Meeting of the Finance Audit & Risk Sub-committee

Date: 2 March 2022

Time: 9.00am

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

Agenda

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Six Monthly Enterprise Risk Report

Reason for Report

1. This item and the accompanying enterprise risk report provide the Finance Audit and Risk Sub-committee (FARS) with the six-monthly update of Council's enterprise risk profile. The update in the report includes the review of:
   1.1. The enterprise risks and risk descriptions
   1.2. The inherent and residual risk ratings for each enterprise risk
   1.3. The overall control assessment and control corrective actions for each enterprise risk
   1.4. Supporting risk information that may impact Council's risk profile, including a regulatory/legal update, business incidents, internal audits, material internal change projects, and emerging issues or uncertainties.

Officers' Recommendations

2. Council Officers recommend that the Sub-committee notes the revised enterprise risks, control corrective actions, and supporting risk information.

Background/Discussion

3. At the Regional Council meeting held on 30 September 2020 the Risk Management Framework was approved by Council. The Framework requires that the FARS receives and reviews the enterprise risk report at least six monthly. Therefore, this paper presents to the FARS the Council's enterprise risk report as of February 2022.
4. In assessing the overall residual risk ratings, the external emerging issues considered were:
   4.1. Magnitude, broadness and complexity of regulatory change that is likely to impact Council, including: climate change national adaption plan, emissions reduction plan, resource management reform, national standards for management of human drinking water resources, national standards for freshwater amendments, and national standards for air quality amendments
   4.2. Covid-19 variant mutations including New Zealand's current Omicron outbreak and the impact of the government lead response through the phased traffic light system, including isolation and testing requirements, and the impact on supply chains
   4.3. Economic outlook and forecasts for interest and inflation rates
   4.4. The competitive New Zealand labour market and the labour market post border restrictions
   4.5. Heightened geo-political tensions with far reaching impacts on global financial markets e.g. Ukraine/Russia
   4.6. Climate change and global climate action delays as the world responds to the immediate risks of: Covid-19 pandemic, economic instability (including asset bubbles), and geopolitical tensions and the impact these global and national distractions may have on Council's strategy for climate change.
5. The following material changes are noted in the February 2022 Enterprise Risk Report when compared to the enterprise risk report presented to the FARS at the July 2021 meeting.

Risk 2 – Financial

5.1. The emerging issues noted under bullet point four above are creating global and domestic uncertainties within the financial markets. While Council's financial controls are effective at managing its financial position. The high levels of uncertainties and current levels of volatility within the financial markets has increased the residual likelihood assessment to 'Likely' and the overall financial impact to 'Moderate'. With the overall residual risk rating increasing to 'Medium'. This risk is being closely monitored by the Finance Team and constantly reviewed by the Leadership team.

Risk 8 – Business Interruption

5.2. In response to the recent Omicron Covid-19 outbreak and associated isolation mandates, Council's pandemic plan was updated to include:

5.2.1. mandating of vaccinations for Council employees

5.2.2. work bubbles for all critical roles

5.2.3. surgical masks for all staff

5.2.4. Covid-19 passport verification and sign in for Dalton Street and Station Street 'private' areas

5.2.5. Covid-19 sign-in and physical distancing for meetings in the Council Chamber

5.2.6. access to rapid antigen tests (RATS). It is noted the pandemic plan remains fluid and is continually reviewed and updated by management to ensure that it remains relevant to the evolving situation.

5.3. However, due to the Omicron outbreak and associated isolation rules the business interruption likelihood assess has been elevated to 'almost certain'. While additional measures in the pandemic plan limit the extent of isolation requirements for Council staff. Council needs to engage with strategic partners such as landowners and others in the community to deliver on strategic activities. Therefore, it is almost certain execution of some strategic objectives for FY2022 will be impacted, however, the extent of that impact remains unchanged as 'moderate. The overall residual risk rating for this risk has therefore increased from 'medium' to 'high'.

5.4. It is noted that the tight labour market and risks associated work pressures on staff to cover vacant positions, is being monitored under risk nine 'People Capability'. The convergence of the tight labour market coupled with alternate working arrangements due to the Omicron outbreak could potentially elevate this business interruption risk impact. Therefore, staff vacancies are being closely monitored through the Omicron outbreak.

5.5. It is also noted that, late 2021 in response to the growing Covid threat from emerging mutations and border containment breaches, a review of Council's resilience to supply chain disruption was undertaken. Council's suppliers of business-critical goods/services were proactively contacted and where necessary additional stocks were procured to ensure that the Hawke's Bay Regional Council (HBRC) could operate independently and uninterrupted for a period of at least three months. The review also considered the level of critical stock and spares required should HBRC be required to respond to a regional crisis in addition to Covid-19. New processes have also been established so that if key supply chains become disrupted a review of supplies will be undertaken two months before supplies are depleted.

Risk 9 – People Capability

5.6. Three aspects where consider when assessing the overall residual rating of this risk covering short-, medium- and longer-term uncertainties. The short-term uncertainties (immediate risks) are driving the overall residual risk rating of 'high'.

Item 4

Medium Term

5.7. The overall residual risk rating for this risk was reported in the last risk report as 'medium' which was an elevated assessment. The elevated assessment reflected the internal audit of Council's talent management framework/system which determined a low level of maturity. And, while the talent management (P&C) strategy is drafted implementation of the elements required to mature the framework will take time. Maturity of Council's talent management framework will help to manage Council's people capability risk, both day to day and in more challenging times. However, it is recognised that maturity of the talent management framework alone will not necessarily be enough to ensure a positive staff experience. The corporate plan is designed to look more holistically at Council's culture, processes, frameworks and systems to ensure these are effective in design to enable staff to work 'smarter' and execute on strategy (see the longer-term update below).

Longer Term

5.8. A Corporate Plan has been developed and is continually being refined and improved. The plan is currently being reviewed to ensure that as the organisation grows and matures its key management frameworks/systems the subsequent maturity activities are prioritised to ensure foundational elements that help the operational business work 'smarter' are addressed first. Also, that as these maturity activities are rolled out and embedded into the business-related changes to the way the business operates are effectively managed and sustained within Council's operating rhythm. The management of change also ensures that potential disruption and impacts to staff due to the maturity of key management frameworks are anticipated and minimised.

Short Term (immediate risk)

5.9. An outcome of NZ's response to Covid-19 and the prolonged closures of borders has meant unemployment has fallen and the employment market is highly competitive. Without a mature talent management framework there is real pressure on responding to the immediate people risk and minimise the convergence this risk has on Council's business interruption risk. Therefore, due to the immediate employment market pressures the likelihood of this risk has now been elevated to 'almost certain' while the impact assessment has remained unchanged as 'moderate'. The overall residual risk rating has increased to 'high'. The People and Capability (P&C) team, together with management, are working through short term mitigations for this risk which includes reviewing all strategic and smaller team projects them applying a risk-based lens to determine which of these projects or project milestones maybe paused without significantly disrupting delivery of key strategic objectives. Where practical 'people' resources assigned these projects can then be redeployed to areas with an immediate need.

6. Lastly, given Council's mandate for visibility and aesthetics consideration was given to including climate change as a separate risk on the enterprise risk report. Climate change is currently weaved through all relevant enterprise risks and documented in those risks as either a risk cause or impact and therefore explicitly considered in each of those risk assessments. Consequently, climate change has not been added as a standalone risk. However, the Climate Change Ambassador recently started at Council. A formal review of climate change will be undertaken with the Ambassador's to leverage off her technical expertise. Therefore, inclusion of a separate enterprise climate changes will be reconsidered then.

Strategic Fit

7. The six-monthly risk report facilitates discussions to ensure that any emerging matters within the Council's internal and external environment are being managed. And, therefore unlikely to impact on the Council's ability to deliver on its strategy. In addition, the maturity of the

Council's risk management system contributes towards achieving excellence in execution of strategy. A mature risk system provides consistent risk intelligent decision making enabling the efficient prioritisation of finite organisational resources to deliver on strategy.

Financial and Resource Implications

8. There are no additional or significant budgetary requirements resulting from control corrective actions noted within the risk report that have not already been accounted for through the LTP or BAU activities.

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. The decision of the Sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council on 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
      9.1.1. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the council's significant risks in place
      9.1.2. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks
      9.1.3. 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 "*Six Monthly Enterprise Risk*" staff report.
2. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *Six-Monthly Enterprise Risk Report* provides adequate evidence of the robustness of Council's risk management policy and framework and progress to implement the maturing risk management system.

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Attachmen

1⇩ February 2022 Enterprise Risk Report

Hawke's Bay Regional Council

Enterprise Risk Report

February 2022

Supporting Risk Information (Internal and External Context)

Legal and Regulatory Update

Resource Management-related legislation update: an ongoing challenge is how best to address the unprecedented magnitude, broadness, and complexity of central government's current multi-functional reform agenda. The RMA ear-marked to be repealed and replaced with three new pieces of legislation by the end of 2022. However, there are also incremental additions to the Government's existing policy statements and regulations e.g. revised freshwater regulations and freshwater farm plans; and establishment of entirely new entities with various powers and responsibilities e.g. Taumata Arowai, Kainga Ora and the Climate Change Commission. Various senior staff are maintaining a watching brief on many of the Government's resource management workstreams, and some are actively involved in influencing the Government's policy setting either individually or as part of the regional sector's professional 'SIG' network.

Some specific examples for the next 6 – 12 months, include:

- Draft Climate Change National Adaptation Plan
- First national emissions reduction plan
- Two of three massive Bills for Resource Management Reform
- National Standards for management of human drinking water sources
- Amendments to national standards for freshwater
- Amendments to national standards for air quality

Incidents

There was only one near miss incident reported to the Risk Team over the last reporting period. Improved incident reporting by the business will form part of the longer-term risk maturity roadmap. The reported incident related to storage of information that did not specifically follow Council recommended guidelines. There was no compromise of the data set. This near-miss incident was remedied.

Audit Update

There were no internal audits completed over the reporting period. However, Crowe have commenced the Fraud audit which will be reported at the next FARS meeting. There are no operational audits to report with 'high' findings.

Material Internal Change Projects

- OneCouncil financial systems upgrade through TechOne is live and support around system is ongoing

Emerging Issues and Uncertainties

- **Covid19 Global Pandemic**: 'Omicron' variant. Since presenting the enterprise risk report to the ELT community transmission of the variant has progressed. Including, the government moving the country into phase two of the red traffic light system.
    - Global observations from the spread of Omicron suggests this variant is significantly more transmissible than earlier variants and both vaccinated and unvaccinated may become infected. While the vaccinated are less likely to become acutely unwell they will still need to isolate and work from home, with some staff maybe unable to work while at home due to being symptomatic while they isolate. In addition, all phases of the traffic light system require close contacts to isolate unless workers are approved by MBIE as being critical. Therefore, the business interruption risk and HBRC's response is now focussed on 'denial/loss of staff', rather than 'denial of facilities' which was the focus of HBRC's response under the governments previous alert level response framework.

- In addition, HBRC should be considering what the government's change of response strategy and widespread isolation might mean to HBRC's:
  - Supply chains
  - Financial impacts, and
  - Regional economic impacts

- **Cyber security** continues to be an emerging risk with recent attacks involving key NZ banks and government departments.

- **Local NZ labour** market is becoming more competitive across the board and could potentially restrict resources to execute HBRC's programmes of work.

- **Economic outlook** inflation and delivery of HBRC's programmes of works within forecasted Opex and Capex budgets.

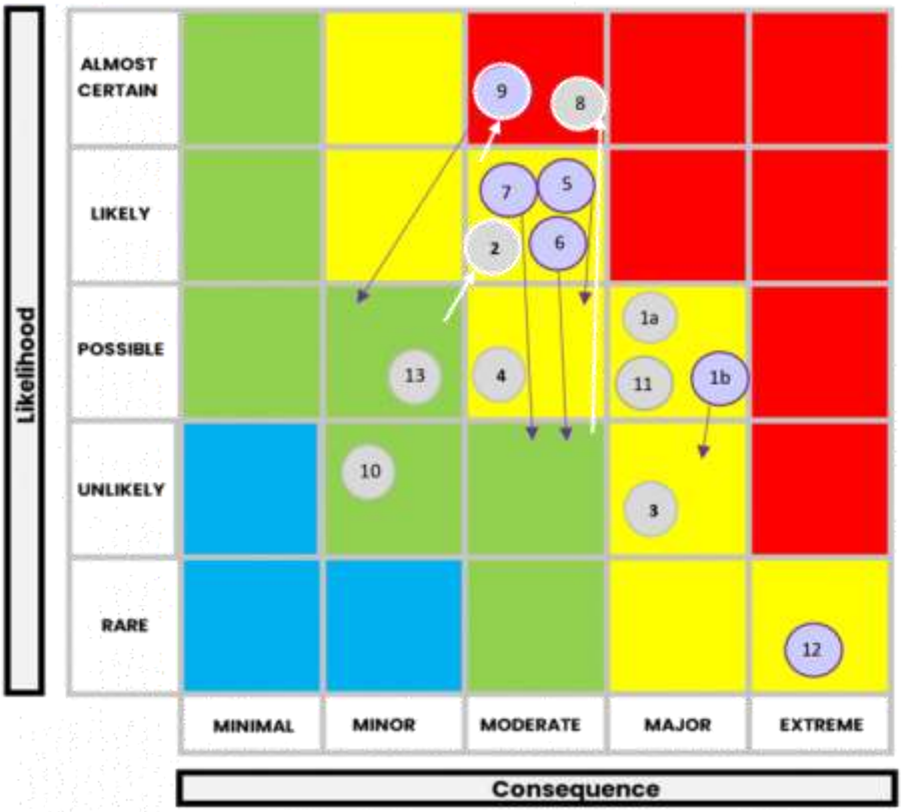
- **Heightened geo-political** tensions with far reaching impacts on global financial markets and HBRC income streams e.g. Ukraine/Russia

- **Climate change** and climate action delays due to the global convergence of risks and tensions as the world prioritises its response to: Covid19 pandemic, economic fallout/instability, geopolitical tensions, and the climate crisis.

Corrective actions progress update (risk controls and internal audits)
See separate paper that includes the internal audit corrective actions dashboard.

Heatmap and Risk Summary

KEY FOR HEATMAP	
	Denotes changes since last report
	Controls effective. Residual risk rating is at the desired state
	Controls require corrective actions. Residual risk rating may not be at the desired state.



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

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Enterprise Risk Number & Name: 1a – Strategic: Decision **Risk Class:** Strategic

Risk Description: As defined by Deloitte strategic risks are….. *'risks that affect or are created by an organisation's business strategy and strategic objectives'. Whereas, operational risks are 'major risks that affect an organisation's ability to execute its strategic plan'*. Therefore, strategic risk is broken into three parts, being decision, implementation and delivered. This specific risk specifically focuses on decision risk. Being:

- **Decision** risk – this component of strategic risk covers the mechanisms and constraints that exist in order for HBRC to proactively make the best possible decisions when setting both regional policy and strategic outcomes and objectives (rather than the relevance of the specific strategic outcome - a strategic risk assessment is intertwined in process of decision making to set policy and strategic outcomes). Strategic decisions guide the regional policy statement and regional plan (as required by the RMA), along with the long-term plan and annual plan (as required by the LGA).

Exclusions and Assumptions: Business Interruption (refer Business Interruption to HBRC – Risk 9). PMO activities that related to strategy project execution and tracking (Risk 1b).

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

Inherent Risk Assessment Likely | Extreme | High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Effective

Council has several robust processes and controls in place to ensure an inclusive approach is maintained within strategic decision making. In addition, strategic assumptions used to formulate decisions are tested and reviewed.

Residual Risk Assessment Possible | Major | Medium

The residual consequence is evaluated as 'major' due to the increasing rate of external change and uncertainties both socially and environmentally. The residual likelihood is evaluated as 'possible'. HBRC has effective processes in place to ensure robust strategic decisions for regional sustainability and compliance such as engagement and consultation/submissions, and committee structures. These mechanisms can also create tension to effectively 'make' decisions by slowing the decision process down or disrupting the strategy by changing previous decisions due to new or conflicting views/opinions of various representatives or Committees.

Enterprise Risk Number & Name: 1b – Strategic: Implementation and Delivered **Risk Class:** Strategic

Risk Description: As defined by Deloitte strategic risks are….. *'risks that affect or are created by an organisation's business strategy and strategic objectives'. Whereas, operational risks are 'major risks that affect an organisation's ability to execute its strategic plan'*. Therefore, strategic risk is broken into three parts, being decision, implementation and delivered. This specific risk specifically focuses on implementation and delivered. Being:

- **Implementation** risk – this component covers the processes of tracking and reporting HBRC's execution of strategic decisions which is one of the primary activities of the Strategy and Performance Team.
- **Delivered** risk – transitioning change initiatives into the operational business and maintaining as BAU.

It is noted that HBRC's culture and alignment of values to strategy is specifically included under this risk. The rationale is that without the 'right culture' strategy execution is difficult. To quote Peter Drucker… 'culture eats strategy for breakfast'.

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

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

Inherent Risk Assessment Possible | Extreme | High

The inherent risk assessment assumes that with no controls implementation of the strategy will be slowed through sub-optimal prioritisation of resources and inefficient execution of work to deliver on the strategic decisions. As a result, the delay will degrade the timeliness to protect the region's resources that may cause irreversible environmental damage and therefore the inherent consequence is assessed as 'extreme'. The inherent risk rating is 'high'.

