis complete the Lead Indicator Action will capture next steps	Closed as at Feb 2021 FARS
Improve Incident reporting detail to include Root Cause Analysis (5 Why's).	High	Update incident reporting form to include root cause analysis (5 Why's) <i>Senior Health, Safety & Wellbeing Advisor</i>	June 2021	Updated incident form to include (5 Why's).		Closed as at Feb 2021 FARS
Increased visibility of health and safety activity by ELT.	High	ELT representative attends quarterly Health and Safety Committee Meeting <i>Senior Health, Safety & Wellbeing Advisor</i>	March 2021	Process for regular attendance by ELT at quarterly meetings established.		Closed as at Feb 2021 FARS
Update of H&S Manual.	Medium	Review Manual <i>Senior Health, Safety and Wellbeing Advisor</i>	October 2020	Safety Plan signed off.		Closed as at April 2021 FARS

Internal Assurance Dashboard - Corrective Action Status Update

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

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

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

04 August 2021

Subject: INTERNAL AUDIT REPORT – TALENT MANAGEMENT

Reason for Report

1. This item provides the Finance Audit and Risk Sub-committee (FARS) with the report on the Talent Management internal audit undertaken by Crowe Horwath.

Officers' Recommendations

2. Staff recommend that the FARS note the attached Talent Management report prepared by Crowe Horwath (Crowe), and consider the adequacy of the key management actions noted in the report and outlined following.

Background /Discussion

3. The FARS agreed at its meeting on 12 August 2020, as part of the internal audit work programme, to engage Crowe to conduct an internal audit of the Council's Talent Management system.
4. The objective of the Audit was to evaluate the talent management strategies and processes against the New Zealand Public Service Commission's Talent Management Maturity Model.

Report Analysis

5. Findings and recommendations contained within the Crowe report were reviewed by the People and Capability Manager. The recommendations were accepted and timeframes for implementing the recommendations were inserted into the report as 'Management Comments'. The final report was also presented to the Executive Leadership Team (ELT) for information.
6. Each management action from the Talent Management internal audit report will be tracked and reported to the FARS at future meetings through the *Internal Audit Dashboard – Corrective Actions Status Update*, until such time that the management action is closed.
7. The Audit identified one high, six medium, and three low risk findings.

Maturity Assessment

8. The report assessed the Council's maturity status as being 'Just Starting' when benchmarked against the current Public Service Commission's Talent Management Maturity model. Management comments noted within the report, and outlined below, are intended to progress the Council's Talent Management maturity level to at least an 'integrating' status. The key management action themes include:

Develop a People and Capability(P&C) Strategy

9. The People and Capability Manager will develop a People and Capability Strategy which will include how the Council will manage its human capital including for example, its approach to talent management, recruitment, leader engagement, succession planning, and remuneration

Develop a Competency Framework

10. A Competency Framework is to be developed to enable the Council to align its employee's skills, capabilities and knowledge with its priorities and values with the aim to achieve

operational improvements and efficiencies. This includes setting expectations regarding behaviours and performance and identifying and addressing skill gaps. The competency framework will provide information to support recruitment decisions

Performance Management

11. The People and Capability Team have reviewed the current Personal Development Plan (PDP) and Guidelines in order to streamline the process and make it easier to employees and their managers to work with. There will be more of a focus on behaviour going forward.

Financial and Resource Implications

12. There are no immediate budget implications not already identified in Council's Long Term Plan or budgets.

Decision Making Process

13. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 13.1. As this report is for information only, the decision-making provisions do not apply.
 - 13.2. Any decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
 - 13.3. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the reports
 - 13.4. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and considers Crowe's "Internal Audit Report – Talent Management", including the key management actions added by Staff in response to the report's recommendations.

Authored by:

Liana Monteith
MANAGER PEOPLE AND CAPABILITY

Helen Marsden
RISK AND CORPORATE COMPLIANCE
MANAGER

Approved by:

Tom Skerman
REGIONAL WATER SECURITY
PROGRAMME DIRECTOR

Attachment/s

- 1 [📄](#) 2021 Internal Audit Report - HBRC Talent Management



Contents

1. Executive Summary	3
1.1. Scope and objectives	3
1.2. Approach.....	3
1.3. Summary of observations	3
1.4. Basis and Use of this Report	5
2. Results and recommendations	6
Appendix 1 – Public Service Commission’s Talent Management Maturity model assessment results	16
Appendix 2 – Interviews completed	19
Appendix 3 – Classification of internal audit findings	20
Appendix 4 - Basis and use of opinion.....	21

1. Executive Summary

1.1. Scope and objectives

The objective of our review was to assess the Council's talent management strategies and processes against the New Zealand Public Service Commission's Talent Management Maturity Model developed in 2017.

1.2. Approach

We measured the maturity of the Council against the Talent Management Maturity Model by reviewing the following People and Capability (P&C) activities and assessing those activities against the categories included in the Maturity Model:

- Status of the People and Capability strategy with regard to talent management.
- Recruitment and Selection
- Talent and Performance Management
- Reward and Recognition
- Training and Development
- Employee and leadership Engagement

The review included the following steps:

- Assess the appropriateness of documented policies, processes, assessment tools and controls.
- Interview relevant staff members in the People and Capability team to understand the effectiveness of the policies and procedures in place.
- Interview managers from three departments outside People and Capability to gauge their knowledge of talent management and the support provided to them by the People and Capability team.

1.3. Summary of observations

Our review identified 1 high risk finding, 6 medium risk findings and 3 low risk findings. More detail on the risk rating scale is provided in the table in Appendix 3.

Indicator	Risk ratings	Findings
	High risk	1
	Medium risk	6
	Low risk	3
	Process improvement	0

We noted the following **features and positives** in the Council's current risk management practices:

- **Significant structural changes.** The People & Capability team has experienced a period of significant structural and personnel changes over the last year. The team has grown to match the growth of the Council's headcount and meet its demands. A new experienced leader has been appointed as the P&C Manager.

- **Business partnering model.** The P&C team has applied a 'business partnering model', where each Council's business group has a dedicated P&C specialist supporting them. This approach has been very well received by the Council and we have received many positive comments about its success from our interviewees.
- **Quality support.** The feedback we received during our interviews with several members of the Executive Management Team (EMT) and line managers shows that they are very pleased with the level and quality of support provided by the P&C team, especially in the areas of recruitment and performance management.

We also noted the following **key challenges**:

- The Council does **not have a People & Capability strategy** that would describe the Council's long-term vision and goals for its HR-related activities. The Council's current Draft Corporate Plan includes a number of P&C related strategic aims but there is currently no underlying P&C strategy to define how these aims will be achieved.
- There is currently **no competency framework** and capability matrix at the Council. The purpose of a competency framework is to enable an organisation to align its employees' skills, capabilities and knowledge with organisational priorities and values and thereby obtain operational improvements and efficiencies.
- Council does **not have a dedicated Human Resources Information System (HRIS)**. The lack of a fit-for-purpose HRIS decreases the efficiency of the Council's HR processes by limiting its ability to produce reports and provide up to date information to key users. It also means that most HR processes are very manual, which increases the risk of error.
- The Council has **not formally identified critical roles**, key people it relies on for specific skills and their level of flight risk. While ad hoc discussions have been held at the EMT level to identify top talent and non-performers, no formal long-term plans have been prepared as a result.

'Talent management is about getting the best out of our greatest asset – our people. Talent management is how we develop a State sector with the diverse leadership & talent we need, in ways that make the biggest difference for New Zealanders – now and for the future.'

Public Service Commission

Maturity assessment results

Overall, the Council is currently at the '**Just Starting**' maturity level across all elements of the Public Service Commission's Talent Management Maturity Model (see Appendix 1 for more details).

This is reflective of the fact that the People & Culture team has only been recently established and the relative immaturity of the underlying HR strategies, systems and processes.

We believe the Council will gain significant operational and cultural benefits if it moves to maturity level 'Integrating'.

Our detailed maturity assessment results are presented in Appendix 1.

Improvement opportunities

The following improvement opportunities will help the Council advance its talent management practices:

- **P&C strategy.** The Council should develop a P&C strategy, which will cover the Council's approach to talent management and other key areas, such as organisational culture, diversity and inclusion, etc. in line with aims stated in the Draft Corporate Plan.
- **Competency framework.** The Council should develop competency frameworks to enable the Council to align its employees' skills, capabilities and knowledge with organisational priorities and values and thereby obtain operational improvements and efficiencies.
- **Succession planning.** The Council should perform a comprehensive succession planning exercise to identify critical roles, key talent that the Council relies on and develop appropriate actions to develop its key talent and manage critical skills.
- **Centralised training.** The Council should develop a centralised training programme with a focus on key soft skills, e.g. leadership and management skills.

We present our detailed recommendations in Section 2 below.

1.4. Basis and Use of this Report

This report has been prepared in accordance with the scoping document dated March 2021 and subject to the limitations set out in Appendix 4 - Basis and Use of the Report.

2. Results and recommendations

2.1. P&C strategy		Rating of finding: High
Findings:	Recommendations	Agreed Management action(s)
<p>We note that the current Draft Corporate Plan in consultation as part of the Long Term Plan proposals includes the following statement regarding People and Capability:</p> <p><i>"We strive to be an employer that recruits and retains exceptional individuals who are empowered and supported to achieve their individual, team and organisational goals while simultaneously experiencing job and career satisfaction."</i></p> <p>The plan also includes a number of other strategic aims including, for example:</p> <ul style="list-style-type: none"> <i>"empowering our people to be their best in our aim to be an employer of choice."</i> <i>"Support our staff through a new people strategy that underpins our agile culture"</i> <i>"Developing targeted, value-add, training and development"</i> <i>Relatively new performance management process and remuneration framework</i> <p>Currently the Council does not have a formal People & Capability (P&C) strategy to define these strategies in more details and how they will be achieved.</p> <p>A P&C strategy is a business's overall plan for managing its human capital to align it with its business activities. The strategy sets the direction for all the key areas of HR and talent management, including recruitment, performance appraisal, development, compensation and succession planning. The HR strategy is a long-term plan that dictates P&C practices throughout the organisation.</p> <p>The current P&C Manager has been in the role for approximately 7 months and is in the process of drafting the strategy.</p>	<p>The P&C team should develop the Council's People and Capability Strategy.</p> <p>The strategy should describe the Council's vision in relation to how the Council and the P&C team will manage its human capital, including its approach to talent management, recruitment, staff and leader engagement, succession planning, remuneration, etc. in line with the strategic aims included in the Draft Corporate Plan.</p> <p>In preparing the strategy, P&C should work closely with the EMT and CEO to ensure the strategy aligns with the Council's strategy and supports the Council in achieving its strategic objectives.</p>	<p>Actions</p> <p>Develop councils P&C Strategy – which will describe how the P&C team will manage its people including its approach to Talent management, recruitment, staff and leader engagement etc. P&C will work with ELT to ensure aligned to Strategic Plan.</p> <p>Responsible person</p> <p>P&C Manager</p> <p>Date of implementation</p> <p>October 2021</p>

Talent Management Review

Hawke's Bay Regional Council

7

2.2. P&C Objectives		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>Alongside the lack of P&C Strategy, there are also no formal objectives set for the P&C team to manage and measure its own performance.</p> <p>From an organisational structure, we note that the new P&C Manager is implementing a Business Partner Model which, based on our interviews with departmental managers has been well received.</p> <p>We also note that the Corporate Plan has included a number of high level P&C objectives including:</p> <ul style="list-style-type: none"> • Develop people and capability strategy in Years 1-2 to encompass health, safety and wellbeing, workforce planning, recruitment, selection, induction and retention. • Create a learning and development model supported by a centralised training framework in Year 1. • Review organisational values and behaviours in Year 1. 	<p>Once the strategy has been developed, Formal objectives should be defined in the strategy document to determine how and by when the strategies will be achieved and to measure and monitor the progress towards them.</p> <p>Applying the SMART acronym (Specific, Measurable, Achievable, Relevant, Time-Bound) in developing performance objectives can assist in the development of quantifiable measures for each of the strategies.</p> <p>Regular engagement with Council Groups should also be undertaken to inform the P&C team of what those Groups need from P&C, including from a talent management perspective, to ensure that the objectives set meet business requirements.</p>	<p>Actions</p> <p>In conjunction with 2.1 - Performance Objectives to be developed as appendix to P&C Strategy</p> <p>Responsible person</p> <p>P&C Manger</p> <p>Date of implementation</p> <p>October 2021</p>