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Requires Improvement

HBRC has in place regular performance reporting on both strategic outcomes and outputs as well as projects. Due to the long lag time between Council interventions and improvements to the state and condition of the environment more analysis is required to better link milestones progress that are intrinsic to deliver the long-term outcomes. This work is underway by the Strategy and Performance Team Leader.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Link outcome milestones to reporting	Baseline a sample of the 24 strategic goals to ensure proof of concept	Strategy and Governance	December 2021 – revised due date March 2022	On Track
Culture and Values	Internal communication of HBRC's values	ELT	TBD	**Closed**
Change Management	Develop a change management strategy and framework	People and Capability	TBD	

Residual Risk Assessment Possible | Major | Medium

The residual consequence is evaluated as 'major' due to the increasing rate of external change and uncertainties both socially and environmentally. These uncertainties may delay the implementation of milestones required to deliver on the strategy. The implementation of milestone reporting will provide oversight and the ability to respond early to ensure the project stays on track. In addition, the maturity of an enterprise change management strategy and framework will ensure strategic and transformational projects are effectively implemented and sustainable when implemented by the operational business. Therefore, the overall risk rating is assessed as 'medium'.

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

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

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

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

Inherent Risk Assessment Possible | Extreme | High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Effective

HBRC have several controls that mitigate this risk. Some examples include Investment and treasury policies, forecasting, budgeting, professional services (PwC), qualified in-house accountants, delegation's policy, and better financial oversight through the rollout of TechOne.

Residual Risk Assessment Likely | Moderate | Medium

As noted in the emerging issues section of this report there are a few global and domestic pressures that are creating uncertainties and volatilities within the financial markets. Some of these uncertainties include:

- Covid19
    - virus mutations from unstructured global vaccination rollouts resulting in global third/fourth waves
    - domestic Covid19 Omicron outbreak response - with isolation mandates putting pressures on supply chain
- Domestic economic outlook and inflation rates
- Increasing Geo-political tensions e.g. Ukraine/Russia and uncertainties for financial markets.

Currently HBRC's financial controls means HBRC is managing its financial position. However, this risk is being closely monitored by the Finance Team and constantly reviewed by the Leadership team. For FY21-22 it was expected that a $3.7m return from managed funds would be achieved. With current levels of volatility due to global and domestic uncertainties at time of writing the report this was down to $2.7m since 31 December 2021. However, international markets can recover quickly. The residual likelihood assessment has increased to 'Likely' and the overall financial impact has increased to 'Moderate'. With the overall residual risk rating increasing to 'Medium'.

It is noted that as part of the risk maturity roadmap a review of HBRC's Risk Policy and Framework will be undertaken with a specific re-evaluation of the financial scale. Recent observations have deemed that the financial scale maybe too conservative and disproportionate to the qualitative values in the matrix. Therefore, for that reason the financial impact assessment has be held at 'medium' reflecting up to $1m and to echo that at an enterprise level the upper value of the 'moderate' financial range should be higher than $1m.

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

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

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

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

Inherent Risk Assessment

Likely	Extreme	High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment

Effective

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

Residual Risk Assessment

Unlikely	Major	Medium

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

9

Enterprise Risk Number & Name: 04 – Strategic Partnerships **Risk Class:** Strategic

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

Exclusions and Assumptions: Nil.

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

Inherent Risk Assessment

Almost Certain	Major	High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment

Effective

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

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

Residual Risk Assessment

Possible	Moderate	Medium

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

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

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

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

Risk Causes: cyber criminals (hackers, phishing, ransomware), opportunists, terrorism/political, staff competency, contractor (3rd party) competency, resignations, manual processes, technology failure, technology changes, natural disasters, physical parameters (work/home), portable devices/interconnectivity, bespoke systems, culture.

Inherent Risk Assessment Almost Certain | Major | High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Requires Improvement

HBRC have several technical preventative controls that are operating effectively e.g. firewalls, anti-virus, access controls, software upgrades, sector wide collaboration etc. However, information management and security also depend on some compensating soft controls around staff and contractor competency to be alert to activities such as phishing attacks and to ensure the protection of physical information. In addition, to be able to effectively and efficiently secure HBRC's critical information, the management and storage of information must be consistent and structured. As HBRC's risk, ICT and information management systems mature (see risk 5) the maturity of the information security management system (ISMS) will also be assessed to ensure full visibility of threats. Maturing information management is currently at risk due to the IM Advisor role being vacant and operational staff having limited capacity to commit time as they respond to immediate disruptions of Covid19 and cover a number of vacancies due to a tight labour market.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Multifactor Authentication	Scoping area for deployment	ICT	March 2022	**Closed**
Implement and tailer HBRC 's Incident detection tool	Continue defining rules for HBRC 's Incident detection tool	ICT	Dec 2021	**Closed** – tool implemented & rules now being refined as BAU
Sector wide collaboration	Defining areas of synergies	ICT	TBD	On Track
Staff Education		ICT	Sept 2021	**Closed**
ELT approval and prioritisation of IM & ISMS programme of work	ELT approval paper	Information Advisor	March 2022	**At Risk** – due to staff turnover of IM Advisor and priorities of the operational business as they navigate Covid19 disruptions

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Residual Risk Assessment

likely	Moderate	Medium

Despite an increasing global trend of cyber-crime, the residual risk rating considers that technical preventative controls are largely mitigating the possibility of a disruptive cyber-attack. The likelihood assessment remains as 'possible' due the continuing sophistication of cyber-attacks that could result in a 'moderate' financial impact to HBRC. The overall residual risk rating is 'medium'.

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

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

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

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

Inherent Risk Assessment Likely | Major | High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Requires Improvement

The enterprise architecture is mapped. The strategy and roadmap has improvements identified by applying a risk-based approach. Additional resources were approved in the LTP and being recruited to meet the roadmap priority timeframes. However, the control assessment is noted as requires improvement while recruitment is ongoing and constrained due to the tight labour market. Other controls now effective include business analysis and solution design methodologies. Insights for improvement were gained through lessons learnt from previous large IT projects. It is noted that due to legacy 'ICT debt' it could take several years to exit low risk legacy systems.

Corrective Actions	Milestones	Owner	Due Date	Tracking Status
Recruit full complement of ICT technical staff to meet prioritised project schedule.	Recruit required ICT technical staff.	Corporate Services	May 2021	**Behind** – due to staff turnover & competitive labour market

Residual Risk Assessment Likely | Moderate | Medium

The residual likelihood assessment has been rated as 'likely'. While increase in ICT FTE is approved the current job market has made it difficult to recruit staff. Therefore, ICT remains largely reactive to the business needs rather than proactive. The consequence of a reactive approach has resulted in, maintenance of some lower risk legacy systems and general 'future proofed' technology for the business difficult to implement. However, the high impact legacy systems such as finance, payroll and telephony have been successfully replaced therefore reducing the residual impact assessment to 'moderate'. With the overall residual risk rating 'medium'.

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

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

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

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

Inherent Risk Assessment

Likely	Major	High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment

Requires Improvement

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

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Add HBRC's high risk corporate obligations to the register	Establish a list of HBRC corporate obligations	Corporate Services	August 2022	On track

Residual Risk Assessment

Likely	Moderate	Medium

The residual risk likelihood rating is assessed as 'likely' while the consequence rating is assessed as 'moderate'. The overall risk rating is therefore assessed as 'medium'. The residual risk rating is elevated to reflect findings from an information management stocktake where it was noted that information management storage and destruction processes were inconsistent. The information management roadmap (refer risk 5 - information not fit for purpose) will reflect the need to develop an information management strategy to embed a structured and risk-based approach to manage HBRC information assets. In addition, the broader corporate compliance control environment will be strengthened through a centralised register that will include high-risk corporate obligations that HBRC must comply with. This register should ensure clarity of high-risk corporate obligations particularly when onboarding staff into specialist roles.

Enterprise Risk Number and Name: 08 – Business Interruption

Risk Class: Operational

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

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

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

Inherent Risk Assessment Unlikely | Extreme | High

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

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Effective

HBRC have robust and effective business continuance plans to ensure that effective process work arounds respond to the different types of business disruptions. The business continuance plans (BCPs) were tested under the Covid19 lockdown. The setup of the CDEM office aligns to NZ Coordinated Incident Management System (CIMS) framework other controls include a suite of insurance policies. Late 2021 in response to the growing Covid threat from emerging mutations and border containment breaches a review of HBRC's resilience to supply chain disruption was undertaken. HBRC's suppliers of business-critical goods/services were proactively contacted and where necessary additional stocks were procured to ensure that HBRC could operate independently and uninterrupted for a period of at least three months. The review also considered the level of critical stock and spares required should HBRC be required to respond to a regional crisis in addition to Covid19. Also processes have been established so that if key supply chains become disrupted a review of supplies will be undertaken two months before supplies are depleted and if necessary alternate suppliers maybe identified.

Residual Risk Assessment Almost Certain | Moderate | High

The controls such as HBRC's BCPs and CDEM's CIMS are considered corrective or recovery controls. Business interruption events in this risk tend to be external to HBRC and therefore HBRC has little control over preventing the event. However, post event HBRC's BCP and CDEM's CIMS structure worked to minimise the disruption and ensure that critical services continue, reducing the impact. HBRC's internal response and CDEM's community response were successfully tested in during Covid19 lockdowns of 2020 and 2021.

In response to the recent Omicron Covid19 outbreak and associated isolation mandates HBRC's pandemic plan has been updated to include: mandating of vaccinations, work bubbles for all critical roles, surgical masks for all staff, Covid19 passport verification for Station Street and 'private' areas of Dalton Street, sign in for Dalton Street and Station Street, and access to rapid antigen tests (RATS).

However, due to the Omicron outbreak and associated isolation rules the business interruption likelihood assessment has been elevated to 'almost certain'. While work bubbles and RATs limit the extent of isolation requirements for HBRC staff. HBRC needs to engage with strategic partners such as landowners and others in the community to execute on strategic activities' such as: pest control, land management and consultation. Therefore, HBRC is almost certain execution of some strategic objectives for FY22 will be impacted however the extent of that impact remains unchanged as 'moderate. The overall residual risk rating for this risk has increased from 'medium' to 'high'.

It is noted that the tight labour market and risks associated work pressures on staff to cover vacant positions is being monitored under risk nine 'People Capability'. The convergence of the tight labour market coupled with alternate working arrangements due to the Omicron outbreak could potentially elevate this business interruption risk impact. Therefore, staff vacancies are being closely monitored through the Omicron outbreak.

Enterprise Risk Number and Name: 09 – People Capability

Risk Class: Operational

Risk Description: This risk considers HBRC's 'people' assets. 'People' assets include HBRC's permanent, fixed term and temporary staff. The risk specifically looks at staff capacity and competency.

Exclusions and Assumptions: HBRC's culture and alignment to HBRC's values/strategy/purpose (refer Risk 1b - Strategic: implementation and delivered). Contractors to HBRC (refer Risk 14 - 3rd Parties and Contractors – Risk), health safety and wellbeing of staff and contractors (refer risk – 11), and staff fraud and corruption (refer risk – 10).

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

Inherent Risk Assessment

Almost Certain	Major	High

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

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Requires Improvement

HBRC recently refined the high-level P&C strategy. The revised strategy included improvements to mature HBRC's talent management framework/system. Recommendations to improve the maturity of HBRC's talent management framework were identified in the talent management internal audit undertaken by Crowe. The revised strategy targets areas to continue to enhance controls to ensure HBRC staff have the right capacity and competency (talent). Examples of controls that are already fully operational include:

- Retention/capacity e.g. flexible working arrangements, job sizing, and remuneration framework
- Recruitment e.g. structured interviews, targeted advertising, engagement with EIT, student summer programme, and use of consultants
- Knowledge/competency e.g. PDP
- Staff satisfaction surveys
- P&C Leadership e.g. technical P&C staff
- Exit interviews
- Induction programme

Ongoing high staff turnover within the P&C team over recent years has slowed the development and implementation to lift the maturity of HBRC's talent management framework. Therefore, the overall control for this risk has been assessed as 'requires improvement'.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
For control corrective actions refer separate internal audit actions dashboard for the Talent Management audit				

Residual Risk Assessment

Almost Certain	Moderate	High

There are three aspects to consider for the overall residual rating of this risk that covers the short, medium and longer term. The short-term immediate risks are currently driving the overall risk rating of 'high'.

- **Medium Term**
  The overall residual risk rating for this risk was reported in the last risk report as 'medium' which was an elevated assessment. The elevated assessment reflected the internal audit of HBRC's talent management framework/system which determined a low level of maturity. And, while the talent management (P&C) strategy is drafted implementation of the elements required to mature the framework will take time. Maturity of HBRC's talent management framework will help to manage HBRC's people capability risk, both day to day and in more challenging times. However, maturity of the talent management framework alone will not necessarily be enough to ensure a positive staff experience. The corporate plan is designed to look more holistically at HBRC's culture, processes, frameworks and systems to ensure these are effective in design to enable staff to work *'smarter'* and execute on strategy (see the longer-term update below).

- **Longer Term**
  A Corporate Plan has been developed and is continually being refined and improved. The plan is currently being reviewed to ensure that as the organisation grows and matures its key management frameworks/systems the maturity activities are prioritised to ensure foundational elements that will help the operational business work *'smarter'* are addressed first. Also, that as these maturity activities are rolled out and embedded into the business-related changes to the way the business operates are effectively managed and sustained within HBRC's operating rhythm. The management of change also ensures that potential disruption and impacts to staff due to the maturity of key management frameworks/systems are anticipated and minimised.

- **Short Term (immediate risk)**
  An outcome of NZ's response to Covid19 and the prolonged closures of borders has meant unemployment has fallen and the employment market is highly competitive. Without a mature talent management framework there is real pressure on responding to the immediate people risk and minimise the convergence this risk has on HBRC's business interruption risk. Therefore, due to the immediate employment market pressures the likelihood of this risk has now been elevated to 'almost certain' while the impact assessment has remained unchanged as 'moderate'. The overall residual risk rating has increased to 'high'. The P&C team together with management are working through short term mitigations for this risk which includes reviewing all strategic and smaller team projects them applying a risk-based lens to determine which of these projects or project milestones maybe paused without significantly disrupting to delivery of key strategic objectives. Where practical 'people' resources assigned these projects can then be redeployed to areas with an immediate need.

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

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

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

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

Inherent Risk Assessment

Likely	Major	High

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Effective

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

Residual Risk Assessment

Unlikely	Minor	Low

The identified critical controls are working effectively, and the overall control assessment has been rated as 'effective'. In addition, the likelihood of this risk occurring has been assessed as 'unlikely'. Many internal fraud incidents are identified through 'tip-off's' and while HBRC has a protected person disclosure policy it is important that staff are aware of the red flags associated with fraud so that they know what types of behaviours and activities they should be escalating. A fraud awareness roadshow is being planned for 2022. However, the rollout of the roadshow is on hold while the fraud internal audit is undertaken so that any roadshow can capture additional audit findings and recommendations from the audit. The overall residual risk rating for this risk remains as 'low'.

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

Risk Description: This risk considers both staff safety and wellbeing, and public safety. This risk specifically includes mental wellbeing. The risk focusses on the priority critical risk areas for HBRC that includes stress and mental health, driving, working in various environments (ergonomics and natural landscapes/elements), public interactions, along with hazardous substances, animals, viral/bacterial (epidemic/pandemic)

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

Risk Causes: vehicles (driving), equipment (manual handling), work pressure, personal pressures (addictions, illness, family), public, natural landscapes/elements (sun, rain, wind, terrain rivers, lakes and marine), hazardous substances (exposure, inhalation), uneven surfaces, repetitive processes, plant/facilities/buildings, isolation, natural disasters, confined spaces, epidemic/pandemic, noise, poor culture/leadership, poor strategy/processes.

Inherent Risk Assessment | Likely | Extreme | High |

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

Council Draft Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment | Effective |

HBRC has a systemised approach to H&S. This includes specific H&S manual, identified critical H&S risks and controls, embedded safe operating procedures (COPs) that are standardised and documented, competency framework, targeted H&S training, site safety and job risk assessments, and site observations HBRC's H&S system is considered fit for purpose and aligns in principle to agreed good practice international standards. HBRC also employs technical H&S specialists that develop the H&S strategy, workplan and continual improvements to the H&S system.

Residual Risk Assessment | Possible | Major | Medium |

The residual risk considers the likelihood an H&S incident would result in a 'major' situation causing serious physical or psychological injury with permanent impairment. Recent improvements to the H&S system with ongoing H&S system improvements that align to international standards good practice principles, that include critical H&S risks and control identification training, monitoring and reporting, it is deemed 'unlikely' that a major H&S event will occur within the next 10 years. However, due to the ongoing uncertainty from Covid19 and acknowledging the impact that this uncertainty is having on the daily lives of people, including employees, the residual risk likelihood has increased to 'possible'. The overall risk rating remains unchanged as 'medium'.

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

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

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

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

Inherent Risk Assessment Likely | Extreme | High

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

Council Risk Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment Requires Improvement

HBRC has a systemised approach to managing assets. The suite of critical enterprise controls includes controlled documentation (COPs/Standards), procurement policy/practices, staff competency and training, physical security, maintenance and condition assessments, generators, backup pumps, BCPs/DR, Insurance, AP/LTP/AMPs and financial plans. Asset condition assessments and maintenance processes are effective. Therefore, the high impact low probability (HILP) risks resulting from asset failure e.g. stop banks are well managed. Funding has been obtained through the LTP for targeted improvements to the asset management system an implementation plan to prioritise resources allocated is being developed.