2.3. Competency Frameworks		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>There are currently no competency frameworks in place at the Council.</p> <p>The purpose of a competency framework is to enable an organisation to align its employees' skills, capabilities and knowledge with organisational priorities and values and thereby obtain operational improvements and efficiencies.</p> <p>Aims of a competency framework include:</p> <ul style="list-style-type: none"> ensuring that clear expectations are set, and employees are guided as to how they can assume and reinforce behaviours in line with the organisation's mission, culture and goals. setting consistent expectations of employees that provide for reliable employee performance and delivery and providing staff with clear expectations of their roles and career paths. providing the ability for skills gaps and training or recruitment needs to be identified and addressed, strengths to be developed and requirements for career progression to be clarified. creating the ability for P&C to collect and use employee data in a coordinated a manner to improve and streamline P&C planning, resource planning, recruitment, learning and development, and performance management. 	<p>The development of competency frameworks is recommended. As noted in Finding 2.10, the absence of a dedicated HRIS creates challenges in building competency frameworks. Nevertheless, the development of skills matrices and competencies. Typical areas to be included can be:</p> <ul style="list-style-type: none"> communication skills people management skills team working skills customer service skills results-orientation analytical skills technical skills. <p>Competency frameworks created around organisational values can also assist in the recruitment of people who match an organisation's culture.</p>	<p>Actions</p> <p>Develop competency framework for Council to include - communication skills, people management skills, team working skills, customer service skills, results-orientation, analytical skills, technical skills. Including Maori cultural competencies.</p> <p>Responsible person P&C Manager</p> <p>Date of implementation Competency Framework Late 2021 roll out by 2023</p>

2.4. Recruitment Process		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>Based on our interviews with Management, we noted the following:</p> <p>A standard approach to recruitment is followed, albeit without a documented procedures in place. The approach includes significant HR involvement at a 'transactional' level including:</p> <ul style="list-style-type: none"> Where the role is new, developing a job description Placing adverts Conducting interviews Performing reference checks Preparing offers and contracts <p>All the managers interviewed noted that they were satisfied with the level of service received from the P&C team in regard to these activities.</p> <p>During the scoping of our review, a concern raised by executive management related to whether staff were being recruited who would adhere to the cultural values of the Council. We note the following with regard to this:</p> <ul style="list-style-type: none"> The managers interviewed during our audit process all commented on the 'good culture' at the council and in particular the cultural values promoted by the Executive Team. We also note that the 2020 staff survey had scores of 77% and 76% respectively for the cultural questions "I enjoy working for HBRC" and "HBRC is a great place to work". Whilst acknowledging the above, it is further noted that the cultural values of the Council have not been formally documented (for example in a P&C Strategy and Competency Frameworks). Consequently, there is limited ability to 'recruit staff who would adhere to the cultural values of the Council' or measure the Council's success in achieving this. 	<p>We recommend the following:</p> <ul style="list-style-type: none"> As noted in Recommendation 2.1, the development of a P&C Strategy will provide the strategies in place for recruiting new staff and the cultural values those staff will be expected to adhere to. The development of competency frameworks (see Recommendation 2.3) will allow for cultural values to be established in job roles and for recruitment to include those values. The competency frameworks will also allow for a more proactive identification of skills gaps and potential recruitment needs. 	<p>Actions</p> <p>Develop cultural values for inclusion in 2.1 P&C Strategy</p> <p>Responsible person</p> <p>P&C Manager</p> <p>Date of implementation</p> <p>October 2021</p>

2.5. Training Programmes		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>The Council does not provide centralised training offering for its staff. Instead each business unit has a training budget that they can use as and where required. While this is appropriate for specialised technical training where the demands are different for each business unit, there are benefits in centralising cross-functional training, e.g. on soft skills like leadership, management skills, etc.</p> <p>Such centralisation can also ensure consistent quality of training and messaging provided (e.g. ensuring that the messages provided align with the Council's values). This approach can also provide cost efficiencies with centralised procurement and the ability for training to extend to more than one group or department.</p> <p>Additionally, the Council does not use any tools to help its leaders target staff development based on individual's capability, performance and type of potential.</p>	<p>The Council should perform:</p> <ul style="list-style-type: none"> An analysis of all training requirements and expenditure should be undertaken to identify training that would be more efficiently and effectively provided at a central P&C level. Re-evaluation of training budgets should be considered following this analysis to determine more appropriate central and departmental training needs. Central annual training programmes should be developed based on strategic and business priorities and communicated in advance of the following year to allow departments to plan effectively for relevant training. Centralised training programme should consider the Council's talent management needs and target key talent. The Council can use the SSC's dynamic talent map¹ for this activity. 	<p>Actions</p> <p>Produced centralised training programme and collate technical training and providers via section managers</p> <p>Responsible person P&C Manager</p> <p>Date of implementation May 2023</p>

¹ <https://www.publicservice.govt.nz/assets/Legacy/resources/1.2-Dynamic-talent-map-9-box-grid-v2.1.PDF>

2.6. Performance Management		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>The following was noted with regard to performance management:</p> <ul style="list-style-type: none"> A standard performance management process is in place. A template document PPDC (Personal Performance and Development Charter) has been created to be used by all staff to assist with regular (at least quarterly) conversations with their managers or team leaders. Staff do not however have formal KPIs to be measured against. Annual moderation meetings are held with Senior Managers to assess staff performance across the Council. The results of moderation are used to determine the overall annual performance which drives progression and remuneration in line with the 'Performance and Remuneration Policy'. The process is manual and no centralised reporting is in place. As a result there is no ability for the P&C Team to assess or ensure consistency or completeness of the process being undertaken across the Council. We note that only 51% of non-executive staff agreed that "the PPDC process will support the performance management process for individuals" and only 50% of non-executive staff agreed that "the remuneration process meets the objectives of achieving a fair, equitable, consistent and transparent process" in the 2020 staff survey. 	<p>We recommend the following:</p> <ul style="list-style-type: none"> The Performance and Remuneration Policy and PPDC process should be reviewed and recommunicated to staff to ensure the PPDC process, its aims and benefits to staff are clearly understood to improve staff engagement with the process. As noted in Finding 2.10, with the absence of a dedicated HRIS and the manual process followed, we recommend that the P&C Team undertakes ongoing sample reviews to ensure all performance appraisals are undertaken as required and to assess the quality of appraisals to establish whether further training needs are required. 	<p>Actions</p> <p>Review of PPDC policy and process to aid staff engagement. P&C Team to spot check PPDC completed PPDC forms.</p> <p>Responsible person P & C Manager</p> <p>Date of implementation October 2021</p>

2.7. Reward and Recognition		Rating of finding: Low
Findings:	Recommendations	Agreed Management action(s)
<p>The following was noted with regard to rewards and recognition:</p> <ul style="list-style-type: none"> The Council holds an annual staff awards event with awards of a token nature provided, Managers have some budget for additional awards although there is no central monitoring of this. No further reward or recognition programmes are in place. 	<p>Employee recognition programmes can be an effective method of motivating staff and can assist in retaining talent. Even where monetary rewards are not necessarily available, public or private recognition can be provided (e.g. in office announcements and certificates or a private note from a senior manager or the CEO). More effective recognition programme can have the following characteristics and could be considered as a potential enhancement to the current annual awards:</p> <ul style="list-style-type: none"> Timely - Rewards should be given as soon as possible after the achievement to reinforce positive behaviour. Frequent - Celebrate both small and large achievements often to keep employees engaged and motivated. Specific - Acknowledging why the employee's contribution is being rewarded makes it sincere. Visible - Publicly recognising someone can be an example to other employees and facilitate collaboration among team members. Values-based - Recognition based on values encourages the team to work toward the same goal. 	<p>Actions Create centralised recognition programme, gather information from each group on current reward system.</p> <p>Responsible person P&C Manager</p> <p>Date of implementation July 2022</p>

Talent Management Review

Hawke's Bay Regional Council

13

2.8. Succession planning		Rating of finding: Medium
Findings:	Recommendations	Agreed Management action(s)
<p>The Council does not have a formal succession plan.</p> <p>The Council has not formally identified its critical roles, key people the Council relies on for specific skills, key talent and staff with significant leadership potential, aspirations and ability.</p> <p>Succession planning should ensure effective management of delegations during staff absences, to support continued business delivery and appropriate (acting) authority is maintained.</p> <p>It is acknowledged that without competency frameworks in place, it is difficult for skillsets held by individuals across different Groups to be assessed for succession purposes.</p> <p>Nevertheless, effective succession planning requires an understanding of where talent exists in the organisation and the ability to encourage movement of talent across the business, to where it is currently, or in the future will be needed or best suited.</p>	<p>The Council should perform a formal succession planning. This should include:</p> <ul style="list-style-type: none"> Identifying its key roles, key people the Council relies on for specific skills, key talent and staff with significant leadership potential, aspirations and ability. Identifying and developing a pipeline of ready successors to address key talent gaps needed now and for the future. 	<p>Actions</p> <p>Carry out succession planning workshop with Group Managers, section managers and individually with Team Leaders.</p> <p>Responsible person</p> <p>P&C Manager/Group Managers</p> <p>Date of implementation</p> <p>December 2021</p>

2.9. Exit Interviews		Rating of finding: Low
Findings:	Recommendations	Agreed Management action(s)
<p>We also note that exit interviews are not formally undertaken by P&C to understand why staff are leaving the organisation.</p> <p>The purpose of an exit interview is to assess the overall employee experience within the organisation and identify opportunities to improve retention and engagement</p> <p>Exit interviews can also offer a deeper look at workplace culture, day-to-day processes, management solutions, and employee morale, with departing employees often more forthcoming than existing employees.</p>	<p>We recommend that formal mandatory exit interviews undertaken by independent staff members (e.g. from P&C) should be introduced and formally documented.</p> <p>Concerns raised during exit interviews should be assessed and where necessary action plans developed to improve employee and talent retention.</p>	<p>Actions</p> <p>Non mandatory exit Interview letter to be created and sent to all exiting staff for optional interview with Group Manager or P&C Person.</p> <p>Responsible person P&C Manager</p> <p>Date of implementation July 2021</p>

Talent Management Review

Hawke's Bay Regional Council

15

2.10. Human Resources Information System (HRIS)		Rating of finding: Low
Findings:	Recommendations	Agreed Management action(s)
<p>As noted in our findings above, the Council does not have a dedicated Human Resources Information System (HRIS) in place to support the existing HR processes. As a result, many Council's HR processes are manual in nature, which makes them more time consuming for the end users.</p> <p>We understand that there has been considerable growth in the number of staff at the Council over recent years, and with this growth, more challenges with consistency and efficiency of people management occur where manual processes are in place.</p> <p>The lack of HRIS also limits the Council's ability to produce HR-related reports, for example to develop competency frameworks or track the completion of the Personal Performance and Development Charter (PPDC) forms.</p>	<p>The Council should perform a cost-benefit analysis of implementation of a fit-for-purpose HRIS. The system should fully support key HR processes at the Council, seamlessly integrate with other Council's systems (e.g. payroll) and provide good reporting functionality.</p>	<p>Actions No action required – action already identified in Cyber Security internal audit. (August 2019)</p> <p>Responsible person Chief Information Officer</p> <p>Date of implementation 2022</p>

Appendix 1 – Public Service Commission's Talent Management Maturity model assessment results

Below we provide the results of our assessment of the Council's talent management practices against the Public Service Commission's Talent Management Maturity model. We have assessed the Council's practices against all the elements of the maturity model. Our ratings are presented in blue.