Corrective Actions	Risk Report Period Milestones	Owner	Due Date	Tracking Status
Develop an implementation for resource approved in LTP	Develop an implementation for resource approved in LTP	Asset Management and LTP	March 2022	On Track

Residual Risk Assessment Rare | Extreme | Medium

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

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

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

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

Risk Causes: contract/SLAs/MOU disputes, poor work instructions, documentation (standards, SOPs/COPs), insufficient data, resource capacity, economic/market, capability, natural event, force majeure, supply chain disruptions.

Inherent Risk Assessment

Likely	Extreme	High

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

Council Risk Draft Appetite *(to eventually include risk tolerances and KRI trend reporting) not included in the 4 August 2021 FARS report as risk appetite is still in draft.*

Overall Control Assessment

Effective

HBRC's OPEX and CAPEX asset programmes of work are managed through the asset management system. The Asset Management Team issue clear work instructions to the Works Group. The Works Group follows total quality management (TQM) standards that ensure output/work is performed to a consistent standard and that there is adequate resourcing to execute the work. HBRC has a suite of insurance policies to ensure where appropriate 3rd parties hold suitable insurances.

HBRC recently reviewed and implemented changes to its broader procurement management system to work towards ensuring services and supplies are procured, sourced, selected, negotiated, executed, and reviewed in a structured and consistent way to mitigate risk. Post contract evaluation of performance now informs future sourcing / selection of all contractors as part of a due diligence process.

In response to the Covid19 Omicron outbreak and potential disruption to supply chains HBRC's critical suppliers were proactively contacted. Steps taken are outlined under risk eight – Business Interruption.

Residual Risk Assessment

Possible	Minor	Low

With the Works Group managed inhouse the probability of complete failure of this key Contractor is largely mitigated. Therefore, the residual risk assessment considers that there is always the chance within a 12-month period that one of these contractual arrangements may not meet HBRC's quality standards and therefore the residual likelihood has been rated as 'possible'. The residual impact assessment is rated as 'minor' as the most likely impact for HBRC would be negative media coverage of approximately 1-3 days. Therefore, the overall residual risk rating has been assessed as 'low'.

Appendix A - Risk Likelihood Matrix

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

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Appendix B - Risk Consequence Matrix

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

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

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

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

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

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HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Risk Maturity Update

Reason for Report

1. This item provides the Finance, Audit and Risk Sub-committee (FARS) with an update on Council's Risk Management Maturity.

Background

2. At the Corporate and Strategic (C&S) Committee meeting on 10 June 2020 Council's risk maturity roadmap was endorsed. At that meeting it was agreed that the FARS would take responsibility for overseeing the implementation of the risk maturity roadmap. Therefore, this item provides a summary of risk maturity actions completed since last reported to FARS on 13 October 2021 and risk maturity actions scheduled for the next FARS reporting period.

Discussion

3. The last update to the Sub-committee was in October 2021. Since October 2021 the following risk maturity actions have been completed:
   - 3.1. Appointment of a Risk Champion within each Group – the Risk Champion will coordinate the development of risk profiles for each Group and influence risk attitudes to ensure alignment across the business
   - 3.2. Inclusion of Risk Champions in a 'light touch' risk aggregation session to provide bottom-up challenge to the current enterprise risk profile
   - 3.3. Completion of risk bowties for each enterprise risk
   - 3.4. A session with the Strategy and Governance Team to identify risk processes to formalise within strategy and governance e.g., inclusion of a formal risk sign-off in concept documents (business cases), decision papers, and project scope variations.
4. For the next FARS reporting period the risk maturity plan had intended to target formal training of the Risk Champions and the development of a risk profiles for each Group. Developing a risk profile for each Group would help to upskill Managers and key subject matter experts in risk-based thinking and systematically embed risk methodologies into the business. However, currently the business is facing significant disruption with responding to immediate high impact risks of Covid19 and a tight employment market. Therefore, phase IV of the roadmap (see image below) has been re-evaluated to identify a less resource intensive approach to embedding risk.

5. It is agreed that the focus for the next reporting period will be on partnering with staff across functions to develop Key Risk Indicators (KRI's) and utilise the draft risk appetite to drive consistent messaging and risk tolerances for identified indicators. The Strategy and Performance team have already developed financial and non-financial performance reporting via the Quarterly Organisational Performance Report that includes several KRI metrics. Therefore, the intention is to work collaboratively with the Strategy and Performance team and KRI metric owners to determine tolerance levels bringing risk monitoring and corrective actions closer to performance outcomes. In addition, strengthening the risk bowties and identified critical controls for each enterprise risk may enable new KRI metrics to be identified that could further strengthen the non-financial performance part of the report.

6. Therefore, the following actions are now scheduled to be delivered as part of the risk maturity roadmap over the next FARS reporting period:

   6.1. External validation on the completeness and accuracy of the enterprise bowties including identifying opportunities to enhance critical controls.

   6.2. Using validated bowties to identify new KRI metrics to enhance the Organisational Performance Report.

   6.3. Working collaboratively with the Strategy and Performance team to identify key KRI's in the current Organisational Performance Report, upskill metric owners in risk based thinking to improve qualitative reporting (i.e. commentary provided) and establish risk tolerance levels (triggers) as guided by Council's risk appetite statement.

   6.4. Continue with informal risk aggregation sessions (light touch meetings) with Risk Champions.

   6.5. Progress the formulation of Council's risk appetite statement including reviewing the Risk Management Framework and Policy with particular attention on the quantitative scale in the risk matrix.

Strategic Fit

7. Maturity of the 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

8. Maturity of the risk management system is phased to minimise budgetary implications. Some facilitated risk training workshops maybe need to be provided to targeted staff. The 0.1 Risk Champion FTE from each Group will be managed through current resourcing.

Next Steps

9. Refer to section six of this report for the next steps for maturity of the Council's risk management system.

Decision Making Process

10. 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:

    10.1. The decision of the sub-committee is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:

Item 5

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

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

10.1.3. Report on the robustness of risk management systems, processes and practices to the Corporate and Strategic Committee to fulfil its responsibilities.

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

Recommendations

1. That the Finance, Audit and Risk Sub-committee receives and considers the "*Risk Maturity Update*" staff report.

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

    2.1. Delivery of phase IV of the roadmap was re-evaluated to identify a less resource intensive approach for embedding risk-based thinking into the business due to the level of business disruption from Covid19 and the tight labour market, and

    2.2. The revised delivery plan for phase IV of the roadmap still aligns to Council's overall risk maturity strategy of embedding risk-based thinking into the business.

Authored by:

Helen Marsden
Risk & Corporate Compliance Manager

Desiree Cull
Strategy & Governance Manager

Approved by:

Jessica Ellerm
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Internal Audit Annual Plan Status Update FY2021-2022

Reason for Report

1. This item provides the Finance Audit and Risk Sub-committee (FARS) with the Internal Audit Annual Plan FY21-22 status update.

Officers' Recommendations

2. Council officers recommend that the FARS members consider and note the Internal Audit Annual Plan FY21-22 status update below.

    2.1. The Fraud Management audit carried out by Crowe commenced in mid-February, interviews with a range of staff have been held. The full report will be submitted to FARS in May 2022.

Approved Audit FY2021-22	Provider	Quarter Due	Date Commenced	Management Comments	Reported to FARS
Fraud Management	Crowe	Q3	February 2022		
Data Analytics	Crowe	Q4		Due to commence in May 2022	
Retained Audit Capacity – 40 hrs					

3. 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.

Decision Making Process

4. 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:

    4.1. This agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:

        4.1.1. 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

        4.1.2. 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)

        4.1.3. 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 Audit Annual Plan Status Update FY2021-2022*" 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:

Olivia Giraud-Burrell **Quality & Assurance Advisor**	**Helen Marsden** **Risk & Corporate Compliance Manager**

Approved by:

Jessica Ellerm
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Annual Internal Assurance Plan 2022-2023

Reason for Report

1. This item provides the Finance Audit and Risk Sub-committee (FARS) with a draft proposed Annual Internal Assurance Plan 2022-2023 for consideration as requested at FARS October 2021.

Background/Discussion

2. Council officers recommend that the Sub-committee considers the proposed Plan. An outline of current trends is provided below by our current internal auditors (Crowe) which is aligned to the Office of the Auditor- General's areas of focus. A detailed report will be provided at the 4 May 2022 FARS meeting and seek the Sub-committee's approval of the 2022-2023 Plan.
   2.1. Business continuity planning
   2.2. Integrity and Ethics (covered by the planned Fraud Risk Management and Analytics assignments)
   2.3. Infrastructure and asset management (although limited to an extent by the 3 waters reforms)
   2.4. Capital works programme management
   2.5. Information/Cybersecurity
   2.6. People and Capability (completed last year)
   2.7. Climate change and sustainability in service delivery.

Financial and Resource Implications

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

Decision Making Process

4. 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:
   4.1. The agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:
      4.1.1. 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
      4.1.2. 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)
      4.1.3. 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.

4.2. As this item is for information only, the decision making provisions do not apply.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and considers the draft "*Annual Internal Assurance Plan 2022-2023*" staff report.

Authored by:

Olivia Giraud-Burrell **Quality & Assurance Advisor**	**Helen Marsden** **Risk & Corporate Compliance Manager**

Approved by:

Tom Skerman **Regional Water Security Programme Director**	**Jessica Ellerm** **Group Manager Corporate Services**

Attachment/s

1⇩ Annual Internal Assurance Plan (universe)

ASSURANCE UNIVERSE AS AT JANUARY 2022

Risk No	Risk Title	Residual Risk Assessment	2017/18	2018/19	2019/20	2020/21	2021/22 Current	2022/23 Forward Planning
1A	Strategic – Decision	Medium						
1B	Strategic – Implementation & Delivered	Medium			Risk Management Maturity	Audit NZ – Consultation Document for the Long-Term Plan		
2	Financial	Low	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit		*Audit NZ – External Financial Audit*
3	People, Community & Environmental Health	Medium	Water management		S17a Biosecurity review		S17a Road Safety	
4	Strategic Partnerships	Medium				NCC MOU		
5	Information Not Fit for Purpose (cyber)	Medium				Information Management Review		
6	Core ICT Services	Medium		IT Security				
7	Legal compliance	Medium			Privacy Policy Act			
8	Business Interruption HBRC	High	CDEM – Capability Assessment		Covid-19 Debrief			
9	People Capability	High				Talent Management		*People & Capability plus H&S*
10	Fraud	Low				Data & Analytics	Data & Analytics Fraud Management Framework Audit	Data & Analytics
11	H&S & Wellbeing	Medium		H&S				
12	Assets/Infrastructure Not Fit for Purpose	Medium						
13	Third parties/Contractors	Low	Procurement & Contract Management		S17a Review of Works Group			
	Miscellaneous	N/A	ISO 9001:2015 Review	TQM (Works Group) ISO 9001:2015 Revalidation	Civil Defence Covid 19 Response Review ISO 9001:2015 Review	ISO 9001:2015 *Review*	ISO 9001:2015 Revalidation	*ISO 9001:2015 Review*

Key	
Purple Text	Enterprise Audits
Green Text	Internal Assurance
Grey Text	External Audit
Orange Text	S17a Review

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: 2020-2021 Annual Report Audit Update

Reason for Report

1. This item provides an update on the audit of Council's 2020-2021 Annual Report and timing for Council adoption.

Background

2. Staff presented the Hawke's Bay Regional Council Annual Report for the 2020-2021 financial year to the Finance, Audit and Risk Sub-committee on 15 December 2021, noting the final audit report was yet to be received and adjustments might be required.
3. The sub-committee recommended that Hawke's Bay Regional Council adopt the 2020-2021 Annual Report, pending receipt of Audit New Zealand's final audit report and subject to any minor adjustments.

Audit update

4. Council staff had anticipated bringing the Annual Report to Council for adoption in January 2022, however due to delays with Audit NZ completing their audit, expect to now bring it to Council at its meeting in March.
5. The delay is due to Audit NZ's technical team working through the best treatment for the Accident Compensation Corporation adjustment.

Feedback incorporated since last FARS meeting

6. At the December sub-committee meeting, a member raised an issue with how leave entitlements and liabilities were presented. Finance staff responded directly to the member to explain that it was to do with the difference between how information is presented by HBRC and the Port (which is consolidated into HBRIC and the HBRC Group accounts). No change was required. .
7. A number of small adjustments to the Annual Report and Summary have been made. These were either as a result of audit feedback or improvement/corrections made by staff.
8. As stated in December, staff would bring revised financial statements back to the sub-committee for further review only if they were considered significant in nature.

Implication of Late Adoption

9. Under the Local Government Act 2020 (the Act), the Annual Report and Summary are statutory requirements and required to be audited by an independent auditor.
10. Legislation[1] was passed in July 2021 to extend the statutory deadline for adoption of both the 2020-2021 and 2021-2022 Annual Reports (with 30 June balance dates) by two months due to a severe shortage of auditors. That means that those annual reports must be adopted no later than 31 December in their respective year.
11. As we will be adopting after that date, we are required to include a self-disclosure note in our financial statements. The Regional Council will be included in the audit statistics reported to central government.

[1] Annual Reporting and Audit Time Frames Extensions Legislation Act 2021

12. A late adoption does not affect our Level of Service Measure in our Long Term Plan 2021-2031 related to a clear audited opinion.

13. Interim non-financial and financial results, prior to being audited, have been in the public arena multiple times via committee agendas.

Audit NZ

14. Karen Young, Director of Audit NZ, will be joining this meeting as per the FARS terms of reference, to discuss any matters that the auditors wish to bring to the Sub-committee's attention. This can be a members-only session if required.

15. Should the sub-committee wish to discuss matters with the Auditor in private, with the public excluded, the following resolution must be passed.

    15.1. That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting being Discussion with Director of Audit NZ 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
2020-2021 HBRC Annual Report Audit	7(2)(c)(i) The exclusion of the public from this discussion is necessary to protect information which is subject to an obligation of confidence and to ensure the supply of similar information from the same source is not prejudiced; it is in the public interest that such information should continue to be supplied	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.
2020-2021 HBRC Annual Report Audit	7(2)(f)(ii) The exclusion of the public from this discussion is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Decision Making Process

16. The Regional 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:

    16.1. The decisions are in accordance with the Finance, Audit and Risk Sub-committee Terms of Reference, specifically to:

        16.1.1. 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

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

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

    16.2. as this report is for information only, the decision-making provisions do not apply.

Recommendations

1. That the Finance, Audit and Risk Sub-committee receives and notes the “2020-21 *Annual Report Audit Update*” staff report.

And if required

2. That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting being Discussion with Director of Audit NZ 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
2020-2021 HBRC Annual Report Audit	7(2)(c)(i) The exclusion of the public from this discussion is necessary to protect information which is subject to an obligation of confidence and to ensure the supply of similar information from the same source is not prejudiced; it is in the public interest that such information should continue to be supplied	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.
2020-2021 HBRC Annual Report Audit	7(2)(f)(ii) The exclusion of the public from this discussion is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

Tim Chaplin
Senior Group Accountant

Mandy Sharpe
Project Manager

Desiree Cull
Strategy & Governance Manager

Christopher Comber
Chief Financial Officer

Approved by:

Jessica Ellerm
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

2 March 2022

Subject: Quarterly Treasury Report for 1 October – 31 December 2021

Reason for Report

1. This item provides compliance monitoring of Hawke's Bay Regional Council (HBRC) treasury activity and reports the performance of Council's investment portfolio for the quarter ended 31 December 2021.

Overview of the Quarter – ending 31 December 2021

2. At the end of the quarter to 31 December 2021, HBRC was compliant with all measures in its Treasury policy except for the Mercer SIPO investment allocation, which has since been corrected.
3. Investment returns for the first 6 months met budget expectations, however, due to market volatility and a significant financial market adjustment in January 2022, it is too early to predict the returns for the full financial year. The fluctuation in January erased most of the gains of the first 6 months so a recovery in the markets is required to deliver target returns for the year.
4. Financial markets, particularly international markets, continue to move around considerably and a bounce back to forecast returns within the financial year is not out of the question. Staff advice is to watch and wait at this point in time, corrective action is not required, and the portfolio is well balanced for the long term.
5. Cash balances are good and borrowing requirements low for the first 6 months. As Council progresses further into the financial year additional borrowing will be required.

Financial Impact of Covid-19 / Omicron on Current and Future Financial Year

6. The sub-committee requested that a financial assessment, including commentary regarding any corrective actions required, of the financial impact of the current Omicron outbreak on FY21-22 be incorporated within this Treasury report. However, given the 6-month financials to 31 December 2021 will be presented to the Corporate and Strategic Committee alongside the organisation performance reporting on 16 March 2022, the financial impact commentary is best placed to accompany that reporting.
7. Financial impacts of Covid/Omicron are both direct and indirect and include adjustments or impacts to budget assumptions for inflation, interest costs. Additional expenses may be incurred in relation to business continuity/resilience planning, (working from home equipment/cleaning/masks etc), direct staff costs where there is a requirement to add resourcing for critical stand-alone roles. There may, however, be costs savings or deferral of spend where capital work programmes are not being delivered within planned timeframes because of the disruption/distraction. The most significant financial impact will likely be to investment income, where impact to financial markets can be immediate and high impact.
8. All of the above will be incorporated into the financial reporting for the 16 March 2022 Corporate and Strategic Committee meeting.

Background

9. Council's Treasury Policy requires a quarterly Treasury Report to be presented to the Finance Audit and Risk Sub-committee. The policy states that the Treasury Report is to include:
   - 9.1. Treasury Exceptions report
   - 9.2. Policy compliance

9.3. Borrowing Limit report

9.4. Funding and liquidity report

9.5. Debt maturity profile Interest rate report

9.6. Investment management report**

9.7. Treasury investments

9.8. Cost of funds report Cash flow and debt forecast report

9.9. Debt and interest rate strategy and commentary

9.10. Counterparty credit report

9.11. Loan advances.

10. 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.

11. 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.

12. Treasury Investments to be reported on consist of:

12.1. Liquidity

12.1.1. Cash and Cash Equivalents

12.1.2. Debt Management

12.2. Externally Managed Investment Funds

12.2.1. Long-Term Investment Fund (LTIF)

12.2.2. Future Investment Fund (FIF)

12.3. Investment properties

12.4. HBRIC Ltd

12.5. 2021-22 Performance Summary.

13. Since 2018, HBRC has procured treasury advice and services from PriceWaterhouseCoopers (PwC) and their quarterly compliance report is attached.

Discussion

14. A separate treasury report is prepared by Council's advisors, PwC to report on compliance with the policy parameters and investment performance. The PwC report is attached. This report gives a high-level summary of the data in the PwC report.

Liquidity

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

16. The following table reports the cash and cash equivalents on 31 December 2021.

31 December 2021	**$000**
Cash on Call	15,915
Short-term bank deposits	2,000
Total Cash & and Deposits	**17,916**

17. Council's balance of cash and deposits compares favourably with the December 2020 balance of $13.5m.

18. To manage HBRC liquidity risk, HBRC also 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.

Debt Management

19. On 31 December 2021 the current external debt for the Council group was $40.3m ($56.96m including the loan from HBRIC).

20. Following the $11m raised in the September quarter no further funds were borrowed in the December quarter. This was as anticipated given Council's cash position is at its best in the December quarter (due to rates being due in September).

21. Further borrowing will be required in the second half of the financial year (first half of calendar year 2022) as the requirements of the proposed 2021-2022 borrowing programme of $27.5m ramps up.

22. The following summarises the Year-to-date movements in Council's debt position.

Summary of HBRC Debt

	HBRC only	**HBRC Group**
Opening Debt – 1 July 2021 – excl HBRIC Loan	30,875,014	30,875,014
New Loans raised	11,000,000	11,000,000
Less amounts repaid	(1,574,998)	(1,574,998)
Closing Debt 31 December 2021 (excluding HBRIC loan)	**40,300,016**	**40,300,016**
Plus opening balance - loan from HBRIC	16,663,036	-
Total Borrowing as at 31 December	**56,963,052**	**40,300,016**

Managed Funds

23. The LTP budgets an annual return of 5.16% from managed funds. Of this 3.16% is used to fund activities with 2.0% retained to grow the capital base to enable the future earnings to protect the capital base for future generations.

24. Council budgets separately for revenue from directly held managed funds and those held by HBRIC. HBRIC is required to deliver an overall portfolio return by way of an agreed annual dividend agreed through an annual Statement of Intent. The composition (between revenues from managed funds and other sources such as port dividends is up to the HBRIC board). Council has budgeted to receive $10.1 in dividends from HBRIC within the FY21-22.

25. The FY21-22 budget expectation for managed funds to be withdrawn to support Council operations is $3.7m. Based on the December funds result and the value above the protected amount the funds held sufficient returns to meet Council's requirements. Unfortunately, since 31 December the markets dropped eroding in excess of $2m of these gains. A recovery of the market is now required to deliver on budget expectations.

26. The Fund performances for the first 6 months have been lower than we have experienced recently. Financial markets have not performed as strongly as prior year with the YTP results for the two providers being 0.9% and 1% so far. This follows on from annualized returns of 12.5% and 14.5% for the 2020-21 financial year.

27. Given the nature of the investments some volatility is to be expected. It is too early to predict likely returns for the full year, however, if the remaining quarters deliver similar results the annualised return would be approximately 4% which is below the LTP budget of 5.16% p.a.

28. However, the performance of the managed funds since placement demonstrate market recovery can occur within relatively short timeframes, and a watch and wait approach is prudent. The portfolio construct is intentionally conservatively balanced for the long-term.

29. The presentation of table below has been changed from previous reports to show the combined view of funds and the value available above the capital protected sum. As at June 2021 Council had an additional $3.36m available due to the stronger investment returns in FY20-21. Some of this could be used to supplement any shortfall if the current lower returns continue to the end of the financial year.

30. The following table summarises the fund balances at the end of each quarter.

31. The view for the June, September and December 2021 quarters has been expanded to show the total group balance of managed funds (including HBRIC) and the amount by which the current funds balance exceeds the capital protected amount.

	31 Dec 2020 $000	**31 Mar 2021 $000**	**30 Jun 2021 $000**	**30 Sep 2021 $000**	**31 Dec 2021 $000**
Total funds before withdrawals	121,404	114,625	118,563	115,745	118,221
Funds withdrawn	(6,500)		(4,200)		
Fund Balance HBRC	**114,904**	**114,625**	**114,363**	**115,745**	**118,221**
Capital Protected Amount HBRC (2% compounded)			111,983	112,543	113,105
Current HBRC value above protected amount			**2,380**	**3,202**	**5,116**
Funds Balances (Group – HBRC + HBRIC)					
Long-Term Investment Fund	49,925 *	50,206	49,883**	50,484	51,712
Future Investment Fund	64,300 *	64,418	64,370**	65,261	66,508
Total HBRC	**114,904**	**114,625**	**114,363****	**115,745**	**118,220**
Plus HBRIC			48,503	48,771	48,907***
Total Group Managed Funds			**162,866**	**164,516**	**167,127**
Capital Protected Amount (2% compound inflation)			159,506	160,303	161,104
Current group value above protected amount			**3,360**	**4,213**	**6,023**

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

31.2. *** Additional funds totalling $4.2m (LTIF $2.0m & FIF $2.2m) were withdrawn from the funds during the June 2021 quarter*

31.3. ****** HBRIC withdrew $1.3m during the December quarter. The Capital Protected amount of HBRIC on 31December is $47.999m. ($0.907m available).***

Investment Property – Napier Leasehold Portfolio

32. Napier Leasehold properties represent the balance of ex Harbour Board residential leasehold properties. The HBRC returns from this portfolio are limited as following the sale of future revenues in 2013 to ACC, HBRC retains one third of any excess rentals and one third of any surplus when a property is freeholded.

33. For the first 6 months $546,466 in rent was collected and Council's share of excess rents for the period was $54,000.

34. In the first 6 months, six Napier Endowment Leasehold Properties were freeholded totalling $0.6m. $0.43m of this has been subsequently paid to ACC as settlement for the remaining 42 years rent for these properties. The HBRC share of $213,641 for the first 6 months has been paid into the sale of land reserve.

35. During the first 6 months one property (3 units) has had its 21year rent review applied and a further 5 properties (13 units) have been notified of their proposed new rental. Only one (5 units) has the new rental commencing prior to 30 June. With the 21-year renewal cycle, and the movement in the market values in recent years, lessees are seeing substantial increases in the annual rental. Those rentals currently under review are increasing by between 5.6 and 7.3 times what the existing rent is.

36. The size of the rent increases proposed is generating an increased number of enquiries about Council's rent deferral scheme.

Investment Property – Wellington Leasehold Portfolio

37. The Wellington leasehold portfolio comprises 12 properties in central Wellington. The lessees are a mix of Commercial and residential entities.

38. Most of the properties (11) have the rental reviewed every 14 years and one has a 7-year review period. No rent reviews were conducted over the first 6 months and one property is due for a review in June 2022.

39. The portfolio value has grown considerably for the initial cost of $6.5m in 2002 to $20.8m at 30 June 2021. Valuation advise is that we can expect another significant increase in the portfolio value when it is revalued as at 30 June 2022.

40. Council budgets to utilise the annual rentals of $841k to offset rates each year.

HBRIC Ltd

41. In accordance with Council Policy, HBRIC provides separate quarterly updates to the Corporate and Strategic Committee.

Decision Making Process

42. 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:

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

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

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the *"Quarterly Treasury Report for 1 October – 31 December 2021"*.
2. Confirms that the performance of Council's investment portfolio has been reported to the Sub-committee's satisfaction.

Authored by:

Ross Franklin **Finance Consultant**	**Christopher Comber** **Chief Financial Officer**

Approved by:

Jessica Ellerm
Group Manager Corporate Services

Attachment/s

1⇩ PwC Treasury report for period ended 31 December 2021

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 31 December 2021

Contents

1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was $167.128 million as at 31 December 2021, comprising $51.712 million in the Long Term Investment Fund (LTIF), $66.508 million in the HBRC Port Future Investment Fund (HBRC PFIF) and $48.907 million in the HBRIC Port Future Investment Fund (HBRIC PFIF). Total AUM is up from $164.515 million as at 30 September 2021 which includes a $1.300 million withdrawal from HBRIC PFIF. The three portfolio's combined returned $3.913 million after fees over the quarter.

Total capital contributed to the three portfolios since inception is $152.2 million; adjusted for inflation, this equates to $161.104 million, meaning the portfolio value at 31 December 2021 remained $6.023 million above the inflation adjusted contribution figure.

The Mercer sleeve of the LTIF returned 2.1% net of fees over the December quarter, bringing the total cumulative return since inception to 27.6% (8.6% annualised). The Jarden sleeve of the LTIF returned 2.8% net of fees over the December quarter, bringing the total cumulative return since inception to 27.9% (8.7% annualised).

The Mercer sleeve of the PFIF returned 2.1% net of fees over the December quarter, bringing the total cumulative return since inception to 17.1% (7.1% annualised). The Jarden sleeve of the PFIF returned 2.6% net of fees over the December quarter, bringing the total cumulative return since inception to 19.1% (7.9% annualised).

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

Council remains compliant to the LGFA borrowing limits.

Mercer's portfolios remained within SIPO asset allocation however Jarden's HBRC LTIF portfolio was underweight in International Fixed Income by 0.1%. This was because Jarden was holding its allocation near minimums and the portfolio's negative returns lowered its relative weighting to be below the minimum band. The portfolio has since returned to within policy bands.

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

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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).

	Mercer	Jarden	Total	Inflation Adj.	Monies Change
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	6,577,569
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	24,910,760	49,949,885	47,995,695	
30/09/2020	26,041,054	25,771,612	51,812,666	48,235,674	
31/12/2020	24,930,295	24,994,371	49,924,666	48,476,852	-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	-1,986,888
30/09/2021	25,173,991	25,309,770	50,483,761	49,207,647	
31/12/2021	25,701,554	26,011,107	51,712,661	49,453,685	

Performance Summary

The Mercer LTIF returned 2.1% net of fees over the quarter, underperforming the benchmark by 0.6%. Strong performance was driven from International Listed Infrastructure, International Listed Property and Socially Responsible Overseas Shares which returned 7.2%, 10.7% and 6.3% respectively. Although, both International Infrastructure and Socially Responsible shares underperformed their benchmark by 0.2% and 2.1% respectively. New Zealand and Sovereign Bonds and Other Fixed Interest portfolios all had negative returns, driven by rising global yields.

The Jarden LTIF portfolio returned 2.8% net of fees over the quarter, underperforming the benchmark by 0.3%. Returns were driven by strong performance in International Property and Global Equities, which returned 12.7% and 8.2% respectively but also underperformed relative to their benchmark. NZ Fixed Income returns also were negative with International Fixed Income coming in flat at 0%.

Quarter ending	Mercer Net Returns LTIF HBRC	Mercer Benchmark Returns LTIF HBRC	Jarden Net Returns LTIF HBRC	Jarden Benchmark Returns 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%
30/09/2021	1.0%	0.9%	0.9%	1.0%
31/12/2021	2.1%	2.7%	2.8%	2.5%
Financial YTD	3.2%	3.6%	3.7%	3.5%
Days Invested in Financial Year	184	184	184	184
Financial YTD (annualised)	6.4%	7.2%	7.5%	7.0%
Cumulative Return Since Inception	27.6%	26.2%	27.99%	34.6%
Annualised Return Since Inception	8.6%	8.2%	8.7%	10.6%
Inception Date	18-Jan-19	18-Jan-19	18-Jan-19	18-Jan-19
Days Invested	1,078	1,078	1,078	1,078
Reported balance as at 31-Dec-21 ($)	25,701,554		26,011,109	
Total Capital Contributions ($)	23,288,784		23,288,784	
Net Returns ($)	5,552,393		6,042,478	

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Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 December 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	108,261.9	38,903.8	-			0.2%	-	20.0%	Y
Index Cash Portfolio	1,835,126.5	1,652,398.0	0.2%	0.2%	-	6.4%	-	20.0%	Y
NZ Sovereign Bonds	3,264,745.8	3,564,154.6	(1.5%)	(1.8%)	0.3%	13.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,982,536.5	3,011,829.5	(0.1%)	0.4%	(0.5%)	11.7%	5.0%	25.0%	Y
Global Credit	2,714,693.8	2,792,092.9	-	0.1%	(0.1%)	10.9%	5.0%	25.0%	Y
Other Fixed Interest*	1,858,352.1	1,865,981.7	(0.3%)	0.2%	(0.5%)	6.5%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,575,931.8	1,816,215.8	(0.7%)	(1.7%)	1.0%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	7,217,854.4	7,287,121.1	8.3%	8.4%	(2.1%)	28.4%	17.0%	37.0%	Y
International Listed Property	738,054.0	789,297.3	10.7%	10.2%	0.5%	3.1%	-	10.0%	Y
Unlisted Property	1,085,604.1	1,010,921.7	2.5%	2.2%	0.3%	3.9%	-	10.0%	Y
International Listed Infrastructure	722,906.7	778,459.2	7.2%	7.4%	(0.2%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,259,923.8	1,294,178.4	2.1%	3.9%	(1.8%)	5.0%	-	10.0%	Y
Total	**25,173,991.44**	**25,701,554.00**	**2.3%**	**2.7%**	**(0.4%)**	**100.0%**			

Jarden (3 months ending 31 December 2021)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	823,097.0	1,438,718.0	0.1%	0.2%	(0.1%)	5.5%	2.0%	8.0%	Y
NZ Fixed Income	4,394,976.0	4,409,465.0	(1.1%)	(1.4%)	0.3%	17.0%	15.0%	24.0%	Y
International Fixed Income	5,956,291.0	5,958,527.0	-	0.2%	(0.2%)	22.9%	23.0%	28.0%	N
NZ Property	791,508.0	805,395.0	2.7%	1.8%	0.9%	3.1%	1.0%	4.0%	Y
NZ Equities	4,333,497.0	4,125,073.0	0.4%	(1.8%)	2.2%	15.9%	13.0%	18.0%	Y
Global Equities	8,194,686.0	8,358,107.0	8.2%	8.8%	(0.6%)	32.1%	25.0%	34.0%	Y
International Property	815,716.0	915,822.0	12.7%	13.0%	(0.3%)	3.5%	1.0%	4.0%	Y
Total	**25,309,770.0**	**26,011,107.0**	**2.8%**	**2.5%**	**0.3%**	**100.0%**			

- The Long Term Investment Fund (LTIF) was $51.713 million in size as at 31 December 2021, up from $50.483 million as at 30 September 2021. The portfolio experienced positive net returns of $1.229 million.
- Total capital invested into the LTIF was $46.578 million in January 2019. Adjusted for inflation (assuming a 2% annual rate), this was $49.454 million as at 31 December 2021, leaving $2.259 million in reserves.
- The Mercer sleeve of the LTIF returned 2.1% net of fees over the December quarter, bringing the total cumulative return since inception to 27.6% (8.6% annualised).
- The Jarden sleeve of the LTIF returned 2.8% net of fees over the December quarter, bringing the total cumulative return since inception to 27.9% (8.7% annualised).
- Portfolio Compliance with the SIPO strategic asset allocation - Mercer's portfolio is compliant but Jarden's is non-compliant in International Fixed Income, outside the Strategic Asset Allocation Range by 0.1%. This because it had negative returns which tilted the value outside the range below minimum requirements.The portfolio has since returned to within compliance.

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
30/09/2021	23,517,020	41,743,714	65,260,734	63,334,976	
31/12/2021	24,009,858	42,498,284	66,508,142	63,651,651	

Performance Summary

The Mercer HBRC PFIF portfolio also returned 2.1% net of fees over the quarter, underperforming the benchmark by 0.6%.The Jarden HBRIC PFIF portfolio returned 2.6% net of fees over the quarter, outperforming the benchmark by 0.1%.