DIMENSIONS OF MATURITY <i>Overall maturity level descriptor</i>	JUST STARTING <i>Either talent management is not happening, or where it is, the organisation has just started</i>	INTEGRATING <i>Business value of talent management is recognised. Specific talent practices are being integrated with wider organisational processes</i>	STRATEGIC <i>Talent management is embedded as a strategic business activity, using practices and tools that are consistent with the wider public sector approach.</i>	Council's situation
Scope of talent management	The chief executive considers tier two leaders, then the executive team considers tier three leaders.	Senior leader talent management processes are consolidated into business as usual. Started to expand to next leadership levels, business groups and/or for key professions.	Talent is identified and developed across all leadership levels and for key professions across the public sector. People with strong potential are supported by their manager, and under active management of relevant Career Boards and other talent forums.	The Council does not have a formal approach to talent management. No formal talent management activities are in place.
Leader engagement	Early adopters have been identified and are on-side. Talent management is built into executives' performance expectations. Chief executive is supported to have more informed discussions about agency talent at Career Boards.	The executive team is on board and they are now helping their people to use consistent processes with their own groups.	Leaders can demonstrate how talent management is critical to delivering business results. Leaders champion talent management as a core part of their role and actively support others to achieve their plans. Leaders are fully engaged and connected with the wider public sector.	No talent management outcomes are built into executives' performance expectations. Ad hoc talent management related activities are performed at the executive level.
Integration and alignment	Talent management has been 'launched' and is clearly linked to business-specific drivers. Leaders and participants understand why it is important, what it involves and how the process will run.	Talent management thinking/practices are integrating into related business cycles and people processes (e.g. performance and development planning). Leaders are seeing talent management as part of other business activities.	Talent management is integral to normal business cycles (e.g. strategic workforce planning, project scoping) as well as all aspects of the employee lifecycle. Practices are consistent with wider public sector approach.	The Council's talent management activities have not been formally launched.
Talent development conversations	Simple tools and resources have been provided to assist people leaders to start having career and talent development conversations. They know the expectations of them and the	People leaders have developed skills, mind-sets and some independence around having effective career and talent development conversations. More senior leaders are role modelling	Career and talent development conversations are regularly held at all levels and are regarded as effective and meaningful by both parties. Individual development plans are targeted towards future roles in the short and	Simple tools (e.g. Personal Performance and Development Charter form) exist to assist Council's managers to have career

Talent Management

Hawke's Bay Regional Council

17

	reasons why these conversations are important.	effective conversations and are targeting development towards future roles.	longer term and actioned with regular tracking of progress. Conversations have a strengths focus and help people understand how they can best contribute.	and performance conversations. These tools are very manual in nature, making it harder to use and produce reports.
Development and deployment opportunities	The dynamic talent map (9-box grid) is used to help leaders target development based on an individual's capability, performance and type of potential. Leaders start to invest resources (time, money, opportunities) where they will provide the greatest returns.	Leaders are deliberate about promoting development experiences and opportunities – within the role and externally. Leaders explore opportunities to proactively deploy talent between agencies and business groups.	Appropriate learning (on-the-job development, secondments, coaching, mentoring, formal programmes and cross-agency opportunities) is targeted towards the best strategic returns. Development and deployment actions effectively balance the needs of the individual, agency and system.	No tools are used by the Council to target development based on staff capability, performance and potential. The Council does not have a formal capability matrix and underlying training programme to develop its staff.
Succession	Critical roles have been identified for the organisation. Key people who we rely on for specific skills and delivery of priorities, and their level of flight risk, have been determined.	Organisational risk is being mitigated through identifying and developing a pipeline of ready successors to address key talent gaps needed now and for the future. Talent pools are created within the agency to meet these needs.	Leadership bench strength is managed strategically by leveraging talent from across the public sector. We are clear on strategic talent gaps and we identify and develop successors from across the system to meet these needs. Leaders that we identify and develop feed broad system talent pools to mitigate system risk.	Critical roles have not been formally identified by the Council, although ad hoc discussions at the EMT level have occurred.
Organisational culture	People know what effective leadership looks like in today's public sector (i.e. Leadership Success Profile). Leaders have started having open and honest conversations with their people about career and talent development.	Principles and practices of talent management and the Leadership Success Profile are integrated with wider organisational culture, e.g. customer centricity; agile and effective and collaborative teams; entrepreneurial and empowered people; excellence in delivery. Culture is moving from an individual leader's view of talent and development to one of collective responsibility and stewardship.	Talent management is 'how we do things around here' in our agency and the public sector. Consistent practice means people have a seamless experience through the employee lifecycle. People have visibility of, and access to, learning and development opportunities and know how to navigate careers across the public sector. Our culture is one of flexible and strategic deployment across the agency, public sector and beyond.	Leaders have regular conversations with their staff about career as part of the standard performance management process. Leadership Success Profile process has not been used by the Council.
Diversity and inclusion	The benefits of diversity and inclusion have been defined for your organisation (the 'why') and what diversity & inclusion means. A picture of the current public has been presented (e.g. leadership cohort ethnicity and/or	Engaged with diverse customer, staff & leadership groups to identify systemic barriers. Initiatives are being designed and developed which ensure equitable talent pipelines & opportunities. Up-skilling people leaders in unconscious	Talent management has a diversity lens where practices are inclusive and integrate diversity as a norm. Identified talent brings a diversity representative of the New Zealand population. Differences are valued and seen as an advantage. Diversity is leveraged	The Council does not have any diversity and inclusion related practices in place. There is no

Talent Management	Hawke's Bay Regional Council			18
	gender compared to public sector / NZ population) and a discussion held around where we want to focus our effort.	bias (potential ≠ looks like me) and growing their ability to deal with diverse perspectives/personalities, e.g. intercultural competence.	through a strong culture of inclusion and its value can be demonstrated.	Diversity and Inclusion policy in place.

Appendix 2 – Interviews completed

The following schedule includes the interviews that were completed as part of the audit.

Name	Role
Liana Monteith	People & Capability Manager
Katrina Brunton	GM Policy & Regulation
Andrew Siddles	Chief Information Officer
Chris Dolley	Asset Management Group Manager
Pieri Munro	Te Pou Whakarae
Peter Davis	Environmental Information Section Manager

Appendix 3 – Classification of internal audit findings

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

Rating	Definition	Guidance	Action required
High	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. 	<ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns Non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues 	<ul style="list-style-type: none"> Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. Ongoing resource diversionary potential. Requires high priority to immediate action
Medium	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives. 	<ul style="list-style-type: none"> Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation Departures from best practice management procedures, processes 	<ul style="list-style-type: none"> Requires substantial management intervention and may require possible external assistance. Requires prompt action.
Low	<ul style="list-style-type: none"> Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives. 	<ul style="list-style-type: none"> Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. 	<ul style="list-style-type: none"> Requires management attention and possible use of external resources. Requires action commensurate with the process objective.
Process Improvement	<ul style="list-style-type: none"> Audit recommendation is for improving already existing processes and controls. 	<ul style="list-style-type: none"> Potential improvements in efficiency and effectiveness of existing process and controls which already demonstrate compliance with procedures and legislation 	<ul style="list-style-type: none"> Recommendations made for management consideration and implementation as determined by management.

Appendix 4 - Basis and use of opinion

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

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- This report has been prepared pursuant to our terms of engagement. In preparing our report, our primary source of information has been the internal data supplied to us by management and representations made to us by management. We have not, however, sought to establish the reliability of the information sources by reference to other evidence. This report presents the results of our analysis of the information we have relied upon.
- The statements and findings included in this report are given in good faith, and in the belief that such statements and findings are not false or misleading, but no warranty of accuracy or reliability is given. In accordance with our firm policy, we advise that neither the firm nor any employee of the firm undertakes responsibility arising in any way whatsoever to any persons. Our findings are based solely on the information set out in this report. We reserve the right to amend any findings, if necessary, should any further information become available.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

The information in this Report and in any related oral presentation made by Crowe is confidential between Crowe and the client for which it was prepared and should not be disclosed, used or duplicated in whole or in part for any purpose except with the prior written consent of Crowe. An Electronic copy or print of this Document is an UNCONTROLLED COPY.

**Findex NZ Limited**

Trading as Crowe Australasia

Building A

Level 1, Farming House

211 Market Street South

Hastings 4122

Tel +64 3 548 2139

Fax +64 3 474 1564

www.crowe.nz

Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss Verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Findex (Aust) Pty Ltd.

Services are provided by Findex NZ Limited, an affiliated entity of Findex (Aust) Pty Ltd

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries. Liability limited by a scheme approved under Professional Standards Legislation. Liability limited other than for acts or omissions of financial services licensees.

© 2019 Findex (Aust) Pty Ltd

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

04 August 2021

Subject: 2020-21 ANNUAL REPORT AUDIT PLAN

Reason for Report

1. This item provides an update on the likely timing for the Audit of Council's 2020-21 Annual Report.

Executive Summary

2. Legislation has been passed to extend the statutory deadlines for the completion of the audited 2020-21 Annual Report by 2 months due to the continued impacts of Covid-19 on the resourcing for the audits.
3. The statutory deadline for the adoption of the HBRC Annual Report is now 31 December 2021 and the deadline for the adoption of the HBRIC annual report is 30 November 2021.
4. Staff have been given 11 October (6 weeks later than previously scheduled) as the revised date for the commencement of the audit process. This will require the scheduling of an additional meeting of the Finance Audit and Risk Sub-committee in early December to review the draft annual report prior to its submission to Council for adoption.

Background /Discussion

5. The audit and adoption of the annual report follows timelines set out in the Local Government Act 2002. This Act has been amended to extend the timeframes for the 2020-21 and 2021-22 Annual Reports.
 - 5.1. Section 98 (7) now states that the annual report of a Council must be adopted no later than 31 December (31 December 2021 for the 2020-21 Annual Report).
 - 5.2. Section 67 (5) now states that the annual report of a Council Controlled Organisation must be adopted no later than 30 November (30 November 2021 for the 2020-21 Annual Report).
6. Officers have had initial discussions with our auditors about audit timing and have received an indicative audit start date of 11 October. It is likely that this may change as our auditors refine their work plans and resourcing.
7. Officers are comfortable with the revised timing as it is preferable to have certainty now rather than be faced with delays and changes during the audit process.

Financial and Resource Implications

8. The delays in the Audit programme are not expected to impact on the cost of the audit for 2020-21.

Decision Making Process

9. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 9.1. as this report is for information only, the decision-making provisions do not apply.
 - 9.2. any decision of the sub-committee (in relation to this item) is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay

Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:

- 9.2.1. Satisfy itself that the financial statements and statements of service performance are supported by adequate management signoff and adequate internal controls and recommend adoption of the Annual Report by Council
- 9.2.2. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements
- 9.3. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and considers the "2020-21 *Annual Report Audit Plan*" staff report:

Authored by:

Tim Chaplin
SENIOR GROUP ACCOUNTANT

Approved by:

Ross Franklin
ACTING CHIEF FINANCIAL OFFICER

Attachment/s

There are no attachments for this report.

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

04 August 2021

Subject: 2020-21 ANNUAL TREASURY REPORT

Reason for Report

1. This item provides compliance monitoring of Hawkes Bay Regional Council (HBRC) treasury activity and reports the performance of Council's investment portfolio for the year ended 30 June 2021.

Executive Summary

2. For the year ended 30 June 2021 Council's investment returns have exceeded expectations with a strong performance for managed funds. In addition, the dividends received of \$5.2m, while lower than the pre-covid expectations, exceeded the revised budget by \$2.2m. Due to the improved returns the planned borrowing to supplement an expected investment revenue shortfall of \$4.6m was not required.
3. Apart from a variance in the Jarden's fund allocations against the SIPO Council is compliant with all policy parameters as at 30 June 2021.
4. Based on an initial view of the end year position Council's borrowing requirement for the year is \$9.5m lower than projected at \$16.5m. Of this \$10m was raised during the year with a further \$6m raised in July. The final requirement will be updated when the annual report and result is finalised.