Quarter ending	Mercer Net Returns HBRIC (port proceeds)	Mercer Benchmark Returns HBRIC & HBRC (port proceeds)	Jarden Net Returns HBRC - Port Consolidated	Jarden Benchmark Returns HBRIC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.5%
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%
30/09/2021	1.0%	0.9%	1.0%	1.0%
31/12/2021	2.1%	2.7%	2.6%	2.5%
Financial YTD	3.2%	3.6%	3.7%	3.5%
Days Invested in Financial Year	184	184	184	184
Financial YTD (annualised)	6.4%	7.2%	7.4%	7.0%
Cumulative Return Since Inception	17.1%	14.3%	19.13%	20.4%
Annualised Return Since Inception	7.1%	6.0%	7.9%	8.4%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	837	837	838	838
Reported balance as at 31-Dec-21 ($)	33,080,690		58,325,165	
Total Capital Contributions ($)	30,612,698		52,791,048	
Net Returns ($)	5,043,428		9,820,758	

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Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 December 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	142,734.0	50,073.4				0.2%	-	20.0%	Y
Index Cash Portfolio	2,419,456.7	2,126,815.6	0.2%	0.2%	-	6.4%	-	20.0%	Y
NZ Sovereign Bonds	4,304,286.9	4,587,453.9	(1.5%)	(1.8%)	0.3%	13.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,945,402.3	3,876,551.5	(0.1%)	0.4%	(0.5%)	11.7%	5.0%	25.0%	Y
Global Credit	3,579,090.6	3,593,726.6	-	0.1%	(0.1%)	10.9%	5.0%	25.0%	Y
Other Fixed Interest*	2,186,394.9	2,144,299.2	(0.3%)	0.2%	(0.5%)	6.5%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	2,077,730.8	2,337,686.9	(0.7%)	(1.7%)	1.0%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	9,516,121.1	9,379,315.8	6.3%	8.4%	(2.1%)	28.4%	17.0%	37.0%	Y
International Listed Property	973,060.8	1,015,911.3	10.7%	10.2%	0.5%	3.1%	-	10.0%	Y
Unlisted Property	1,431,275.8	1,301,166.0	2.5%	2.2%	0.3%	3.9%	-	10.0%	Y
International Listed Infrastructure	953,090.4	1,001,961.5	7.2%	7.4%	(0.2%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,661,101.4	1,665,748.1	2.1%	3.9%	(1.8%)	5.0%	-	10.0%	Y
Total	**33,189,745.6**	**33,080,689.8**	**2.3%**	**2.7%**	**(0.4%)**	**100.0%**			

Jarden (3 months ending 31 December 2021)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	2,820,310.0	3,531,490.0	0.3%	0.2%	0.1%	6.1%	2.0%	8.0%	Y
NZ Fixed Income	10,025,537.0	9,565,414.0	(1.1%)	(1.4%)	0.3%	16.4%	15.0%	24.0%	Y
International Fixed Income	13,650,971.0	13,506,769.0	-	0.2%	(0.2%)	23.2%	23.0%	28.0%	Y
NZ Property	1,625,150.0	1,652,653.0	2.8%	1.8%	1.0%	2.8%	1.0%	4.0%	Y
NZ Equities	9,996,397.0	9,431,481.0	0.5%	(1.8%)	2.3%	16.2%	13.0%	18.0%	Y
Global Equities	17,354,177.0	18,557,348.0	7.9%	8.8%	(0.9%)	31.8%	25.0%	34.0%	Y
International Property	1,852,649.0	2,080,011.0	12.7%	13.0%	(0.3%)	3.6%	1.0%	4.0%	Y
Total	**57,325,191.0**	**58,325,166.0**	**2.9%**	**2.5%**	**0.5%**	**100.0%**			

- The HBRC PFIF was $66.508 million in size as at 31 December 2021, up from $65.261 million as at 30 September 2021. The portfolio returned positive net returns of $1.247 million over the quarter.
- 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 $63.651 million as at 31 December 2021, leaving $2.856 million in reserves.
- The Mercer sleeve of the HBRC PFIF returned 2.1% net of fees over the December quarter, bringing the total cumulative return since inception to 17.1% (7.1% annualised).
- The Jarden sleeve of the HBRC PFIF returned 2.6% net of fees over the December quarter, bringing the total cumulative return since inception to 19.1% (7.9% annualised).
- Portfolio compliance with the SIPO - both the Mercer and Jarden portfolios are compliant. *Note: Jarden reports the HBRC and HBRIC 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).

	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
30/09/2021	33,189,746	15,581,477	48,771,223	47,760,443	
31/12/2021	33,080,698	15,826,880	48,907,578	47,999,245	-1,300,000

Performance Summary

The Mercer HBRIC PFIF portfolio also returned 2.1% net of fees over the quarter, underperforming the benchmark by 0.6%.The Jarden HBRIC PFIF portfolio returned 2.6% net of fees over the quarter, outperforming the benchmark by 0.1%. There was a withdrawal of $1.300 million from the PFIF over the quarter so the total value only increased by $0.137m.

Quarter ending	Mercer Net Returns HBRC (port proceeds)	Mercer Benchmark Returns HBRIC & HBRC (port proceeds)	Jarden Net Returns HBRC - Port Consolidated	Jarden Benchmark Returns HBRIC & HBRC (port proceeds)
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	0.7%	0.7%	0.0%	0.5%
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%	2.0%	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%
30/09/2021	1.0%	0.9%	1.0%	1.0%
31/12/2021	2.1%	2.7%	2.6%	2.5%
Financial YTD	3.2%	3.0%	3.7%	3.5%
Days Invested in Financial Year	184	184	184	184
Financial YTD (annualised)	6.4%	7.2%	7.4%	7.0%
Cumulative Return Since Inception	17.1%	14.3%	19.13%	20.4%
Annualised Return Since Inception	7.1%	6.0%	7.9%	8.4%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	837	837	838	838
Reported balance as at 31-Dec-21 ($)	24,009,858		58,325,165	
Total Capital Contributions ($)	21,978,750		52,791,648	
Net Returns ($)	3,626,711		9,820,758	

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Breakdown of individual funds by Investment Manager

Mercer (3 months ending 31 December 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	101,136.0	36,343.1				0.2%	-	20.0%	Y
Index Cash Portfolio	1,714,337.1	1,543,636.0	0.2%	0.2%	-	6.4%	-	20.0%	Y
NZ Sovereign Bonds	3,049,857.8	3,329,559.3	(1.5%)	(1.8%)	0.3%	13.9%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,795,565.5	2,813,588.6	(0.1%)	0.4%	(0.5%)	11.7%	5.0%	25.0%	Y
Global Credit	2,536,010.6	2,608,315.2	-	0.1%	(0.1%)	10.9%	5.0%	25.0%	Y
Other Fixed Interest*	1,549,198.2	1,556,325.5	(0.3%)	0.2%	(0.5%)	6.5%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,472,202.8	1,696,671.1	(0.7%)	(1.7%)	1.0%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	6,742,769.8	6,807,477.3	6.3%	8.4%	(2.1%)	28.4%	17.0%	37.0%	Y
International Listed Property	689,474.7	737,345.1	10.7%	10.2%	0.5%	3.1%	-	10.0%	Y
Unlisted Property	1,014,148.8	944,382.1	2.5%	2.2%	0.3%	3.9%	-	10.0%	Y
International Listed Infrastructure	675,324.4	727,220.4	7.2%	7.4%	(0.2%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,176,994.7	1,208,994.6	2.1%	3.9%	(1.8%)	5.0%	-	10.0%	Y
Total	**23,517,020.5**	**24,009,858.3**	**2.3%**	**2.7%**	**(0.4%)**	**100.0%**			

Jarden (3 months ending 31 December 2021)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	2,820,310.0	3,531,490.0	0.3%	0.2%	0.1%	6.1%	2.0%	8.0%	Y
NZ Fixed Income	10,025,537.0	9,565,414.0	(1.1%)	(1.4%)	0.3%	16.4%	15.0%	24.0%	Y
International Fixed Income	13,650,971.0	13,506,769.0	-	0.2%	(0.2%)	23.2%	23.0%	28.0%	Y
NZ Property	1,625,150.0	1,652,653.0	2.8%	1.8%	1.0%	2.8%	1.0%	4.0%	Y
NZ Equities	9,996,397.0	9,431,481.0	0.5%	(1.8%)	2.3%	16.2%	13.0%	18.0%	Y
Global Equities	17,354,177.0	18,557,348.0	7.9%	8.8%	(0.9%)	31.8%	25.0%	34.0%	Y
International Property	1,852,849.0	2,080,011.0	12.7%	13.0%	(0.3%)	3.6%	1.0%	4.0%	Y
Total	**57,325,191.0**	**58,325,166.0**	**2.9%**	**2.5%**	**0.5%**	**100.0%**			

Total Future Investment Fund (PFIF)	**57,325,191.0**	**58,325,166.0**	**2.9%**	**2.5%**	**0.5%**

- The HBRIC PFIF was $48.907 million in size as at 31 December 2021, up from $48.771 million as at 30 September 2021. The portfolio returned positive net returns of $1.436 million over the quarter.
- 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 $47.999 million as at 31 December 2021, leaving $0.908 million in reserves.
- The HBRIC PFIF increased over the quarter as a whole but only by $0.136m because there was a withdrawal of $0.800 million from Mercer and $0.500 million from Jarden.
- *Note: Jarden reports the HBRC and HBRIC PFIF on a consolidated basis for measuring SIPO asset allocation.*

Combined Funds (LTIF & PFIF)

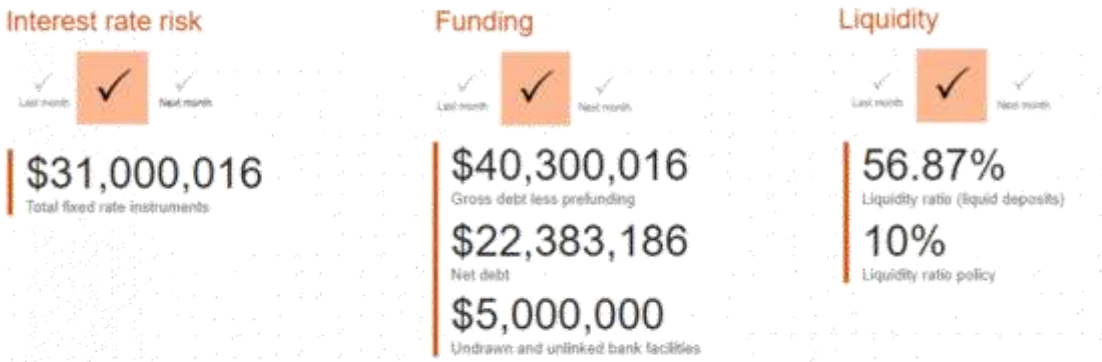
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	112,160,864
30/09/2019	76,728,303	76,077,266	152,805,569	153,377,789	
31/12/2019	77,649,376	77,718,572	155,367,947	154,144,678	
31/03/2020	72,645,309	73,823,833	146,469,142	154,915,401	
30/06/2020	78,242,991	78,454,546	156,697,537	156,354,908	
30/09/2020	81,373,849	80,866,664	162,240,513	157,136,683	
31/12/2020	81,158,833	81,379,035	162,537,868	157,922,366	-7,670,755
31/03/2021	81,274,367	82,076,316	163,350,683	158,711,978	
30/06/2021	81,042,433	81,823,156	162,865,589	159,505,538	-6,224,254
30/09/2021	81,880,758	82,634,961	164,515,719	160,303,066	
31/12/2021	82,792,110	84,336,271	167,128,381	161,104,581	-1,300,000

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD $m)	Maturity	Interest Rate
31-Dec-2021	BNZ	Cheque/call	3.886	Overnight	0.05%
31-Dec-2021	ANZ	Cheque/call	12.029	Overnight	
24-Sep-2021	Westpac	Term deposit	2.0	24-Jan-2022	1.21%
Total			17.916		

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 call amounts and term deposits of $17.916m. New treasury transactions in the period are outlined in Appendix 1.

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6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	**Actual (as at 31 December 2021)**
Net external debt as a percentage of total revenue	<150%	<175%	***n.a.****
Net interest on external debt as a percentage of total revenue	<15%	<20%	***n.a.****
Net interest on external debt as a percentage of annual rates income	<20%	<25%	***n.a.****
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	**57%**

*data not available due to the decision being made to not prepare financial statements due to the implementation of a new financial system.

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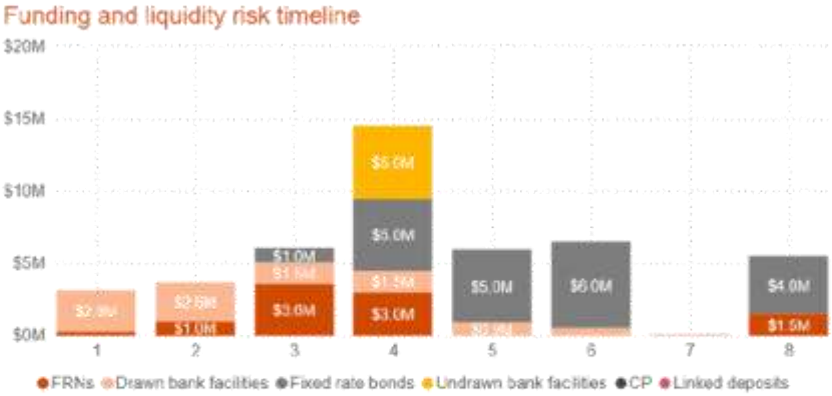
7.0 Funding and Liquidity Risk Position

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.



Liquidity summary

56.87%
Liquidity ratio (liquid deposits)

$40,300,016
Gross external debt, less prefunding

$5,000,000
Undrawn and unlinked bank faciliti...

$17,916,830
Liquid assets

$0
Linked deposits

Funding summary

Bucket (years)	Maturing in period ($)	Policy	Actual
7 - 15	5,500,000	0% - 60%	12%
0 - 3	13,299,988	15% - 60%	29%
3 - 7	26,500,028	25% - 85%	59%
Total	**45,300,016**		**100%**

*The profile includes both fixed rate bank bonds and fixed rate borrowings from the LGFA.

Debt Funding Strategy

As at 31 December 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. We continue to lengthen the term of the debt portfolio to maintain a smoothed debt maturity profile over time.

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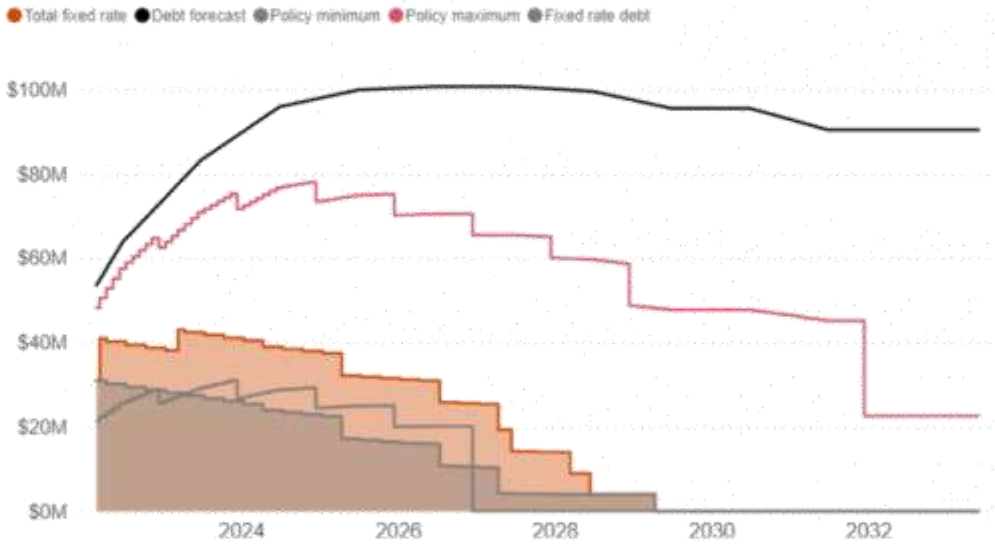
8.0 Interest Rate Risk Position

This section is based on the long-term debt forecast which is based on the current adopted LTP. 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/loans 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%	61%
2	12 - 24	35%	85%	50%
3	24 - 36	30%	80%	42%
4	36 - 48	25%	75%	34%
5	48 - 60	20%	70%	29%
6	60 - 72	0%	65%	19%
7	72 - 84	0%	60%	8%
8	84 - 96	0%	50%	1%
9	96 - 108	0%	50%	0%
10	108 - 120	0%	50%	0%
11	120 - 132	0%	25%	0%
12	132 - 144	0%	25%	0%

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Interest rate strategy

As at 31 December 2021 the interest rate risk position was within policy compliance.

The current swap curve and implied BKBM rates have aggressive interest rate increases priced in over the next two years which do not align with PwC's current outlook for OCR increases. PwC recommends the fixed rate position be maintained at minimum policy limits in the 0-3 year time period. The longer-term interest rate management strategy is to move towards policy mid-points from 3-years onwards at appropriate market pricing. Inflation concerns have driven interest rates higher but this has happened so rapidly in the short end that the NZ Interest Rate Swap curve is extremely flat after year two. This supports forward starting swap strategies. Minimum percentages will be maintained but any increase in the fixed rate position above minimums will be transacted when swap rates are at appropriate levels, below 2.80%.

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 ($m)	31/12/21 ($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)**
*n.a.**	0.1	*n.a.**	0.9

*data not available due to the decision being made to not prepare financial statements due to the implementation of a new financial system.

11.0 Counterparty Credit

All counterparty credit exposures are fully compliant with policy.

Counterparty credit limits

Counterparty	Investment exposure	Investment limit	Derivatives exposure	Derivatives limit	Total exposure	Total limit	Compliance
ANZ	$12,029,915	$15,000,000	$0	$5,000,000	$12,029,915	$20,000,000	✓
BNZ	$3,886,915	$15,000,000	$0	$5,000,000	$3,886,915	$20,000,000	✓
Westpac	$2,000,000	$15,000,000	$2,717,043	$5,000,000	$4,717,043	$20,000,000	✓

12.0 Market Commentary

Interest rate markets

The New Zealand interest rate market saw a further upward evolution, coupled with bouts of significant volatility, during the fourth quarter of 2021. Across the period, the interest rate swap curve developed a flatter shape as increases in the outright levels of the short end (terms of 0 - 2 years) outpaced increases further along the curve. This shift in shape is illustrated by the change in spread between the ten-year and two-year interest rate swap - from 82 basis points at the start of October, to 47 basis points by the end of December.

There were a number of factors driving interest rate movements during Q4. Chief among them were a continued elevation of inflation expectations and further declines in the unemployment rate. These market drivers are far from unique to New Zealand. With other major developed economies facing similar challenges, and increasingly acknowledging those challenges during Q4 (principally through rhetoric and forward guidance rather than changes to base interest rates), the case for increases to the OCR at the October and November RBNZ meetings was bolstered.

Consumer inflation has not historically respected geographic boundaries. It is the market's expectation of future RBNZ action in response to increasingly persistent and elevated global consumer inflation readings that prompted a 75 basis point lift in the outright level of the two-year interest rate swap during Q4 - from 1.40% to 2.15%. Those expectations were broadly supported by the words and actions of the RBNZ across the December quarter, elevating the OCR to 0.75% (from 0.25%) and presenting an OCR-track to serve as a road map for policy normalisation. This involves returning the OCR to the rate viewed as neutral - neither providing support or restriction to the domestic economy. The RBNZ presently projects this level to be near 1.75%, though it is a moving target. The challenges the bank faces with regard to employment and inflation are, by and large, supply-side issues. OCR increases are predominantly a demand-side tackling tool. Still, the RBNZ are obligated to take action. Market expectations of a more aggressive pace of increases to the OCR over 2022 have lifted mortgage rates above pre-Covid levels - acting as a handbrake for demand-side inflation drivers. At its final meeting of 2021 (November) the RBNZ managed to strike a balance, softening market expectations of future OCR action slightly without denting the advance in borrowing costs.

The influence of the RBNZ on the interest rate swap curve generally wanes with term - the impact of RBNZ comments and action on the short-end of the curve are considerably more pronounced than the long-end. Traditionally, foreign interest rate markets, most notably US sovereign debt yields, have exerted a greater degree of influence over longer-dated domestic swap rates. While that relationship wavered during Q4, the resumption of global risk-off themes toward the end of calendar 2021, including geopolitical tensions in eastern Europe and the continued prominence of Omicron, saw the correlation re-firm in December. This served to limit interest rate appreciation across the long-end.

The next MPS release is not scheduled until 24 February 2022. By that point the RBNZ will have access to high-frequency data charting the economy's performance across the summer (post-lockdown) period. In addition, the bank will have observed the global impact and response (both health and economic) to the Omicron strain, as well as receiving official employment and inflation statistics for Q4 of 2021. The RBNZ wishes to take considered steps, and that consideration requires hard data and time.

Equity markets

The fourth quarter of 2021 saw developed market equities rally to provide investors with another calendar year of strong positive returns. While the concerns which erased gains at the end of the September quarter remained, namely inflation fears and China developments, investors were more concentrated on strong corporate earnings and evidence of economic resilience. The MSCI World Index rose 8.4% in NZD terms. However, this recovery in sentiment did not completely flow through into Asian or emerging markets which suffered losses over quarter. The NZD also ended the quarter lower which boosted returns in NZD terms as the USD strengthened on the back of higher US inflation and interest rates.

Of developed market equities, performance was strongest in the United States. The Federal Reserve's hawkish pivot led to a volatile and weaker November, but US markets quickly recovered when data came out indicating covid impacts were waning. Focus then very much turned to the robust corporate earnings of US equities and prospects of further earnings growth in 2022. The S&P 500 ended the quarter up 11.6% in NZD terms. Tech, particularly chipmakers, and real estate were the strongest sub-sector performers over the period.

Eurozone and UK equities were much the same as US equities. Strong corporate profits and signs of economic resilience helped offset Omicron worries, allowing for positive returns. IT stocks, driven by technology hardware and semiconductor stocks, as well as the luxury goods sector also performed strongly. The MSCI EMU Index was up 4.6% in NZD terms over the quarter. In the UK, while many equity sectors recovered losses felt in November, some areas more reliant on economies reopening, such as travel and leisure, ended the quarter lower. Defensive stocks outperformed and overall, the FTSE All-Share Index registered a strong positive return of 5.3% in NZD terms for the quarter.

For Asian and emerging market equities, the emergence of Omicron in the December quarter caused a broad market sell-off that was largely not recovered from. Japanese equities did retrace some of their losses in December, with surprisingly positive economic data helping lift investor sentiment, but also ended the quarter with a negative return. China, with a significant weighting in both Asian and emerging market equity indices, was a major drag on performance as it fared badly from the emergence of Omicron due to rising case numbers and its adherence to a Zero Covid strategy. Ongoing concerns over slowing growth, a looming property crisis and its regulatory crackdown did not help either.

New Zealand equities finished up the year underwhelmingly as the NZX50 delivered a -1.8% return for the December quarter and overall, -0.4% for 2021. NZ equities underperformed offshore peer markets, with rising interest rates in the final months of the year having an exaggerated impact due to the high proportion of interest rate sensitive sectors in the NZX50. Furthermore, the Covid-19 restrictions put in place for Auckland in mid-August carrying through to December would have dampened sentiment towards the NZ market. Australian equities fared better; the ASX 200 Index rising 3.6% in NZD terms over the quarter.

Funding markets

A total of 33 local government borrowers raised $1.76 billion in the December quarter. A total of 61 separate funding transactions occurred, of which, all but four transactions were conducted via the LGFA. However these four transactions accounted for 54% of the borrowing activity over the quarter. Borrowing volumes were very strong as some Councils undertook pre-funding activity ahead of the April 2022 debt maturity as well as raising new debt. Borrowing was largely undertaken on a floating rate basis with 89% of all borrowing undertaken by Councils was floating with a weighted average term of 5.6 years.

LGFA credit margins have traded in a tight range in Q4, particularly in the short end of the LGFA's funding curve. We have seen the spread between shorter dated and longer dated credit margins increase ever so slightly, resulting in a moderately steeper LGFA funding curve.

The LGFA had a successful first bond tender of the year in February, with investor demand for LGFA bonds remaining strong. There was minimal Kauri issuance in the December quarter. We continue to expect the other highly credit-rated issuers such as Kāinga Ora and Kauri issues to provide strong competition for investor funds over 2022 with the credit margins over Government Bonds remaining attractive to investors.

Looking ahead, we expect demand for LGFA bonds to remain strong and credit margins to continue to move more or less across the page over the next quarter. However, we retain a slight upward bias on longer-term tenors as the global vaccine rollout continues to progress and central banks begin to tighten monetary policy.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
	Jarden SIPO cash allocation non-compliant (below target range)	Y	Asset value fell below the SIPO range on 31 December due to market factors and is back within policy compliance as at the beginning of January 2022.

14.0 Appendix

New Treasury Transactions up to 31/12/2021

No funds borrowed during the quarter

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: HBRC Forestry Update

Reason for Report

1. This paper provides a summary of Hawke's Bay Regional Council's (HBRC) forestry assets as requested by Finance, Audit and Risk Sub-committee (FARS) on 15 December 2021.
2. The last comprehensive update on HBRC's forest assets was presented to Corporate and Strategic Committee, 23 September 2015 after request by the Committee for a paper *"…establishing values other than commercial that demonstrate the justification for Council maintaining this investment and projecting the ongoing forest management programme beyond 10 years to cover the rotation period of the range of species."*

Executive Summary

3. Local authorities own or manage 53,282 hectares (ha) of forest land in New Zealand (Attached).
4. HBRC manages the 550ha Crown-owned Tangoio Soil Conservation Reserve as required by section 16 of the Soil Conservation and Rivers Control Act (1941). 58% (320ha) of the Reserve is currently in commercial forestry and the remainder in native forest at varying stages of regeneration. Commercial forest in the Reserve has a 30 June 2021 valuation of $6,214,000 (Attached).
5. In addition, there are 529ha of commercial forestry across five HBRC-owned properties of a combined area of 1029ha. These properties have a range of objectives as will be described in this item and which include wastewater irrigation, carbon sequestration, recreation, and trialling and demonstrating alternative timber species. Commercial forest in the HBRC properties has a 30 June 2021 valuation of $7,754,800.
6. Around 24ha of commercial forest has been established on river land controlled by HBRC. This is currently unvalued.
7. HBRC is a minor partner in 190ha of erosion-control forests across the region. These are expected to return in the realm of $500,000 to HBRC over the coming 10 years.
8. HBRC has a significant carbon portfolio of 146,400 post 89 NZU and 14,907 pre 1990 NZU, currently worth $13 million at the current price of $82.
9. Detailed management plans are in place for the Tangoio Soil Conservation Reserve and the HBRC Forest Estate and have been approved by two trained foresters, one a member of the New Zealand Institute of Forestry. The Maungaharuru Tangitū Trust has approved the management plan for the Tangoio Soil Conservation Reserve as is required by the Mana Enhancing Agreement signed with HBRC in 2016. Objectives and policies from the plans have been provided in this item and full plans will be provided to Councillors on request.

Strategic Fit

Water quality safety and certainty

10. All of the forests provide erosion control and sediment reduction benefits to some extent, but in the Waipukurau and Waipawa Forests this is negligible as the land is very stable anyway. In the erosion-prone soils of Tūtira, Waihapua and Tangoio, the benefits are significant. Having replaced the network of aging septic tanks with a more sustainable option, the Mahia Forest plays an important role in improving water quality and safety in that area.

Smart sustainable landuse

11. The HBRC Forests are all multi-use properties. As well as the financial returns they generate via carbon sequestration and log sales, they play important roles in the communities in which they are situated.

Healthy and functioning biodiversity

12. The Tangoio Soil Conservation Reserve and Mahia Forest contain areas classified by HBRC's ecologists as ecosystem prioritisation sites. Significant areas of native are being planted and regenerated in the Tūtira and Waipukurau Forests, and the Tangoio Soil Conservation Reserve over the coming years.

Sustainable services and infrastructure.

13. The Mahia Forest provides an important wastewater treatment function to the Mahia Community, and the Waipukurau Forest (also known as Gum Trees Mountain Bike Park) is a popular recreational venue and attraction to the town. Management of the Tangoio Soil Conservation Reserve is very important in ensuring the ongoing integrity of the section of State Highway 2 that runs through it. Due to access limitations, the Waihapua Forest Park has not yet been developed, but there is strong support for this in the surrounding Tūtira Community as represented by the now disbanded 'Tūtira Visionary Group'.

Background

Tangoio Soil Conservation Reserve

14. The Tangoio Soil Conservation Reserve comprises 550ha adjacent to State Highway 2 between Tangoio and Tūtira, acquired by the Crown in 1946 for the protection of the Highway, following ongoing closures due to slips, most notably the 'Anzac Storm' of 1938 which caused the Highway to be closed for a period of months.

15. The Reserve was managed in turn by a series of Government departments, before this responsibility passed to the Hawke's Bay Catchment Board and then its successor HBRC in 1989 as required by Section 16 of the Act:

    15.1. *"Every soil conservation reserve shall be under the control and management of the Board within whose district it is situated, and the Board shall manage and control the reserve in such manner as in its opinion will best conserve the soil of the reserve and prevent injury to other land."*

16. Currently, 58% of the Reserve's area (320ha) is in commercial forestry and the remainder in varying stages of reversion to native forest. Returns from the commercial forestry are held in a Reserve Fund, which is used to entirely fund the management of the Reserve - no ratepayer funds are used in the management of the Reserve.

17. Budgets are reviewed every 3 years and cashflows modelled over 40 years to ensure the ongoing sustainability of the Reserve Fund. As required by Sections 21-23 of the Maungaharuru Tangitū Hapū Claims Settlement Act (2014), surplus funds not required for Reserve management are transferred to a 'Catchments Fund' where they available for carrying out soil conservation projects in the surrounding catchments in partnership with the Maungaharuru Tangitū Trust (MTT).

18. To date, $320,000 of Reserve Funds have helped leverage some $6 million in funding for the MTT-led projects *Tūtira Mai Ngā Iwi*, *Te Waiū o Tūtira*, and *Kia eke Te Ngārue, Kia eke Arapawanui.*

19. A Mana Enhancing Agreement signed with MTT in 2016 requires HBRC to maximise training and employment opportunities for MTT in the Reserve, and for HBRC and MTT to agree the Reserve's three-yearly management plans.

20. As the forests on the Reserve were established prior to 1990, they are not eligible for entry in the Emissions Trading Scheme and earning NZU.

Forests owned by HBRC

River Berms

21. Around 24ha of forest is planted on river berms around the region. Generally, soils are very stony and conditions for tree growth are poor in these sites. River berms are also invariably weed hot spots and control of these in newly established plantings can be challenging.

22. Despite these challenges, forests are a good use for the many unused hectares of river berm land controlled by HBRC. As well as the revenue from carbon and logs, tree canopies assist in shading out the various weeds over time and negate the need for grazing and the associated risks of nutrient loss in the free-draining gravel soils. The flat terrain ensures low logging costs with no tracking and subsequently low risk of sediment loss.

23. 6ha of the river berm forests are radiata pine established in the mid to late 1990's. The other 18ha is a 2021 planting of radiata pine (14ha) and eucalyptus bosistoana (4ha) on the left bank of the Waipawa River off Walker Road.

24. While the Walker Road planting is too newly established for registration in the emissions trading scheme, HBRC's extensive willow plantings received a one-off allocation of 14,907 pre-1990 NZU in 2008.

Joint Venture Forests

25. Between 1994 and 2000, HBRC entered into 10 joint ventures with landowners across the region to establish radiata pine plantations on some 190 hectares of erosion-prone land. The joint venture contracts expire on harvest of the trees or expiry of the 35-year term.

Owner	YOE	Logging Date (at 30yrs)	Ha	Estimated Ha Harvestable	HBRC share	Estimated HBRC revenue
Netherton Station	1995	2025	29	14	14%	$35,000
McRae Trust	1995	2025	9.5	9.5	13%	$30,875
Roy Stoddart	1995	2025	40	4	15%	$ -
Parsons Estate	1996	2026	22.6	22.6	22.6%	$127,690
Beamish	1996	-	5.4	0	18%	$ -
Waipari Station (Kairākau)	1997	2027	20	20	16.6%	$83,000
Lloyd and Virginia Cave	1997	2027	30	30	13%	$97,500
Bruce Goldstone	2000	2030	4.5	4.5	13%	$14,625
Waipari Station (Glengarry)	2000	2030	20	20	14%	$70,000
Haupouri Station	2000	_	8.4	0	18%	$ -
Totals			189.4	124.6		$535,385

Table 1: HBRC Joint Venture Erosion Control Forests

26. Though erosion control was HBRC's primary objective, the agreements anticipated the forests would eventually be harvested and generate a financial return. The objective of the joint venture contracts is stated in Clause 1.1 of each:

26.1. "*The goal of the parties hereto is the establishment and management of the Erosion Control Plantation, which is to be planted with rapidly growing exotic timber species, for a rotation period to ensure that the land within the Erosion Control Plantation is managed and harvested in a manner which will minimise the erosion impacts*".

27. More recently, staff have agreed with landowners that approximately 64ha of the joint ventures will not be harvested as the environmental impacts would be too great. Staff are looking into ways to use some of the revenue from harvesting the better joint venture forests to help revert the unharvested forests to native over time.

28. Management objectives for the joint venture forests are listed in the HBRC Forest Estate 2021-2031 Management Plan as:

    28.1. To ensure where harvest is environmentally and economically feasible, it is carried out with minimal soil conservation or environmental impacts

    28.2. To assist landowners in transitioning harvested sites to a sustainable post-harvest landuse

    28.3. To assist landowners to transition to permanent native forest where harvest is not environmentally or economically feasible

    28.4. To maximise financial returns from the forests without compromising the above objectives.

Tūtira Regional Park

29. 78ha of pine forest was established on the Tūtira Regional Park between 1991-1993, prior to HBRC purchasing the property, and a further 36ha immediately after. All were established primarily for soil conservation following the devastation wreaked by Cyclone Bola (Attached), with eventual financial returns from harvest being an important secondary objective.

30. The forest is currently in the process of being harvested and afterwards approximately 50% will be converted to native forest for permanent retirement. Council papers relating to the harvest procurement process were presented to EICC on 19 June 2019 and regarding the replanting on 3 February 2021.

31. The Tūtira mānuka plantation is not considered in this item and is described fully as a separate item in this agenda.

32. Management objectives for the Tūtira Forest are listed in the 2021-2031 HBRC Forest Estate Management Plan as:

    32.1. To manage the forest and plantation in a way that best supports the soil conservation, biodiversity, recreational, cultural and aesthetic values of the Regional Park

    32.2. To maximise soil conservation and minimise sediment loss to waterways and Lakes Tūtira and Waikōpiro

    32.3. To facilitate reversion to native forest over time

    32.4. To enhance biodiversity values on the property and create connections to other habitat in the District.

    32.5. To maximise financial returns from the Forest while not compromising any of the above.

Waihapua Forest Park

33. The Waihapua property had been of interest to HBRC for many years before the opportunity to purchase it arose in 2009. The reasons were summarised by a sub-committee of Council charged with forming a strategy statement for the property in the same year:

    33.1. "*It's significant open space and strategic value given its location adjacent to key amenity areas and Tangoio Soil Conservation Reserve; its potential to demonstrate land use options relating to soil conservation and waterways; its severely eroded nature (Attached); and its commercial advantages associated with timber and carbon trading.*"

34. Following purchase, Council developed the following Goal for the property:

    34.1. "*A profitable working example of integrated and multi-functional land use centred on sequestration and soil conservation forestry consistent with wider social, amenity, environmental and economic values and opportunities within the Tutira area."*

35. Council also identified key functions for the property as:

    35.1. *'social engagement, amenity values, recreation, the improvement of water quality, soil conservation, biodiversity and indigenous ecological values, research, and demonstration.*"

36. Council was advised at the time an internal rate of return of 6-7% was likely.

37. The name 'Waihapua Forest Park' was formally adopted by Council on 27 April 2011 after advice from Maungaharuru Tangitū Trust, endorsed by the Tūtira Visionary Group- a group formed around that time to encourage the development of tourism and other opportunities for the Tūtira District. The name is derived from a deep spring with special qualities found on the property.