Background

5. Council's Treasury Policy requires a quarterly Treasury Report to be presented to the Finance Audit & Risk Sub-Committee. The policy states that the Treasury Report includes:
 - 5.1. Treasury Exceptions report
 - 5.2. Policy compliance
 - 5.3. Borrowing Limit report
 - 5.4. Funding and liquidity report
 - 5.5. Debt maturity profile Interest rate report
 - 5.6. Investment management report **
 - 5.7. Treasury investments
 - 5.8. Cost of funds report Cash flow and debt forecast report
 - 5.9. Debt and interest rate strategy and commentary
 - 5.10. Counterparty credit report
 - 5.11. Loan advances.
6. The Investment management report** has specific requirements outlined in the Treasury Policy. This requires quarterly reporting on all treasury investments plus annual reporting on all equities and property investments.
7. In addition to the Treasury Policy Council has a Statement of Investment Policy and Objectives (SIPO) document setting out the parameters required for funds under management for the HBRC Long Term Investment Fund.

8. At 30 June 2021, Treasury Investments to be reported on consist of:
 - 8.1. Liquidity
 - 8.1.1. Cash and Cash Equivalents
 - 8.1.2. Debt Management
 - 8.2. Externally Managed Investment Funds
 - 8.2.1. Long-Term Investment Fund (LTIF)
 - 8.2.2. Future Investment Fund (FIF)
 - 8.3. Investment properties
 - 8.4. HBRIC Ltd
 - 8.5. 2020-21 Performance Summary.
9. Since 2018, HBRC has procured treasury advice and services from PwC and their quarterly compliance report is attached.

Discussion

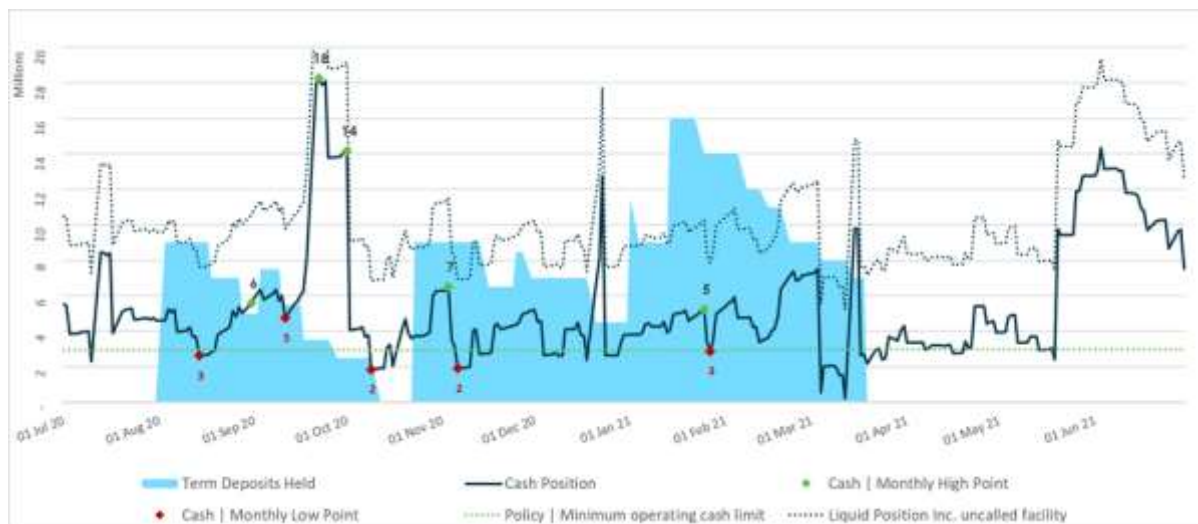
10. A separate treasury report is prepared by Council's advisors, PwC, to report on compliance with the policy parameters and investment performance. The PwC Quarterly Treasury Report is attached. The body of this report highlights some of the key components of the PwC report and adds additional information on cashflows and on property investments.

Liquidity

11. To ensure HBRC has the ability to adequately fund its operations, current policy requires HBRC to maintain a liquid balance of \$3.0m.
12. The following table reports the cash and cash equivalents as at 30 June 2021.

30 June 2021	\$000
Cash	8,963
HBRC Held Cash	7,438
Works Group	222
Other – managed trusts	1,303
Short-term bank deposits	0
Cash & and cash equivalents	8,963

13. HBRC liquidity throughout Q4 benefited from the strong YTD cash position at the end of Q3.
14. To manage HBRC liquidity risk, HBRC retains a Standby Facility with BNZ. This facility provides HBRC with a same day draw down option, to any amount between \$0.3-\$5.0m, and with a 7-day minimum draw period.
15. The graph following shows the daily closing cash position and Term Deposits held throughout Q4.



Debt Management

16. As at 30 June 2021, the HBRC external debt was **\$31.1m, \$47.8m** when taking into consideration the internal **\$16.7m HBRIC loan**. All financial covenant ratios are currently at least 4 times under any internal or external limit. The financial covenant ratios can be seen in the attached PwC report.
17. The end-year accounts have not yet been prepared so a final year-end debt figure is not yet available. No further external borrowing took place however since 30 June Council has drawn down \$6m in funding from LGFA. The interim year-end debt position is forecast to be \$31.1m, which is below the 2020-21 Covid-19 Adjusted Annual Plan of \$41.3m.

18. Loan Requirements	2020-21 Annual Plan	Approved Additional Funds	Approved Carry Forward Debt Funding	Total Approved Requirement	2020-21 Debt Forecast* 1	Variance to Approved Requirement More (less)
	\$000	\$000	\$000	\$000	\$000	\$000
Sustainable Homes	3,527	-	-	3,527	6,523	2,996
Systems Integration	1,913	-	1,578	3,491	1,668	(1,823)
Building Accommodation	2,000	-		2,000	136	(1,864)
HBRC Recovery Fund	1,000	-		700	100	(600)
Porangahau Catchment				300	0	(300)
Integrated Catchment	2,250	2,450		4,700	3,334	(1,366)
Covid-19 Budget Impacts	7,584	-		7,584	3,000	(4,584)
Other	755	-	2,901	3,656	1,700	(1,956)
Total	19,029	2,450	4,479	25,958	16,461	(9,497)
<p>*1 Council's year end balances are still being determined so the final debt requirement will be reported when Council receives the year-end report</p> <p>As at 30 June 2021, only \$10m of the total 2020-21 requirement has been raised. \$6m was raised in July 2021.</p>						

19. Council was in compliance with its policy parameters for interest rate risk position as at 30 June. This was achieved through the execution of 3 interest rate swaps prior to 30 June. These swaps fix the interest rate on a total of \$15m worth of future borrowings with start dates of June 2022 and March 2023. Details of these swaps are on page 21 (section 14 Appendix) of the PwC report.

Managed Funds

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

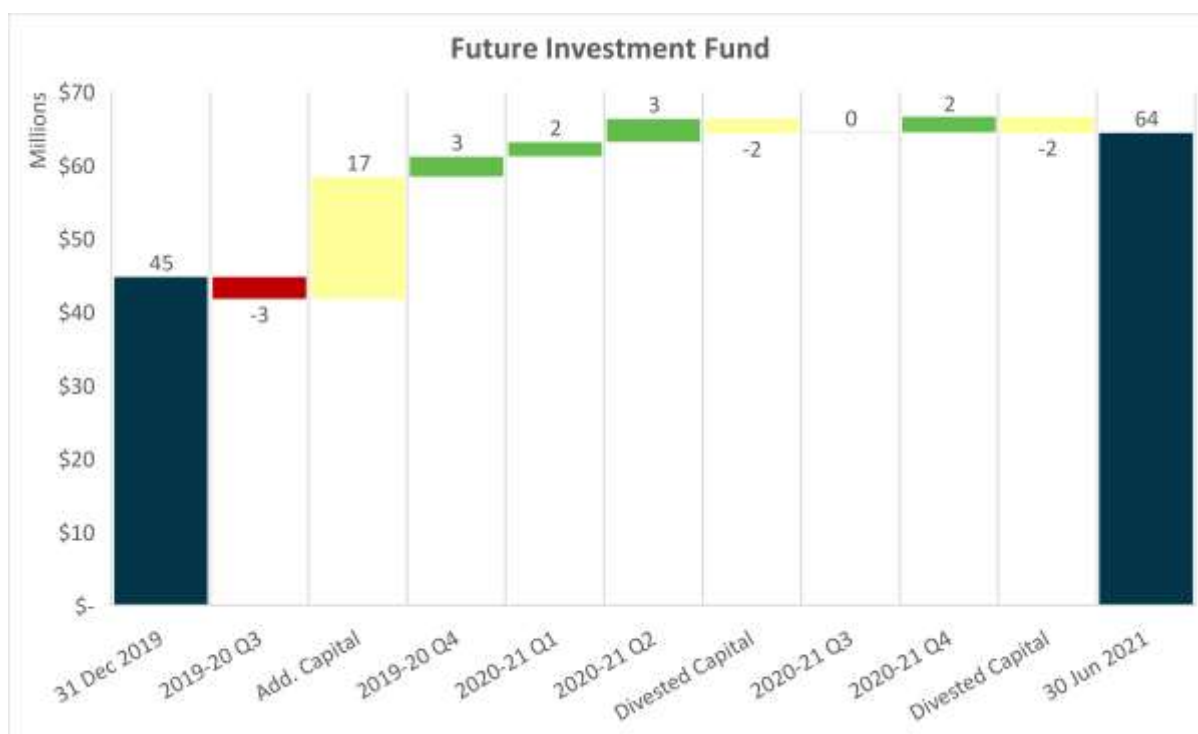
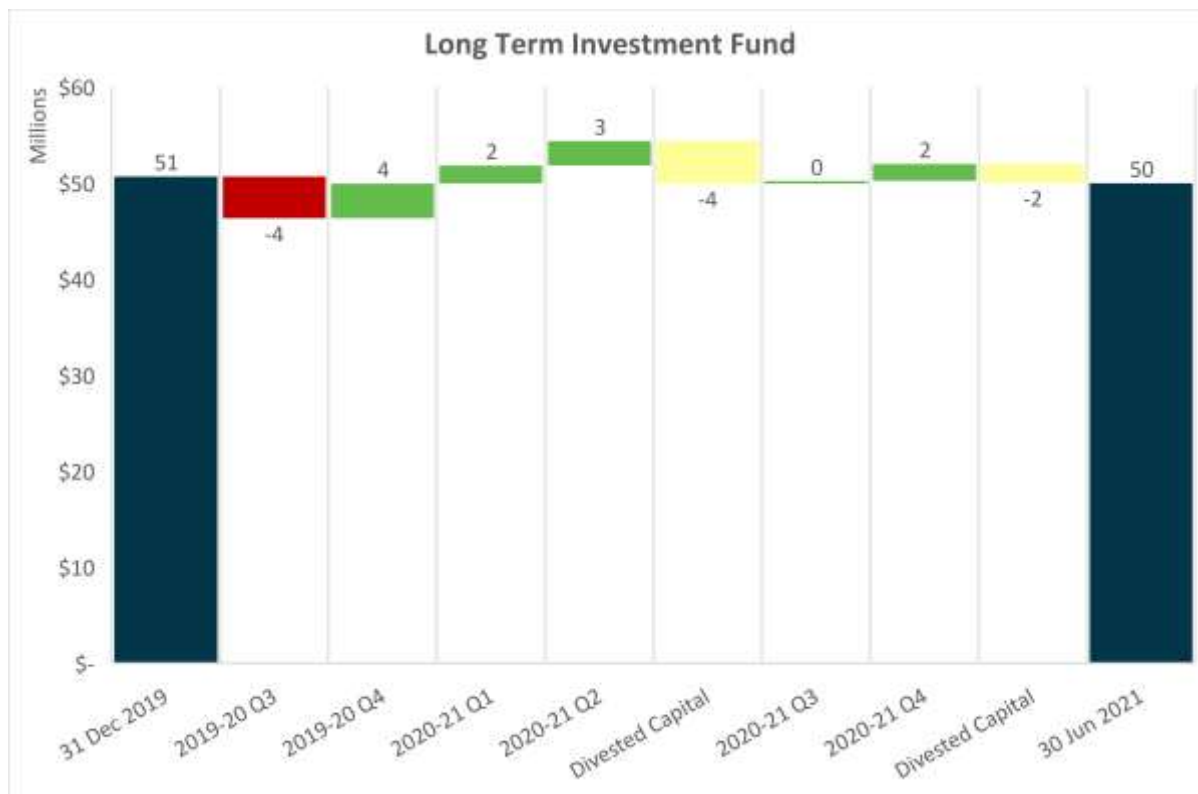
Term	Meaning
Gross Income Net of Fees	The full amount the fund has returned for the period, net of any fees paid to the fund managers. This amount remains in the funds unless divested.
Capital Protection	The amount the fund must earn in relation to the rate of inflation to retain its real purchasing power.
Funding Council Operating Costs	The amount the fund must earn to fund Council operating costs (offsetting rating requirements).
Divested Capital	Gross Income Net of Fees less Capital Protection and have now been withdrawn from the funds.
Undivested Funds Available	Gross Income Net of Fees less Capital Protection that are still invested within the funds.