38. Planting was planned in conjunction with the Hawke's Bay Branch of the New Zealand Farm Forestry Association and carried out between 2009 and 2013. More than twenty-five timber species on a range of management regimes were established (Attached). There are two dedicated trial sites on the property, one of eucalyptus fastigata, and the other of mixed ground durable eucalyptus species. The site-specific planting resulted in many small compartments, useful for trial and demonstration purposes, but significantly increasing the difficulty of logging economically using conventional methods.

39. Approximately 30ha of the property was deemed to be too steep and erosion-prone to establish in production forestry or was already in the early stages of reversion to native forest and not planted with production species on that basis.

40. As well as being envisaged as a future recreational and educational venue in its own right, Waihapua was seen as a key addition to a potential walkway over the corridor of public lands stretching almost uninterrupted for some 16km from the bottom of the Tangoio Soil Conservation Reserve In the south to the top of the Tūtira Regional Park in the north (figure 1 below).

Figure 1: Concept Plan, Tūtira Trails

41. Due to a lack of safe access to the property, it has not yet been developed and opened to the public. The main access is through private property, but the easement only provides for HBRC and its contractors. Other options are possible, but difficult to form tracks in given the steep and eroding nature of the land. Access from State Highway 2 is hazardous and would require investment before opening to the public.

42. Management objectives are listed in the HBRC Forest Estate 2021-2031 Management Plan as:

42.1. To maintain soil conservation on the property and minimise sediment loss to the Waikoau River and erosion impacts on State Highway 2

42.2. To establish and maintain secure access to the property for recreational use

42.3. To establish and maintain links from the property to Guthrie-Smith Arboretum and Education Trust and Tūtira Regional Park

42.4. To enhance biodiversity values on the property, creating connections to other habitat in the District

42.5. To demonstrate alternative commercial forest species and support the development of their genetics and markets

42.6. To maximise financial returns from the Forest while not compromising any of the above.

Mahia Forest

43. The Mahia Forest property was purchased in 2009 primarily as a receiving environment for Mahia township's treated wastewater, but also as a carbon and timber investment property.

44. Unlike the Central Hawke's Bay Wastewater Forests, Wairoa District Council (WDC) did proceed with irrigating treated wastewater into the Mahia Forest.

45. After being pumped over the hill from the township, the wastewater passes through a series of three settlement ponds, before being screened and pumped to irrigation fields in the forest. Irrigation in the different fields is alternated to allow them to fully dry out between applications and maintain the treatment capacity of the soils. Of the total 50ha land area, and 35ha forested area, approximately 11ha are used to treat wastewater.

46. A key risk in wastewater-irrigated forests is exceeding the treatment capacity of the soil. This was a major reason for the dissolution of Rotorua's Whakarewarewa Forest wastewater irrigation scheme after 28 years of operation. This risk is managed in the Mahia Forest through ongoing monitoring of tree health, application volumes and soil moisture levels. The risk to the environment is managed by monitoring water quality parameters in the stream leaving the forest.

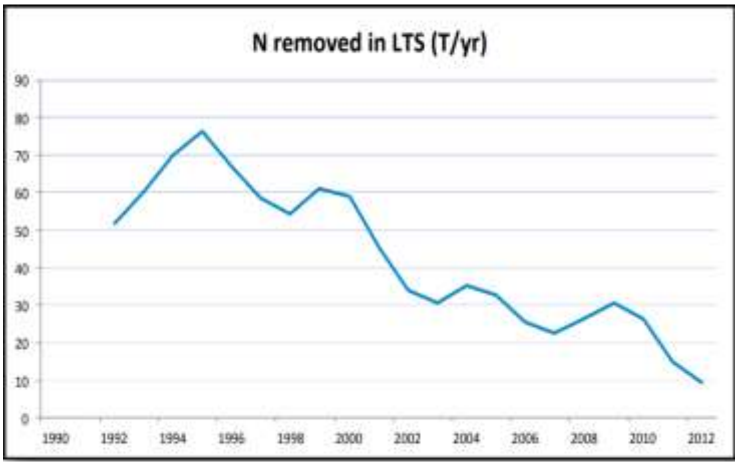

Figure 2: Nitrogen removed from Wastewater in the Whakarewarewa Land Treatment System Over Time[2]

47. Management objectives are listed in the HBRC Forest Estate 2021-2031 Management Plan as:

47.1. To maintain the ability of the Land to receive and effectively treat wastewater from the Mahia Township for the foreseeable future

[2] Rotorua Lakes Council. (2014). Rotorua Wastewater Treatment Plant Applications for Resource Consents and Assessment of Environmental Effects Support Document, No. 1. Retrieved from: https://atlas.boprc.govt.nz/api/v1/edms/document/A3028753/content

47.2. To protect cultural values within the Forest, and in particular the registered archaeological sites

47.3. To enhance biodiversity values in the Forest, building on the work of the Predator Free Mahia Project

47.4. To maximise financial returns from the Forest while not compromising any of the above.

Central Hawke's Bay Forests: Waipukurau and Waipawa

48. The two Central Hawke's Bay properties were purchased between 2009 – 2010 and, as with the Mahia Forest, were established in forest for the purpose of safely disposing of treated wastewater from the townships while earning revenue from carbon sequestration and 'high value hardwood timber'.

49. Central Hawke's Bay District Council opted for another option to deal with their wastewater, and the forests have never been used for this purpose.

50. In 2009 HBRC signed an MOU with the Rotary Rivers Pathway Trust, allowing the Trust use of the Waipukurau Forest for mountain biking for a term of 30 years. Since that time, the Trust has established approximately 15km of mountain bike tracks in the forest, with a further 5km scheduled for completion in the coming months. The Park is ridden an estimated 10,000 times annually.

51. Currently, the Waipawa Forest has only a commercial purpose, though two requests from the community have been made for its use. The Central Hawkes Bay District Council has requested the use of the forest for disposing of sludge remaining after their sewerage treatment, and the Hawkes Bay Riders' Club has requested its use for horse rides and potentially grazing.

52. Management objectives for the Central Hawkes Bay Forests are listed in the HBRC Forest Estate 2021-2031 Management Plan as:

52.1. To maintain the ability of the Land to receive and effectively treat Central Hawkes Bay wastewater if required

52.2. To maintain the recreational value of the Waipukurau Forest to the Central Hawkes Bay Community

52.3. To enhance biodiversity values in the Waipukurau, creating connections to habitat along the Tukituki River

52.4. To maximise financial returns from the Forests while not compromising any of the above.

Management

53. Currently, management of the Tangoio Soil Conservation Reserve and HBRC Forests is carried out by a Forests and Reserves Officer, in the Open Spaces Team of the Asset Management Group of HBRC.

54. Forest management decisions are made according to HBRC's standard financial delegations and significance criteria. Detailed management plans for the Tangoio Soil Conservation Reserve and HBRC Forests align with the LTP period and set out forest objectives and policies. The plans have been reviewed and approved by two reputable Hawke 's Bay foresters as well as the Team Leader Open Spaces and Group Manager, Asset Management.

55. Due to the high complexity of HBRC's carbon portfolio and the significant costs of calculation errors (both in terms of fines and impacts on decisions), carbon accounting is still contracted to an external consultant. Similarly, harvest in sensitive environments is contracted to harvest managers.

56. A position of both forestry regulator and manager puts HBRC in an unusual situation and entails risks of the regulator being held to account for its own practices, a risk that is greater than that of many other local authorities given the erosion prone and environmentally sensitive nature of a large area of its forests. However, this is not an unreasonable expectation and helps HBRC to

keep skin in the game of forestry, form solid working relationships with industry, and sustain expertise within the organisation in making decisions and advising on matters relating to forestry.

Discussion

Key Issues

Alternative species

57. HBRC forests contain a wide range of species as shown in Figure 3 below. Though generally alternative species don't provide the certainty or level of harvest returns of radiata pine, in some situations, other priorities such as aesthetic value and carbon sequestration have taken precedence. Past replanting decisions, particularly at Waihapua, also reflect Council's desire to support species diversification within the New Zealand Forest Industry.

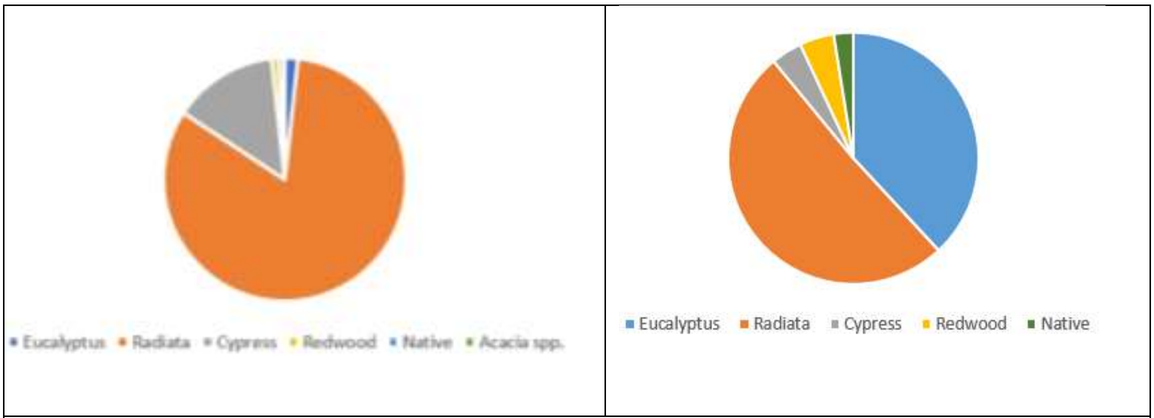

Figure 3: Species mix in TSCR (left) and HBRC Forests (right)

58. The current HBRC Forest Estate Management Plan species selection policy attempts to balance these objectives with managing risk in the returns on investment of ratepayer funds (particularly given the increasing area returning to native) by maintaining radiata pine at around 50% of the commercial area of the estate with the remainder allocated to alternative species. Given the importance of maintaining the sustainability of the TSCR reserve fund and Catchments Fund and the progressively decreasing area of commercial forest, the species selection policy there is 75% radiata pine, once again applied to the commercial area only. This ratio will be revised at the next management plan period (3-yearly to coincide with the LTP period), particularly given the recent high prices for some cypress species.

59. The development of alternative timber species has historically been limited in large part by limited resources spread widely over a variety of species. Recently, leadership in projects such as the Specialty Wood Products Partnership (SWPP), New Zealand Drylands Forest Initiative (NZDFI), and the Cypress Interest Group of the New Zealand Farm Forestry Association has focused effort and resources more effectively behind the most promising species.

60. Small volumes of alternative species have become available for milling recently- eucalyptus fastigata were situated amongst radiata pine logged at Tangoio, and large eucalyptus regnans and *juglans nigra* (black walnut) will be felled soon in a land clearance exercise, also at Tangoio. In general though, the alternative species are all young and, particularly as alternative species have longer rotation ages than radiata pine, no significant volumes will become available for harvest for at least another 15 years. It is difficult to model financial returns from alternative species given the small volumes traded and subsequent lack of market data.

61. Under current market conditions, the large areas of eucalyptus fastigata and regnans on the HBRC estate are uneconomic to harvest and are a carbon crop only. Although the timber able to be effectively processed is of reasonable quality, markets for the logs are very limited and prices very low. This is mostly due to very poor recovery of sawn timber from logs (~50%) due to

issues with warping, cell collapse and splitting during and after milling, and the time and handling in trying to minimise these issues. It is possible markets for these species may develop in the future as technology in wood biofuels, LVL (laminated veneer lumber), and CLT (cross laminated timber) develops.

62. Species selection objectives and policies are listed in the *HBRC Forest Estate Management Plan* as:

Objectives

4.9.1 To grow species appropriate for site and best meeting the Council's financial and non-financial forest management objectives.

4.9.2 To support well founded species diversification of the New Zealand Forest Estate.

Policy

4.9.3 Select native species in preference to exotic where they are equally able to achieve the given management objectives.

4.9.4 Confirm replanting species selection choices prior to harvest based on the most current advice and information available and on the criteria of:

4.9.4.1 Alignment with primary management objective of the land, ie either erosion control or wastewater treatment, and secondarily recreational access.

4.9.4.2 Site suitability.

4.9.4.3 Financial returns on investment.

4.9.4.4 Contribution to regional economy (regional processing opportunities).

4.9.4.5 Aesthetics (in high public use areas).

4.9.4.6 Strategic alignment with industry initiatives and HBRC goals

Carbon forests and carbon trading

63. Carbon farming was a significant factor in the purchase of the Waihapua, Mahia, Waipukurau and Waipawa Forests and the decision to plant large areas of fast-growing eucalyptus species in them. Apart from the highest erosion susceptibility land at Waihapua, they weren't envisaged as being permanent forests, and timber production was listed as a complementary objective, though as described previously this will be difficult to achieve.

64. The NZU balance earned in the forests to date and modelled into the future is shown in figure 4 below. The dotted line indicates the decreasing accuracy in predicting NZU balances at extended timelines. At the current historic high of $82 per NZU, the balance of 146,400 post 89 NZU and 14,907 pre 1990 NZU is currently worth $13 million.

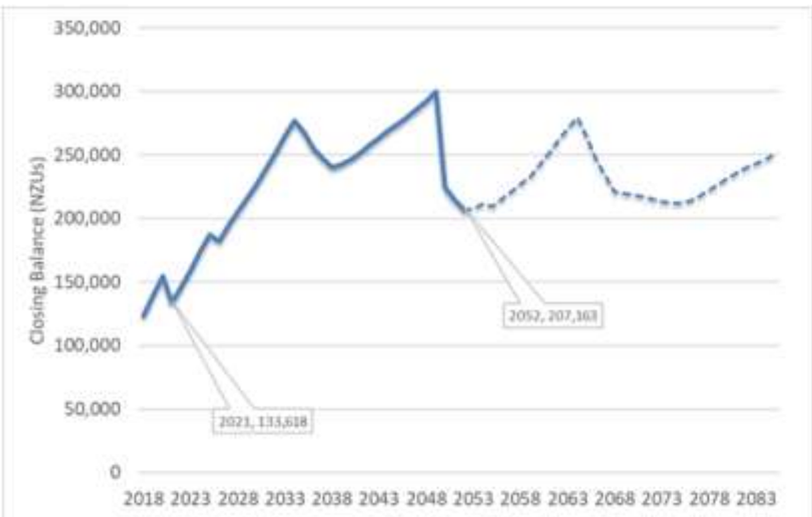

Figure 4: Forecast HBRC NZU balance to 2083

65. While HBRC will trade NZU for the first time in the near future to address climate change related issues (to fund a Climate Change Ambassador role and address forest health issues in HBRC's Central Hawke's Bay forests), HBRC does not currently have a carbon trading policy.

Central Hawke's Bay eucalyptus regnans

66. Large areas of eucalyptus regnans (approximately 75ha) were planted in the establishment of the Central Hawke's Bay forests. As a rapidly growing species, e. regnans takes in large volumes of water and nutrients and is well-suited to wastewater irrigation. In addition, stands of healthy e. regnans hold more carbon than any other forest type in the world making them well suited to carbon forestry.

67. However, without irrigation e. regnans isn't a suitable species for the CHB climate. The rainfall band in it's natural range in Tasmania and southern Victoria is 900-1100mm[3], whereas the five year average for Waipukurau is 690mm, with recent lows of 550mm in 2019 and 530mm in 2020.

68. Approximately 3.5ha (8%) of the e. regnans in the Waipukurau Forest and 2ha (5%) of the e. regnans in the Waipawa Forest died in the 2019-2020 and 2020 -2021 summer droughts. Tree mortality was worst in areas with northern aspects and the poorest soils. These areas have been cleared for replanting in more suitable species, but particularly given the predicted impacts of climate change, more deaths are likely in the future.

69. There are no markets for the trees at this age. Due to their size, a lot of manual handling is involved in processing and carting them for firewood. Firewood merchants these days prefer large diameter logs processed using automated machinery, allowing many m^3 of wood to be carted and processed efficiently and with little manual labour.

70. A minimum age of 40 years is generally recommended before e. regnans can be sold and milled for timber, in order to better deal with the growth stresses, splitting and warping the species is prone to. Even then, markets for the trees are very limited and if they can be found at all they pay poorly, as described previously.

71. In addition, fire risk in the properties is significant. The e. regnans and other eucalyptus species in the forest are all of high flammability, and even the radiata pine is classed as moderate in this regard. Land on the western boundary of the Waipukurau Forest, in the direction of greatest risk due to the prevailing wind, has been subdivided and is being sold in lifestyle blocks, and the risk of fires being started from human actvity and migrating into the property from these properties will increase.