21. The Fund performances have continued to be above expectations over the last quarter. During the year a total of \$10.694m was withdrawn from the funds. These withdrawals were partly to cover cash not withdrawn in 2019-20 as well as to meet the 2020-21 funding requirement.
22. The total earnings over the year were \$13.979m which is a return of 12.58% on the opening balance as at 30 June 2020.
23. The table and graphs below summaries the quarter end fund balances over the last 12 months.

Fund	30 Jun 2020 \$000	30 Sep 2020 \$000	31 Dec 2020 \$000	31 Mar 2021 \$000	30 Jun 2021 \$000
Long-Term Investment Fund	49,950	51,810	49,925 *	50,206	49,993**
Future Investment Fund	61,128	63,094	64,300 *	64,418	64,370**
Total	111,078	114,904	114,225*	114,624	114,363**

* December 2020 saw \$6.5m (LTIF \$4.5m & FIF \$2.0m) Funds being divested for the first time, which explains the reduced fund balance.

** Additional funds totalling \$4.2m (LTIF \$2.0m & FIF \$2.2m) were withdrawn from the funds during the June quarter.



Long-term Investment Fund

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

25. The table below shows the key balances of the LTIF as at the end of June 2021.

	1 July 2020 – Opening Balances			30 June 2021 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
LTIF	47,996	1,954	49,950	48,963	1,030	49,993

26. At closing on 30 June 2021, Mercer's portfolio is compliant, but Jarden's is non-compliant in both the cash and Global Equities allocations (SIPO policy minimum limits). Policy non-compliance was driven by tilting the portfolio towards higher yielding returns from Global Equities and the low returns from holding cash with near zero cash rates. Note however that when assessing Jarden's funds under management in aggregate (combing LTIF and PFIF) their allocation of Global Equities is within compliance. Cash remains non-compliant by 0.1% below the strategic asset allocation minimum limit. Jarden have stated that they will seek to return to portfolio compliance on an individual portfolio basis.

Future Investment Fund (FIF)

27. Invested since September 2019, the fund provides a return which, protects capital value first and then funds Council's operating costs.
28. The table below shows the key balances of the FIF as at 30 June 2021.

	1 July 2020 – Opening Balances			30 June 2021 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
FIF	61,775	(647)	61,128	63,011	1,350	64,229

Investment Property

29. In the current financial year, 2020-21, 18 Napier Endowment Leasehold Properties were freeholded totalling \$2.9m. \$2.5m of this has been subsequently paid to ACC as settlement for the remaining 42 years rent for these properties.
30. The income from leasehold sales is recognised in the current financial year. Most of which goes into offsetting the movement in the ACC liability – the additional proceeds, net of payments to ACC, are transferred to Reserves.

HBRIC

31. Per Council Policy, HBRIC will separately provide a quarterly update. The main matters of relevance are:
- 31.1. Consultation on establishing a new Council Controlled Trading Organisation has completed and an update will be made by HBRIC.
32. The table below shows the key balances of the FIF (HBRIC) as at the end of Q4.

	1 July 2020 – Opening Balances			31 December 2020 – Closing Balances		
	Capital Protected Balance	Undivested Funds Available	Total Fund Balance	Capital Protected Balance	Undivested Funds Available	Total Fund Balance
	\$000	\$000	\$000	\$000	\$000	\$000
FIF	46,584	(964)	45,620	47,523	980	48,503

Financial and Resource Implications

2020-21 Year to Date Performance Summary

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

Income	Annual Plan 2020-21 \$000	2020-21 Actuals \$000	Variance to YTD Ann. Plan \$000
Other financial assets	4,195	14,228	10,033
Managed Funds	3,567	13,979	10,412
Other Interest*	628	249	(379)
Investment property	2,343	2,318	(270)
Endowment leasehold land**	1,502	1,478	(24)
Wellington Leasehold land	841	840	(1)
Dividends (HBRIC)	4,696	5,200	504
10,267PONL Dividend	3,000	5,200	2,200
Managed Fund	1,696		(1,696)
Total	11,234	21,746	10,267

* Includes Interest budgeted to be earned on scheme reserves.

** Endowment leasehold rents are paid to ACC under the 2013 agreement where future rents were sold in exchange for a lump sum payment.

34. The 2020-21 Investment performance has exceeded expectations. In response to covid-19 Council revised its investment revenue expectations downwards and proposed to make up the shortfall by borrowing a part of the expectations. \$4.6m out of the proposed \$7.6m was to cover an expected reduction in investment revenues. This borrowing is not now required.

Decision Making Process

35. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

- 35.1. as this report is for information only, the decision-making provisions do not apply
- 35.2. any decision of the sub-committee (in relation to this item) is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
 - 35.2.1. Monitor the performance of Council's investment portfolio.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the "2020-21 Annual Treasury Report".

Authored & Approved by:

Ross Franklin
ACTING CHIEF FINANCIAL OFFICER

Attachment/s

1 [PWC Treasury Reporting June 2021](#)

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 30 June 2021

Contents

Contents	2
Executive summary	3
Treasury Activity Compliance Monitor	4
Investment Management Reporting	5
Treasury Investments	12
Treasury Policy Compliance Checklist	12
Borrowing Limits	13
Funding and Liquidity Risk Position	14
Interest Rate Risk Position	15
Funding Facility	16
Cost of Funds vs Budget	16
Counterparty Credit	17
Market Commentary	17
Policy exceptions	22
Appendix	23

1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was \$162.866 million as at 30 June 2021, comprising \$49.993 million in the Long Term Investment Fund (LTIF), \$64.370 million in the HBRC Port Future Investment Fund (HBRC PFIF) and \$48.503 million in the HBRIC Port Future Investment Fund (HBRIC PFIF). Total AUM is slightly down from \$163.351 million as at 31 March 2021. The three portfolio's combined returned \$5.739 million after fees over the quarter but had a combined withdrawal of \$6.224 million resulting in the lower balance.

Total capital contributed to the three portfolios since inception is \$152.2 million; adjusted for inflation, this equates to \$159.506 million, meaning the portfolio value at 30 June 2021 remained \$3.360 million above the inflation adjusted contribution figure.

The Mercer sleeve of the LTIF returned 3.5% net of fees over the June quarter, bringing the total cumulative return since inception to 23.7% (9.1% annualised). The Jarden sleeve of the LTIF returned 3.7% net of fees over the June quarter, bringing the total cumulative return since inception to 23.4% (8.9% annualised).

The Mercer sleeve of the PFIF returned 3.5% net of fees over the June quarter, bringing the total cumulative return since inception to 13.5% (7.3% annualised). The Jarden sleeve of the PFIF returned 3.7% net of fees over the June quarter, bringing the total cumulative return since inception to 14.9% (8.1% annualised). Overall, Jarden's returns were higher than Mercer due to a higher weighting in NZ Equities that were an asset class that earned higher returns.

Treasury activity during the quarter remained compliant with the Treasury Policy limits.

Council remains compliant to the LGFA borrowing limits.

At closing on 30 June 2021, Jarden's asset allocation was below SIPO minimum limits for Cash and above maximum limits for Global Equities for the Long-Term Investment fund (LTIF). This was caused by Jarden's strategy to hold higher returning Global Equities. Jarden will rectify the non-compliance position by increasing its cash holdings to regain compliance and improve liquidity. *Please note: When assessing Jarden's funds under management in aggregate (combining the LTIF and PFIF portfolios) their allocation of Global Equities is within compliance but cash remains non-compliant by 0.1% below the strategic asset allocation minimum bound.*

Mercer's portfolios all remained with SIPO and asset allocation compliance.

The domestic interest rate market was subject to two broad and distinct themes across the second quarter of 2021, specifically; an elevation of the short-end of the interest rate swap curve (most notably for terms of one to four years), and volatility (across a 20-basis point range) at the ten year term. These dualling themes ultimately resulted in a flattening of the interest rate curve.

The key theme for equities over the June quarter was the reopening and relaxing of Covid restrictions, alongside improving vaccination rates (50% in the US and over 60% in Europe). This has buoyed economic sentiment and expectations of growth have rebounded strongly, ultimately driving equity markets record highs from risk-on sentiment. A weaker NZD to finish the quarter also exaggerated the performance of global markets relative to our own. The MSCI World Index again reached record highs over the June quarter, as the index was up 7.3% in NZD terms, driven predominantly by US equities. NZ equity markets underperformed with the NZX50 only up 1.3% for the quarter.

2.0 Treasury Activity Compliance Monitor

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

3.0 Investment Management Reporting

Long Term Investment Fund (LTIF)

Summary of Assets Under Management (AUM)

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

	LTIF - AUM				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,190	20,874,346	41,909,541	40,486,576	6,577,569
30/09/2019	24,960,088	24,579,337	49,539,425	47,266,577	
31/12/2019	25,259,718	25,391,673	50,651,390	47,502,910	
31/03/2020	23,247,769	23,057,262	46,305,031	47,740,425	
30/06/2020	25,039,125	24,910,700	49,949,825	47,995,695	
30/09/2020	26,041,054	25,771,612	51,812,666	48,235,674	
31/12/2020	24,930,295	24,994,371	49,924,666	48,476,852	-4,478,429
31/03/2021	24,965,785	25,240,491	50,206,276	48,719,236	
30/06/2021	24,916,251	25,076,669	49,992,920	48,962,832	-1,966,868

Performance Summary

The Mercer LTIF portfolio returned 3.5% net of fees over the quarter, outperforming the benchmark by 0.4%. Strong performance was again particularly from the Socially Responsible Overseas Shares and the International Listed Property Portfolio. Returns were driven down by Cash and NZ Sovereign Bonds yielding 0.1% and 0.2% respectfully.

The Jarden LTIF portfolio returned 3.7% net of fees over the quarter, outperforming the benchmark by 0.5%. Returns were again driven by another solid quarter for Global Equities and International Property but also offset by negative returns in Cash and NZ Fixed Income.

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	LTIF HBRC	LTIF HBRC	LTIF HBRC	LTIF HBRC
31/12/2018			0.3%	
31/03/2019	3.7%	4.5%	2.7%	4.3%
30/06/2019	2.7%	3.1%	2.3%	3.9%
30/09/2019	3.0%	3.2%	1.9%	3.7%
31/12/2019	1.2%	1.4%	3.3%	1.9%
31/03/2020	(7.9%)	(8.7%)	(9.2%)	(6.9%)
30/06/2020	7.6%	7.0%	8.0%	8.8%
30/09/2020	4.0%	2.6%	3.5%	3.5%
31/12/2020	4.4%	3.8%	5.7%	4.6%
31/03/2021	0.1%	0.9%	1.0%	0.3%
30/06/2021	3.5%	3.1%	3.7%	3.2%
Financial YTD	12.5%	10.8%	14.5%	12.2%
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	12.5%	10.8%	14.5%	12.2%
Cumulative Return Since Inception	23.7%	22.0%	23.4%	30.1%
Annualised Return Since Inception	9.1%	8.5%	8.9%	11.3%
Inception Date	18-Jan-19	18-Jan-19	18-Jan-19	18-Jan-19
Days Invested	894	894	894	894
Reported balance as at 30-Jun-21 (\$)	24,916,251		25,076,669	
Total Capital Contributions (\$)	23,288,784		23,288,784	
Net Returns (\$)	4,767,090		5,108,039	

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Operational Cash	124,458.3	42,392.2				0.2%	-	20.0%
Index Cash Portfolio	1,432,683.8	1,261,715.7	0.1%	0.1%	0.0%	5.1%	-	20.0%
NZ Sovereign Bonds	3,684,991.4	3,690,657.9	0.2%	0.2%	(0.0%)	14.8%	5.0%	25.0%
Overseas Sovereign Bonds	2,960,732.7	2,929,268.1	1.0%	1.0%	0.0%	11.8%	5.0%	25.0%
Global Credit	2,718,824.6	2,710,661.0	2.1%	2.1%	0.0%	10.9%	5.0%	25.0%
Other Fixed Interest	1,481,398.1	1,599,712.2	0.6%	0.1%	0.5%	6.4%	-	10.0%
Socially Responsible Trans-Tasman Shares	1,703,293.1	1,741,835.1	2.4%	0.9%	1.5%	7.0%	-	18.0%
Socially Responsible Overseas Shares	7,037,824.3	7,164,595.1	8.3%	7.8%	0.5%	28.8%	17.0%	37.0%
International Listed Property	763,678.8	744,052.4	9.4%	8.9%	0.5%	3.0%	-	10.0%
Unlisted Property	1,058,841.2	1,049,848.5	2.3%	2.5%	(0.2%)	4.2%	-	10.0%
International Listed Infrastructure	759,143.4	719,673.8	3.2%	2.4%	0.8%	2.8%	-	10.0%
Unlisted Infrastructure	1,240,115.3	1,235,899.0	5.0%	1.5%	3.4%	5.0%	-	10.0%
Total	24,965,784.86	24,916,251.01	3.7%	3.2%	0.5%	100.0%		

Jarden (3 months ending 30 June 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Cash	1,169,140.1	149,403.0	0.2%	0.1%	0.1%	0.6%	2.0%	8.0%
NZ Fixed Income	4,488,075.1	4,450,062.0	0.1%	0.3%	(0.2%)	17.7%	15.0%	24.0%
International Fixed Income	5,718,893.4	5,955,076.0	0.9%	1.0%	(0.1%)	23.8%	23.0%	28.0%
NZ Property	674,568.0	731,236.0	0.8%	2.2%	(1.4%)	2.9%	1.0%	4.0%
NZ Equities	3,969,570.7	4,294,485.0	5.9%	0.8%	6.1%	17.1%	13.0%	18.0%
Global Equities	8,423,775.6	8,627,345.0	7.0%	8.4%	(1.4%)	34.4%	25.0%	34.0%
International Property	787,367.6	898,059.0	10.7%	10.4%	0.3%	3.5%	1.0%	4.0%
Total	25,240,491.41	25,076,668.0	4.0%	3.3%	0.7%	100.0%		

- The Long Term Investment Fund (LTIF) was \$49.993 million in size as at 30 June 2021, down from \$50.206 million as at 31 March 2021. The portfolio experienced positive net returns of \$1.774 million but reduced in size from a withdrawal of \$1.987 million.
- Total capital invested into the LTIF was \$46.578 million in January 2019. Adjusted for inflation (assuming a 2% annual rate), this was \$48.963 million as at 30 June 2021, leaving \$1.030 million in reserves.
- The Mercer sleeve of the LTIF returned 3.5% net of fees over the June quarter, bringing the total cumulative return since inception to 23.7% (9.1% annualised).
- The Jarden sleeve of the LTIF returned 3.7% net of fees over the June quarter, bringing the total cumulative return since inception to 23.4% (8.9% annualised).
- Portfolio Compliance with the SIPO strategic asset allocation - Mercer's portfolio is compliant but Jarden's is non-compliant in both the cash and Global Equities allocations. Policy non-compliance was driven by tilting the portfolio towards higher yielding returns from Global Equities and the low returns from holding cash with near-zero cash rates. Please note: when assessing Jarden's funds under management in aggregate (combining LTIF and PFIF) their allocation of Global Equities is within compliance. Cash remains non-compliant by 0.1% below the strategic asset allocation minimum limit. Jarden have stated that they will seek to return to portfolio compliance on an individual portfolio basis.

Port Future Investment Fund - HBRC (PFIF)

Summary of Assets Under Management

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

	PFIF HBRC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					43,957,500
30/09/2019	22,102,336	21,988,515	44,090,851	44,177,288	
31/12/2019	22,367,660	22,335,538	44,703,198	44,398,174	
31/03/2020	20,586,066	21,125,782	41,711,847	44,620,165	16,606,302
30/06/2020	22,172,324	38,955,296	61,127,620	61,775,078	
30/09/2020	23,059,540	40,056,333	63,115,873	62,083,953	
31/12/2020	23,347,259	40,952,383	64,299,642	62,394,373	-1,991,673
31/03/2021	23,380,495	41,037,892	64,418,387	62,706,345	
30/06/2021	23,276,245	41,093,479	64,369,724	63,019,877	-2,237,366

Performance Summary

The Mercer HBRC PFIF portfolio also returned 3.5% net of fees over the quarter, outperforming the benchmark by 0.4%. The Jarden HBRC PFIF portfolio returned 3.7% net of fees over the quarter, outperforming the benchmark by 0.5%.

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	HBRC (port proceeds)	HBRC & HBRC (port proceeds)	HBRC - Port Consolidated	HBRC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.2%
31/12/2019	1.2%	1.4%	1.0%	1.9%
31/03/2020	(7.9%)	(8.7%)	(5.4%)	(6.9%)
30/06/2020	7.6%	7.0%	5.5%	8.8%
30/09/2020	4.0%	2.6%	2.9%	3.5%
31/12/2020	4.4%	3.8%	5.4%	4.6%
31/03/2021	0.1%	0.9%	0.9%	0.3%
30/06/2021	3.5%	3.1%	3.7%	3.2%
Financial YTD	12.5%	10.8%	13.3%	12.2%
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	12.5%	10.8%	13.3%	12.2%
Cumulative Return Since Inception	13.5%	10.5%	14.9%	16.3%
Annualised Return Since Inception	7.3%	5.7%	8.1%	8.8%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	653	653	654	654
Reported balance as at 30-Jun-21 (\$)	23,276,245		50,740,487	
Total Capital Contributions (\$)	21,978,750		52,791,848	
Net Returns (\$)	2,893,098		7,742,081	

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2021)

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Operational Cash	116,555.4	30,601.0				0.5%	-	20.0%
Index Cash Portfolio	1,341,710.5	1,197,352.2	0.1%	0.1%	0.0%	5.7%	-	20.0%
NZ Sovereign Bonds	3,450,999.9	3,447,922.8	0.2%	0.2%	(0.0%)	14.8%	5.0%	25.0%
Overseas Sovereign Bonds	2,772,730.6	2,735,451.5	1.0%	1.0%	0.0%	11.9%	5.0%	25.0%
Global Credit	2,545,183.3	2,537,848.3	2.1%	2.1%	0.0%	10.0%	5.0%	25.0%
Other Fixed Interest ^a	1,395,695.5	1,404,417.9	0.6%	0.1%	0.5%	6.0%	-	10.0%
Socially Responsible Trans-Tasman Shares	1,595,135.5	1,627,185.2	2.4%	0.9%	1.5%	6.8%	-	18.0%
Socially Responsible Overseas Shares	5,590,033.0	6,693,016.1	8.3%	7.8%	0.5%	28.2%	17.0%	37.0%
International Listed Property	705,821.3	695,078.3	8.4%	8.9%	0.5%	3.0%	-	10.0%
Unlisted Property	991,419.0	980,559.9	2.3%	2.5%	(0.2%)	4.2%	-	10.0%
International Listed Infrastructure	710,038.9	672,304.4	3.2%	2.4%	0.8%	3.0%	-	10.0%
Unlisted Infrastructure	1,161,309.8	1,154,485.1	5.0%	1.5%	3.4%	5.0%	-	10.0%
Total	23,380,494.7	23,276,244.7	3.7%	3.2%	0.5%	100.0%		

Total Future Investment Fund (PFIF)	56,308,581.8	56,126,181.7	3.7%	3.2%	0.5%
-------------------------------------	--------------	--------------	------	------	------

Jarden (3 months ending 30 June 2021)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Cash	1,210,723.9	1,385,098.0	0.2%	0.1%	0.1%	2.4%	2.0%	8.0%
NZ Fixed Income	12,068,634.1	10,134,598.0	0.2%	0.3%	(0.1%)	17.9%	15.0%	24.0%
International Fixed Income	13,115,851.0	13,650,482.0	0.9%	1.0%	(0.1%)	24.1%	23.0%	28.0%
NZ Property	1,430,234.1	1,535,414.0	0.5%	2.2%	(1.7%)	2.7%	1.0%	4.0%
NZ Equities	9,118,116.8	9,875,405.0	7.2%	0.8%	6.4%	17.4%	13.0%	18.0%
Global Equities	18,104,000.2	18,190,959.0	7.0%	8.4%	(1.5%)	32.1%	25.0%	34.0%
International Property	1,788,265.0	1,971,530.0	10.7%	10.4%	0.3%	3.5%	1.0%	4.0%
Total	56,835,825.17	56,746,486.0	4.0%	3.3%	0.7%	100.0%		

Total Future Investment Fund (PFIF)	56,835,825.2	56,746,486.0	4.0%	3.3%	0.7%
-------------------------------------	--------------	--------------	------	------	------

- The HBRC PFIF was \$64.370 million in size as at 30 June 2021, down from \$64.418 million as at 31 March 2021. The portfolio returned positive net returns of \$2.189 million but closed lower due to a withdrawal of \$2.237 million.
- Total capital invested into the HBRC PFIF was \$43.958 million as at September 2019 and an additional \$16.606 million was transferred across in June 2020. Adjusted for inflation (assuming a 2% annual rate), this was \$63.020 million as at 30 June 2021, leaving \$1.350 million in reserves.
- The Mercer sleeve of the HBRC PFIF returned 3.5% net of fees over the June quarter, bringing the total cumulative return since inception to 13.5% (7.3% annualised).
- The Jarden sleeve of the HBRC PFIF returned 3.7% net of fees over the June quarter, bringing the total cumulative return since inception to 14.9% (8.1% annualised).
- Portfolio compliance with the SIPO - both the Mercer and Jarden portfolios are compliant. *Note: Jarden reports the HBRC and HBRC PFIF on a consolidated basis for measuring SIPO asset allocation.*

Port Future Investment Fund - HBRIC (PFIF)

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

	PFIF HBRIC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					61,625,795
30/09/2019	29,665,878	29,509,415	59,175,293	61,933,924	
31/12/2019	30,021,998	29,991,361	60,013,359	62,243,594	
31/03/2020	28,811,474	29,640,790	58,452,264	62,554,812	-16,606,302
30/06/2020	31,031,541	14,588,491	45,620,032	46,584,135	
30/09/2020	32,273,255	15,038,719	47,311,974	46,817,056	
31/12/2020	32,881,279	15,432,281	48,313,560	47,051,141	-1,200,653
31/03/2021	32,928,087	15,797,933	48,726,020	47,286,397	
30/06/2021	32,849,937	15,653,008	48,502,945	47,522,829	-2,000,000

Performance Summary

The Mercer HBRIC PFIF portfolio also returned 3.5% net of fees over the quarter, outperforming the benchmark by 0.4%. The Jarden HBRIC PFIF portfolio returned 3.7% net of fees over the quarter, outperforming the benchmark by 0.5%.

Quarter ending	Mercer Net Returns		Jarden Net Returns	
	HBRC (port proceeds)	Mercer Benchmark Returns HBRC & HBRC (port proceeds)	HBRC - Port Consolidated	Jarden Benchmark Returns HBRC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.2%
31/12/2019	1.2%	1.4%	1.6%	1.9%
31/03/2020	(7.9%)	(8.7%)	(5.4%)	(6.9%)
30/06/2020	7.6%	7.0%	5.5%	8.8%
30/09/2020	4.0%	2.6%	2.9%	3.5%
31/12/2020	4.4%	3.8%	5.4%	4.6%
31/03/2021	0.1%	0.9%	0.8%	0.3%
30/06/2021	3.5%	3.1%	3.7%	3.2%
Financial YTD	12.5%	10.8%	13.3%	12.2%
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	12.5%	10.8%	13.3%	12.2%
Cumulative Return Since Inception	13.5%	10.5%	14.9%	10.3%
Annualised Return Since Inception	7.3%	5.7%	9.1%	8.8%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	653	653	654	654
Reported balance as at 30-Jun-21 (\$)	32,849,937		56,746,487	
Total Capital Contributions (\$)	30,812,898		52,791,848	
Net Returns (\$)	4,012,675		7,742,081	

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2021)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Operational Cash	164,151.6	55,890.5				0.2%	-	20.0%
Index Cash Portfolio	1,880,507.5	1,682,832.1	0.1%	0.1%	0.0%	5.1%	-	20.0%
NZ Sovereign Bonds	4,900,240.5	4,905,079.1	0.2%	0.2%	(0.0%)	14.8%	5.0%	25.0%
Overseas Sovereign Bonds	3,904,994.9	3,851,988.5	1.0%	1.0%	0.0%	11.8%	5.0%	25.0%
Global Credit	3,585,935.4	3,581,684.2	2.1%	2.1%	0.0%	10.9%	5.0%	25.0%
Other Fixed Interest	1,967,047.6	2,100,083.1	0.9%	0.1%	0.5%	6.4%	-	10.0%
Socially Responsible Trans-Tasman Shares	2,240,522.0	2,295,450.0	2.4%	0.9%	1.5%	7.0%	-	18.0%
Socially Responsible Overseas Shares	9,282,387.6	9,445,903.3	8.3%	7.8%	0.5%	26.8%	17.0%	37.0%
International Listed Property	994,048.5	980,968.1	9.4%	8.9%	0.5%	3.0%	-	10.0%
Unlisted Property	1,390,272.1	1,383,871.4	2.3%	2.5%	(0.2%)	4.2%	-	10.0%
International Listed Infrastructure	1,001,255.9	949,828.2	3.2%	2.4%	0.8%	2.9%	-	10.0%
Unlisted Infrastructure	1,635,623.5	1,629,347.5	5.0%	1.5%	3.4%	5.0%	-	10.0%
Total	32,928,087.10	32,849,937.0	3.7%	3.2%	0.5%	100.0%		
Total Future Investment Fund (PFIF)	56,306,581.0	56,126,181.7	3.7%	3.2%	0.5%			

Jarden (3 months ending 30 June 2021)

HBRIC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges	Portfolio Compliant?
Cash	1,210,723.9	1,386,088.0	0.2%	0.1%	0.1%	2.4%	2.0%	8.0%
NZ Fixed Income	12,068,634.1	10,134,598.0	0.2%	0.3%	(0.1%)	17.9%	15.0%	24.0%
International Fixed Income	13,115,851.0	13,650,482.0	0.9%	1.0%	(0.1%)	24.1%	23.0%	28.0%
NZ Property	1,430,234.1	1,536,414.0	0.5%	2.2%	(1.7%)	2.7%	1.0%	4.0%
NZ Equities	9,110,116.6	9,676,405.0	7.2%	0.6%	6.4%	17.4%	13.0%	16.0%
Global Equities	18,104,000.2	18,190,959.0	7.0%	8.4%	(1.5%)	32.1%	25.0%	34.0%
International Property	1,788,265.0	1,971,530.0	10.7%	10.4%	0.3%	3.5%	1.0%	4.0%
Total	56,835,825.17	56,746,486.0	4.0%	3.3%	0.7%	100.0%		
Total Future Investment Fund (PFIF)	56,835,825.2	56,746,486.0	4.0%	3.3%	0.7%			

- The HBRIC PFIF was \$48.503 million in size as at 30 June 2021, down from \$48.726 million as at 31 March 2021. The portfolio returned positive net returns of \$1.787 million but had a withdrawal of \$2.000 million.
- Total capital invested into the HBRIC PFIF was \$61,626 million as at September 2019 with a transfer of \$16.606 million out of the portfolio in June 2020. Adjusted for inflation (assuming a 2% annual rate), this was \$47.523 million as at 30 June 2021, leaving \$0.980 million in reserves.
- Note: Mercer reports the HBRIC and HBRIC PFIF on a consolidated basis for measuring SIPO asset allocation.

Combined Funds (LTIF & PFIF)

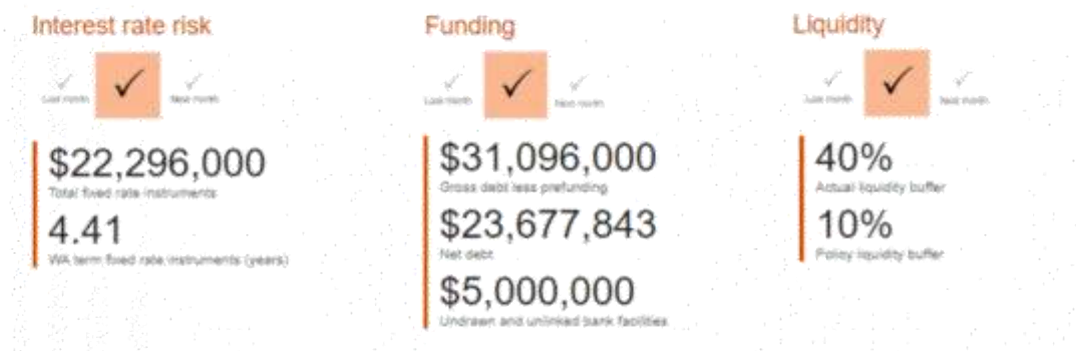
	Total AUM		Inflation Adj.	Monies Change
	Mercer	Jarden		
Initial capital				
31/12/2018				40,000,000
31/03/2019	20,467,057	20,403,260	40,200,000	
30/06/2019	21,035,196	20,874,345	40,486,575	112,160,864
30/09/2019	76,728,303	76,077,266	152,805,569	
31/12/2019	77,649,376	77,718,572	154,144,678	
31/03/2020	72,645,309	73,823,833	146,469,142	
30/06/2020	78,242,991	78,454,546	156,697,537	
30/09/2020	81,373,849	80,866,664	162,240,513	
31/12/2020	81,158,833	81,379,035	157,922,366	-7,670,755
31/03/2021	81,274,367	82,076,316	158,711,978	
30/06/2021	81,042,433	81,823,156	159,505,538	-8,224,254

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD \$m)	Maturity	Interest Rate
30-Jun-2021	BNZ	Cheque/call	7.418	Overnight	0.05%
Total			7.418		

5.0 Treasury Policy Compliance Checklist

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



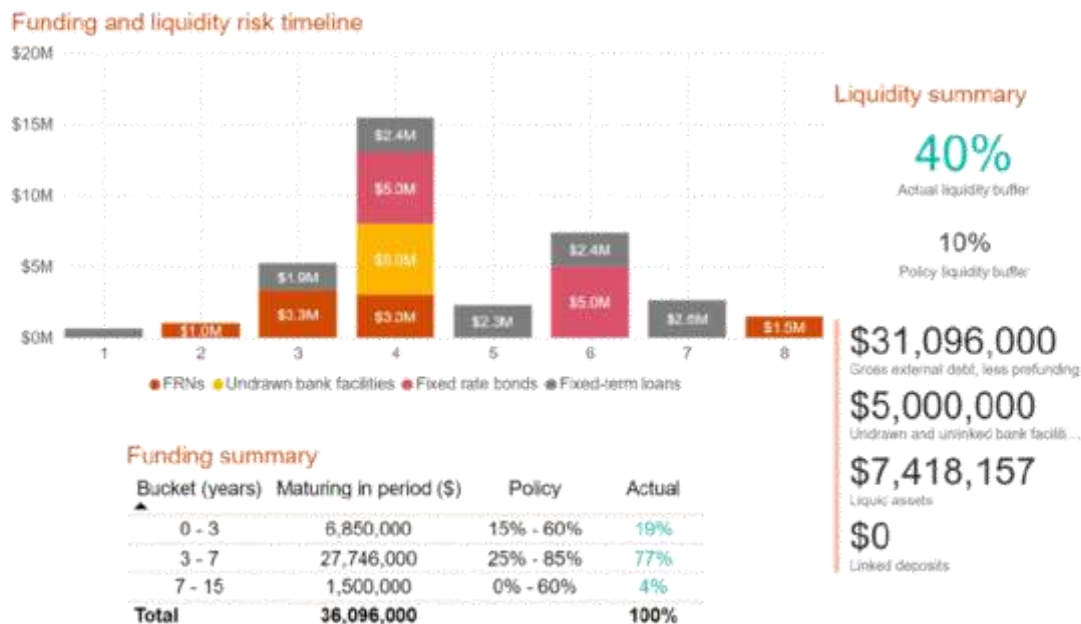
The net debt amount includes gross debt less BNZ call amounts of \$7.418m. New treasury transactions in the period are outlined in Appendix 1.

6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	Actual (as at 30 June 2021)
Net external debt as a percentage of total revenue	<150%	<175%	45.0%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.7%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	3.5%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	40%

7.0 Funding and Liquidity Risk Position

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



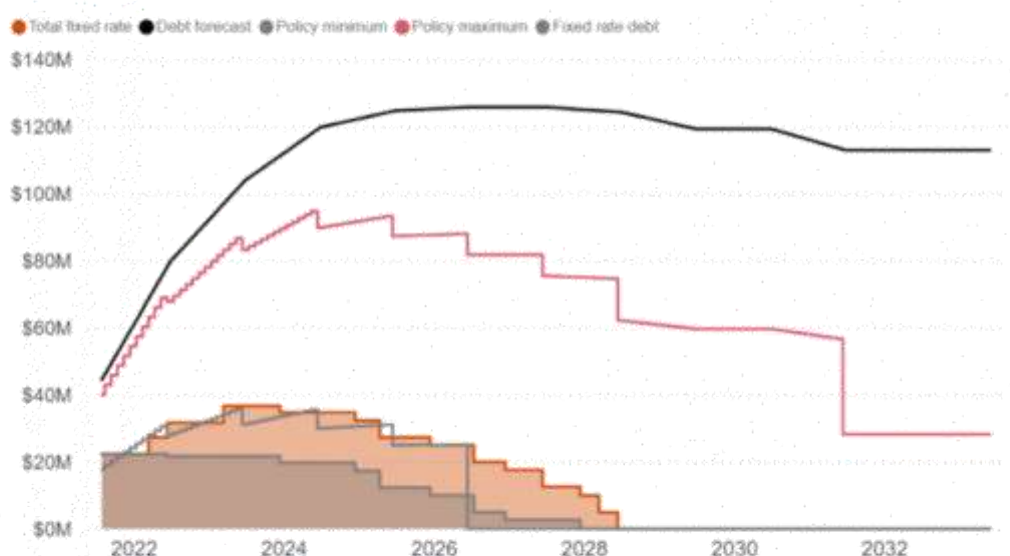
Debt Funding Strategy

As at 30 June 2021 both the funding and liquidity policies were within compliance. Ongoing debt funding requirements continue to be reviewed and any additional debt funding required will be funded at upcoming LGFA tenders to support the capital programme which is considered on an ongoing basis. *Please note: Council has raised an additional \$10 million of new debt from the LGFA in the July tender which will be reported next quarter.*

8.0 Interest Rate Risk Position

This section is based on the long-term debt forecast which is based on the current adopted LTP up for consultation. The interest rate profile below shows the level of Council's interest rate fixing within the Treasury Policy parameters. The grey shaded area represents existing fixed rate bonds and the orange shaded area represents fixed interest rate swaps.

Interest rate risk timeline



Interest rate summary

#	Bucket	Min	Max	Actual
1	0 - 12	40%	90%	40%
2	12 - 24	35%	85%	36%
3	24 - 36	30%	80%	32%
4	36 - 48	25%	75%	27%
5	48 - 60	20%	70%	21%
6	60 - 72	0%	65%	15%
7	72 - 84	0%	60%	8%
8	84 - 96	0%	50%	0%
9	96 - 108	0%	50%	0%
10	108 - 120	0%	50%	0%
11	120 - 132	0%	25%	0%
12	132 - 144	0%	25%	0%

Interest rate strategy

As at 30 June 2021 the interest rate risk position was within policy compliance. In June three new forward starting interest rate swaps were transacted to regain policy compliance given the increased adopted LTP debt forecast. Debt increased rapidly from 2022-2024 requiring additional fixed rate debt in those years. Forward starting interest rate swaps have been executed in tandem with fixed rate debt to maintain policy compliance.

The current swap curve and implied BKBK rates have aggressive interest rate increases priced in over the next few years which do not align with PwC's outlook for OCR increases. PwC recommends the fixed rate position be maintained at minimum policy limits in the 0-3 year time period. The strategy is therefore to maintain a greater proportion of exposure to floating interest rates (as Policy allows) over the next 2/3 years.

The longer-term interest rate management strategy is to move towards policy mid-points from 4-years onwards at appropriate market pricing. Global risk-off sentiment has reduced US 10-year treasury yields to fresh lows of the year which has flattened the NZ swap curve and therefore PwC recommends forward starting swap strategies. Minimum percentages will be maintained but any increase in the fixed rate position above minimums will be transacted when interest rates are at appropriate levels. We will continue to monitor interest rates.

9.0 Funding Facility

Bank (Facility maturity date)	Maturity Date	Drawdown Amount (\$m)	Facility Limit (\$m)
BNZ	10-Apr-25	0.00	5.00
TOTAL		0.00	5.00

Available bank facility capacity (liquidity buffer)	Last quarter (\$m)	30/06/21 (\$m)
Gross amount	5.00	5.00
Drawn	0.00	0.00
Excess amount	5.00	5.00

10.0 Cost of Funds vs Budget

Month		YTD	
Actual (\$m)	Budget (\$m)	Actual (\$m)	Budget (\$m)
0.2	0.1	0.9	0.9

11.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy.

Counterparty credit limits

Counterparty	Investment exposure	Investment limit	Derivatives exposure	Derivative limit	Total exposure	Total limit	Compliance
BNZ	\$7,418,157	\$15,000,000	\$0	\$5,000,000	\$7,418,157	\$20,000,000	✓
Westpac	\$0	\$15,000,000	\$2,868,172	\$5,000,000	\$2,868,172	\$20,000,000	✓

12.0 Market Commentary

Equity markets

The key theme of the global economic story over the June quarter has been the reopening and relaxing of Covid restrictions. Despite fears about the more contagious Delta variant, global data on new cases and deaths related to Covid steadily improved over the quarter. Indeed, vaccination rates are close to 50% in the United States and Europe, and over 60% in the United Kingdom and the vaccines appear to be effective. This has buoyed economic sentiment and expectations of growth have rebounded strongly. Ultimately this has driven equity markets to reach record highs as investor appetite moved to be more risk-on. A weaker NZD to finish the quarter also exaggerated the performance of global markets relative to our own.

It has not been a completely one-way street for equities as the continual tug-of-war with bond markets meant that volatility remained elevated, particularly at the start of the June quarter. Bond yields started the quarter at higher levels as the markets were concerned with central banks' lack of attention to near term inflation threats, but over the quarter central banks have begun to refer to monetary policy that is less stimulatory. So far however, this has mainly served to lift short-term interest rates and maintain a cap on long-term interest rates by containing medium-term inflation expectations. As a consequence, investors with longer-term horizons have still shown a preference for equities over bonds.

The MSCI World Index again reached record highs over the June quarter, as the index was up 7.3% in NZD terms. While performance was very strong overall, it has been most pronounced in US stocks, representing 63% of the MSCI World Index. Indeed, the S&P 500 also lifted to record highs over the period, finishing the period up 7.8% in NZD terms. This has been due to the fact that economic and social reopening has created more optimism in the US, while a significant amount of stimulus money has been searching for returns. As strong equity returns over this period have been well publicised over this period, retail investors in particular have expanded their equity holdings. To quantify this, flows into global equity-based ETFs this year have already eclipsed last year's intake, attracting net flows of \$459bn as of 30 June, exceeding \$366bn and \$283bn for 2020 and 2019, respectively.

A similar theme played out in European markets as improvements were made in sorting the issues around poor vaccine rollouts/shortages and unclear lockdown policies that weighed on the region to start the year. As a result, the MSCI European Index was up 7.3% in NZD terms over the quarter. Conversely, emerging markets have somewhat mirrored this trend, particularly in Asia. The MSCI Emerging Markets Index was up 4.1% and while this is still a strong quarter's performance (as it has benefited from the risk-on trade), it is lower than the March quarter's performance and underperformed the World Index. This is largely due to worsening Covid situation over the quarter, especially in India, while vaccines remain undersupplied.

The worst performing major market has been Japan; the Nikkei was down -1.9% over the quarter in NZD terms. This has been a consequence of the threefold effect that (i) Japan is seen as a safe haven, and it depreciates in risk-on periods, (ii) has had further waves of Covid during the quarter and (iii) is well behind on its vaccination rollout. As a traditional safe haven which is not currently perceived as safe, Japanese equities have been sold off.

The performance in Australasia has been mixed; the NZX50 index was up just 1.3% in the June quarter and the ASX200 index was up 6.6% in NZD terms over the quarter. Both countries have been slow on their respective vaccine rollouts compared to the rest of the world and remain relatively closed, so have not benefited from the reopening trade.

As a much smaller market, NZ's underperformance was driven by the weakness of two large-cap stocks which dragged on performance over the quarter. The first was a2 Milk who, despite earnings revisions lower, underperformed market expectations and provided a further soggy outlook as Covid has fundamentally altered their business via the exposure to the daigou trade (cross-border exporters outside China purchase commodities for Chinese customers). The second was Ryman Healthcare who, as an aged-care operator with exposure to Australia, were hit hard by the news of fresh Covid outbreaks in Australia. The RBNZ has also shown much more willingness to tighten monetary policy, while the RBA has committed to keeping stimulatory measures for much longer. This has supported Australian equities more than their NZ counterparts.

Funding markets

A total of 33 local government borrowers raised \$830 million in the June quarter. Borrowings through the LGFA had longer maturities than the previous quarter which is reflected by the 6.6-year weighted average term for council borrowing over the June quarter versus 5.3-years in the March quarter. Fixed debt borrowers represented 42% of the total number of borrowers in June, a 34% increase on last quarter's reading.

LGFA credit margins have trended slightly downwards over the last quarter, as bond yields compressed at the long-end of the curve. The margin on long-term floating rate notes declined over the June quarter, compressing the spread between longer-term and short-term margins. The LGFA also announced a reduction of 5bps in their base funding costs across the curve due to their reduced funding costs.

In the June quarter, the RBNZ purchased approximately \$4.3 billion of government bonds and no additional LGFA bonds, leaving LGFA holdings flat at \$80m - the amount held in the March quarter. Over the June quarter the RBNZ slowly scaled back its bond purchasing of government bonds as market conditions improved and required less support. RBNZ NZGB purchases had a weighted average term of 6-years over the June quarter, 1-year greater than the median tenor, reflecting disproportional targeting of bonds across the curve. The RBNZ also reduced purchases of Kauri bonds by 3% for the quarter.

We continue to expect LGFA credit margins to move sideways over the next quarter, while retaining an upward bias as the RBNZ's Large Scale Asset Purchasing Programme (LSAP) rolls off and demand for high-grade credit slows with improving risk appetite.

Interest rate markets

The domestic interest rate market was subject to two broad and distinct themes across the second quarter of 2021, specifically; an elevation of the short-end of the interest rate swap curve (most notably for terms of one to four years), and volatility (across a 20-basis point range) at the ten year term. These dual themes ultimately resulted in a flattening of the NZ swap curve.

Two year wholesale interest rates were relatively benign during April and May, trading near the 0.50% level for the majority of that period. This was followed by a mild bout of volatility, with an upward bias, as global and domestic economic data, coupled with an improving Covid recovery outlook, prompted the market to question whether the RBNZ's on-hold stance was still relevant. This stance was most clearly illustrated through the repeated statement that the attainment of inflation and employment mandates, and thus a higher Official Cash Rate (OCR), would necessitate "...considerable time and patience." The release of the RBNZ's May Monetary Policy Statement (MPS) confirmed, to some extent, the market's growing suspicion. The Statement featured an OCR-track - a form of forward guidance indicating a potential future path for the OCR. Such guidance had been a regular feature in the pre-Covid environment, but had been omitted from all RBNZ communication since early 2020. The OCR-track suggested the cash rate could be lifted in the second half of 2022, with potentially two increases (bringing the OCR to 0.75%) by the end of the year. At that point, market pricing implied a likelihood of only one OCR increase at the tail end of 2022. The RBNZ's view prompted a swift response in two year swap rates - ascending to close out the quarter at ~0.80%, an increase of almost 30-basis points from the pre-RBNZ MPS level.

Ten year wholesale swap rates demonstrated a comparatively greater level of consistency in volatility during the second quarter of 2021, spending the majority of the period trading between 1.80% and 2.00%. The altered intentions of the RBNZ in May held little sway over longer dated interest rates, with the local ten year wholesale rate taking direction and magnitude cues from the machinations of the US ten year Treasury bond. Long term interest rates are driven by macro-economic considerations. Chief amongst those considerations across April, May and June were cooling expectations for the global recovery. While the first quarter of 2021 saw rapid advances in long-end interest rates (both domestic and international), fuelled by an exuberant market that was betting on the swift roll-out of vaccination programmes and significant government spending, the three months to June were comparatively subdued. Evolving expectations regarding the size of intended infrastructure spending by the globe's major economies remained the principal driver of volatility, though movement was restricted (for New Zealand interest rates) to 20-basis points.

Taken together, the elevated short-end and the range-bound long-end, resulted in a flatter interest rate swap curve shape by the end of June. This shape is traditionally defined by the 2's-10's *spread*, the difference between the two year and ten year wholesale swap rates. In early April, the difference was 150-basis points. By late June, the spread had narrowed to less than 110-basis points. This narrower spread (flatter shape) effectively implies a market belief that interest rate increases from the RBNZ at a modest pace in the near term (<4 years) will prove sufficient to meet the central bank's inflation and employment objectives, mitigating the need for aggressive inflation-suppressing OCR increases in the long term.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
	Jarden SIPO cash allocation non-compliant (below target range)	Y	Cash was below the SIPO range on 30 June. They will increase their holdings of cash.

14.0 Appendix

New Treasury Transactions up to 30/06/2021

Interest Rate Borrower Swaps

Bank	Notional Amount (NZDm)	Deal Date	Start Date	Maturity Date	Swap Rate
Westpac	5.0	26/6/2021	15/3/2022	15/3/2028	1.80%
Westpac	5.0	26/6/2021	15/3/2023	15/6/2027	1.90%
Westpac	5.0	26/6/2021	15/6/2022	15/3/2028	1.87%

Monies withdrawn from the Funds

Mercer

Date	HBRC LTIF	HBRC FIF	HBRC	Cumulative total
31/12/2020	2,245,923	727,058	816,444	3,789,425
30/6/2021	899,240	898,949	1,200,000	6,787,614

Jarden

Date	HBRC LTIF	HBRC FIF	HBRC	Cumulative total
31/12/2020	2,232,506	1,264,615	384,209	3,881,330
30/6/2021	1,087,648	1,338,417	800,000	7,107,395

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

04 August 2021

Subject: SIX MONTHLY ENTERPRISE RISK REPORT

That Hawke's Bay Regional Council excludes the public from this section of the meeting, being Agenda Item 9 Six Monthly Enterprise Risk Report with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUNDS UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Six Monthly Enterprise Risk Report	7(2)s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

Helen Marsden
RISK AND CORPORATE COMPLIANCE
MANAGER

Approved by:

Tom Skerman
REGIONAL WATER SECURITY
PROGRAMME DIRECTOR