72. The replanting plan for the Waipawa Forest is on hold pending a decision on whether HBRC is going to retain the property or not. If the property is to be sold, staff recommend leaving the cleared areas unplanted given purchasers may not want those areas back in forest. If the property is retained and Council agrees to CHBDC's request to dispose of biosolids on it, the replanting plan will need to be made with that in mind.

73. Members of the NZ Farm Forestry Association and the Rotary Rivers Pathway Trust (the organisation that has established the mountain bike tracks in the forest) were involved in planning the replanting of the Waipukurau Forest cleared areas. The plan is still being confirmed, but key principles at this point are:

    73.1. Radiata pine isn't the best fit with the recreational values of the forest. Aesthetically, there are better options, and the harvest regime for radiata pine would require largely destroying the approximately $300,000 investment in mountain bike tracks every thirty (30) years. Planting species able to be logged selectively and milled in small local or portable mills for niche markets would minimise this damage and disruption to the

[3] Williams, B & Besednjak, T. (2007). EM112 Gumeracha Eucalypt Climate Change Trials 2007 Interim Report. Retrieved from: *https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.733.3033&rep=rep1&type=pdf*

recreational use of the property. As the forest is generally easy rolling contour, this method of harvest will be easily achievable.

73.2. Deciduous trees and broad-leaved natives are far less flammable than exotic conifers due to the volumes of water they hold in their leaves and stems over summer periods, and in the Waipukurau Forest this is an important factor given the issues described previously. Poplars in particular have proven to slow wildfires in Australia when planted in dense belts. Oaks are the deciduous species with the most coordinated support behind their genetic and market development.

73.3. While HBRC already has a demonstration forest and trials in the higher rainfall environment of Waihapua (1,267mm 10-year average rainfall), the Waipukurau Forest provides an opportunity to replicate this in a dryland environment, including the use of lower flammability species. This is particularly relevant given the predicted impacts of climate change.

73.4. It is important that native vegetation is planted in the forest. Many of the eucalyptus trees will never provide a saleable log and at present are purely a carbon crop. For the longevity of the forest, there must be adequate native vegetation to take over before the eucalypts become too large and unmanageable. Native is beginning to regenerate underneath, but this process is slow due to the low rainfall and scarcity of native seed sources and needs to be supported. Native plants and trees would be difficult to establish on the hard bony sites that need replanting and will be planted more strategically in high amenity areas and in the wetter valley bottoms.

Access

74. HBRC is dependent on access across private land for entry to the Mahia and Waihapua Forests, and for log truck access to the Tūtira Forest, and for access to three areas of the Tangoio Soil Conservation Reserve. Only one of these access points is not protected by easement.

75. To log the trees in the Tangoio Soil Conservation Reserve above the Devil's Elbow, access will need to be gained across a further three properties. One of these access points will be a one-off requirement only as the area will not be replanted in commercial forestry, but easements will be sought for the other two given they will be replanted in commercial trees.

Waipawa Forest

76. The only property in the HBRC portfolio without a clear objective at this point is the Waipawa Forest. It is currently an underutilised and (given the *eucalyptus regnans* issues) a low productivity asset. Given CHBDC's interest in disposing of biosolids derived from waste water treatment on the property, a conversation has been initiated with them regarding the long term future of the site.

Next Steps

77. Review of Waipawa Forest to be undertaken to determine optimal use of this asset.

78. Develop an approach for a HBRC carbon trading policy.

Decision Making Process

79. 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:

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

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

Recommendation

That the Finance Audit and Risk Sub-committee receives and notes the "*HBRC Forestry Update*" staff report.

Authored by:

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Approved by:

Chris Dolley **Group Manager Asset Management**	**Jessica Ellerm** **Group Manager Corporate Services**

Attachment/s

1⇩ Forest assets of New Zealand Territorial Authorities

2⇩ HBRC Forests and Tangoio Soil Conservation Reserve Key Financial Figures

3⇩ Tutira photo points post-Cyclone Bola

4⇩ Waihapua Forest Map

5⇩ Waihapua photo point 1988 and 2021

Attachment 1: Forest assets of New Zealand Territorial Authorities

Table 1: Data from HBRC staff email survey 2019

Local Authority	Area of Forest	Area in Production Forest	Area in Radiata	Owned by	Managed by	Goals of Forest Management
Hawke's Bay Regional Council	1650	1170	490	550ha Crown Soil Conservation Reserve; rest HBRC	HBRC	Revenue from logs, carbon, and honey (mānuka plantation); demonstration of different species; species trials; soil conservation; wastewater irrigation / treatment
Timaru District Council	235	235	164	Crown reserves save 36ha TDC owned	TDC, in house Parks dept.	Log revenue
Wairoa District Council	46	46	46	WDC	WDC	Timber, recreation
Marlborough and Kaikoura District Council joint ownership	3,096	3,096	3033	MDC & KDC	Merrill & Ring	Originally soil conservation, now commercial with some mountain biking
Tasman District Council	3349	2918	2405	TDC	TDC	Revenue to offset rates through logging. Grazing, cellular leases, recreation, biosolid dispersal, ginseng lease
Carterton District Council	349	245	205	CDC	Forest Enterprises	Honey (mānuka 40ha), logs, recreation
Western Bay of Plenty	1875	1114	964	WBOPDC	WBOPDC	Recreation, landscape, timber, soil conservation for water catchment and harbour water quality, care of cultural sites
Environment Canterbury	2464	2464	2283	ECan	ECan	Flood protection (braided rivers); carbon; logs, soil conservation, recreation, biodiversity; reversion to permanent native
Northland Regional Council	523	320	320	NRC	Property Team, with Consultant and Contract Manager	Originally soil conservation for river and harbour protection, water quality and care of cultural sites, biodiversity,

Local Authority	Area of Forest	Area in Production Forest	Area in Radiata	Owned by	Managed by	Goals of Forest Management
						now operated as a commercial forest
Greater Wellington Regional Council	49,674	5,231	5,231	Land owned by GWRC and trees owned by RMS	PF Olsen (Plantation) GW (Native)	Log revenue, honey revenue, soil conservation, water supply catchment protection (native- not commercial), public use (glider club, rifle range, karting club, horse riding, mountain biking, pony club, walking, biodiversity); recreational hunting; 4WD's
Dunedin City Council	20,000	18,000	14,580	Dunedin City Holdings Ltd (CCTO)		Log and carbon revenue, recreational use (walking, mountain biking, horse riding, hunting, motor cross, 4x4), water supply protection (production forest), honey production, ecological research, threatened species habitat (NZ falcon, SI robin, Eldon's galaxias, Australasian bittern, SI fern bird, spotless crake), mining heritage site protection, to support and or participate in added value wood processing in Otago and Southland.
Tararua District Council	664	431	427			Soil conservation, road stabilisation, honey revenue, recreation
Waimate District Council	152	152	140	WDC/ DOC / Other Crown	WDC	Investment / carbon

Table 2: Data from Ashburton District Council[3]

Local Authority	Area in Production Forest	Managed by	Objectives of Forest Management
Invercargill City Council	3058	CCTO	Financial
Southland District Council	1384	IFS Growth	Financial
Queenstown Lakes District Council	296	In-house with contracted support	Recreational and financial
Central Otago District Council	122	Laurie Forestry ltd	Financial
Waitaki District	114	Contracted + Council support officer	Financial and reserve management
McKenzie District Council	1,000	In -house and contracted	Financial
Ashburton District Council	1,098	In -house	Financial
Selwyn District	97	In-house and contracted	Financial and reserve management
Christchurch City Council	1,363	PF Olsen	Financial and Recreation
Waimakariri District Council	600	Contracted and in-house	Contracted and in-house
Hurunui District Council	75	Laurie Forestry	Financial
Nelson City Council	610	PF Olsen	Financial and recreation
Horowhenua District Council	114	Forme Consulting	Financial
Masterton District	56	Forest 365	Financial
Palmerston North City Council	428	In house and contract as required	Financial and water catchment
Horizons Regional COUNCIL	1,377	Contracted to Forest 360	Erosion control and financial
Rangitikei District COUNCIL	10	In house and contracted as required	Reservoir management
New Plymouth District Council	326	PF Olsen	Financial, includes JV's,
Hastings District Council	46	Contracted	Landfill
Gisborne City Council	1,680	CCTO	Financial
Taupō District Council	990	Contracted	Financial
Rotorua Lakes District Council	136	In-house and contracted	Recreational and financial
Whakatane District Council	7	In house and contracted	River protection
Bay of Plenty Regional	111	Contracted	Financial

[3] Ashburton District Council. (2021) Review of Forestry. Item 10, Council Meeting 19 May 2021. Retrieved from: https://www.ashburtondc.govt.nz/__data/assets/pdf_file/0021/36246/Council-Agenda-19-May-2021.pdf

Local Authority	Area in Production Forest	Managed by	Objectives of Forest Management
Tauranga City Council	1,063	Contracted to Interpine ltd	Recreational, reservoir management and financial
Western Bay District Council	647	Contracted to Interpine ltd	Recreational and financial
Hauraki District Council	97	Contracted	Financial
Thames Coromandel District Council	286	Contracted	Financial
Environment Waikato	95	Contracted	Financial
Kaipara District Council	135	Contracted	Financial
Whangarei District Council	92	Contracted	Financial
Northland Regional Council	295	Contracted	Financial
Far North District Council	52	Contracted	Financial
Total area of forest across both tables = 53,282ha			

Attachment 2: HBRC Forests and Tangoio Soil Conservation Reserve Key Financial Figures

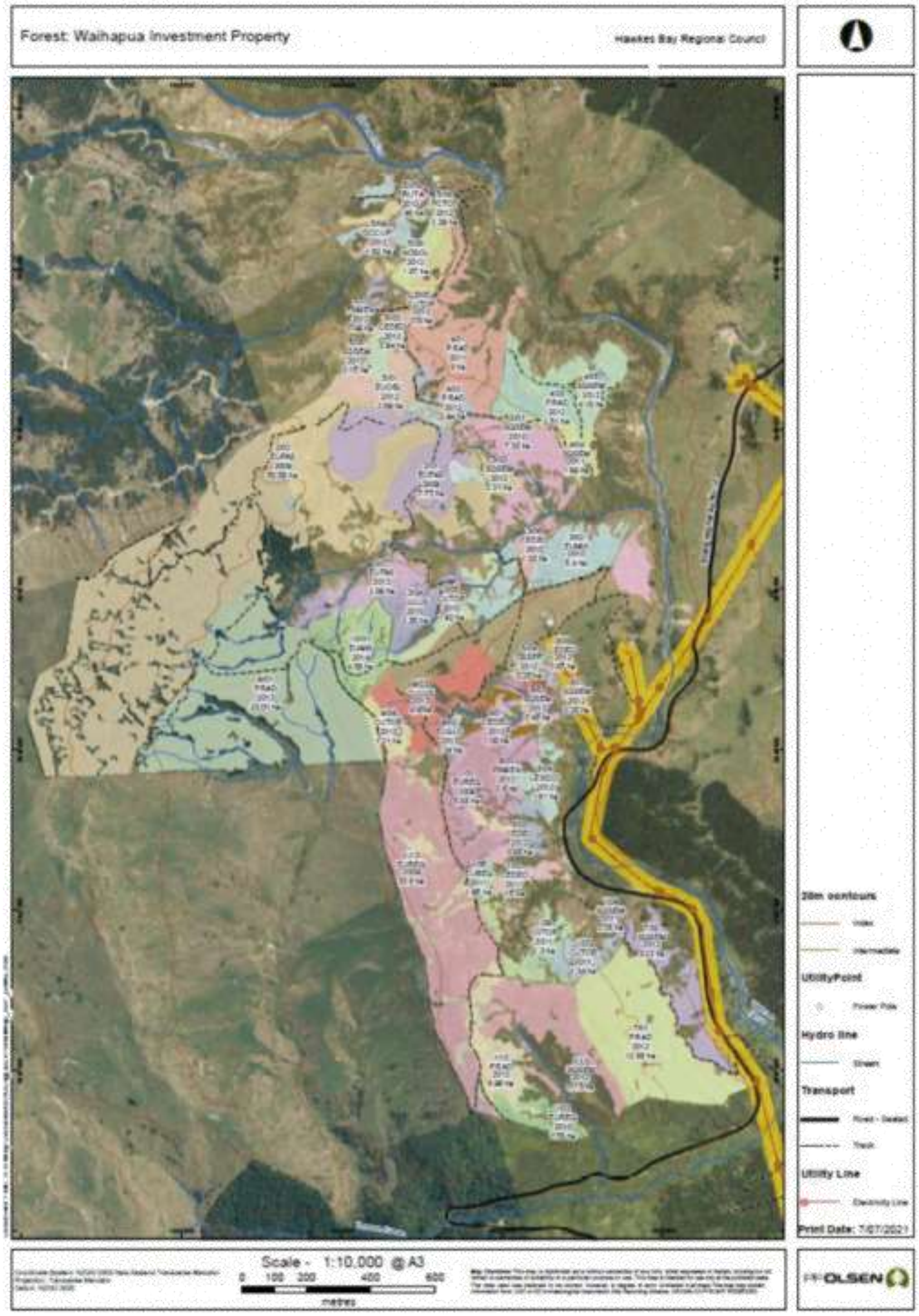
Property	Land and Improvements Valuation 31 May 2019 $'000	Tree Crop Valuation 30 June 2021	NZU Balance	NZU Value at $82 per NZU	Purchase date	Purchase price	Gross property land area (ha)	Net stocked area (ha)
Mahia	$129,000	$139,300	6,246	$512,172	2010	$450,000	52	36
Waihapua	$1,560,000	$1,097,000	45,456	$3,727,392	2009	$1,048,000	316	212
Waipawa	$521,000	$290,200	15,790	$1,294,780	2009	$753,000	78	70
Waipukurau	$736,000	$361,300	22,301	$1,828,682	2009	$1,615,000	119	105
Tutira	$2,267,000	$5,867,000	56,607	$4,641,774	1998	Unknown	470	114 (pine) 96 (mānuka)
Tangoio Soil Conservation Reserve	$866,000	$6,214,000	N/A	N/A	N/A	N/A	550	330

Attachment 3: Tūtira photo points post-Cyclone Bola

1988

2020

Attachment 4: Waihapua Forest Map



Attachment 5: Waihapua photo point, 1988 and 2021

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Tūtira Mānuka Plantation Update

Reason for Report

1. This report is provided to update Council on the status including financial returns of the Tūtira mānuka plantation as requested in Finance, Audit and Risk Sub-committee (FARS) on 15 December 2021 and following the newspaper article "*Hawke's Bay Regional Council's mānuka honey venture makes dismal returns*" published in 'Stuff' on 12 November 2021.

Executive Summary

2. 136ha of Tūtira Regional Park was planted in mānuka over the period 2011 to 2013, approximately 104ha of which has successfully established and matured to form a mānuka plantation.
3. The objectives of the plantation were to trial and demonstrate the viability of high UMF mānuka as an economic soil conservation crop alternative to plantation forestry on erosion-prone land and to facilitate the eventual reversion of the steep lands above the Lake to native forest.
4. These objectives have now been met. Native reversion is well underway, and the plantation has demonstrated that mānuka plantations can be effectively established in steep hill country and earn a positive return on investment while increasing erosion control and reducing sediment loss.
5. Honey production from the plantation to date is well below forecasts used in the feasibility planning for the plantation. The primary reasons for the poor performance are difficulties in timing hive placement and honey harvest to align with honey flow, weather conditions affecting honey collection during the critical window of honey flow, and a reduction in the volume of honey able to achieve MPI's recently introduced definition of 'mānuka' and therefore being downgraded to bush blends.
6. The lower than forecast honey returns have been partly compensated for by higher than forecast carbon returns. Currently, the plantation has not provided a positive return on investment, but this is not unusual as all of the costs have been incurred in the establishment stage and revenue has only recently begun to come in. This will improve over time and the 50-year projection is for an IRR of 8%.
7. The above is, however, predicated on HBRC trading carbon. No carbon from HBRC's carbon portfolio has been traded to date. If carbon is not traded, the return from the plantation would be in the realm of -$800,000 over a 50-year period.

Strategic Fit

8. The Tūtira mānuka plantation contributes to HBRC's strategic plan goals in the following ways:

   Smart sustainable landuse

   8.1. Tūtira Regional Park was purchased by Hawke's Bay Regional Council under the Soil Conservation and Rivers Control Act (1941) with the primary objective of managing the land to maintain and improve the water quality in the two lakes, Tūtira and Waikopiro, and secondly to develop a quality outdoor recreation environment for the people of Hawke's Bay. Native forest cover has been widely agreed in various consultation processes with the community, tāngata whenua, and subject matter experts to be the landuse most conducive to those objectives.

8.2. The plantation is enabling a transition to native forest at 8% IRR over 50 years. This is not as high a return as exotic plantation forestry could achieve, but as above, is a much more suitable use for the land given the overriding objectives. It is also more than was achieved through grazing the land.

8.3. The plantation has made a significant contribution to the development of sustainable landuse options nationally. As the only plantation of 100ha or more at that time, it was an important case study and research site in the *High Performance Mānuka Plantations PGP Programme,* which ran from 2011 – 2018 and which HBRC was a key investor in. It was also one of two key sites used by Landcare Research scientists in assessing the erosion control potential of the landuse[4]. Comvita Ltd continues to undertake its own research in the plantation to determine the factors influencing honey production.

Water quality safety and certainty

8.4. The mānuka plantation has effectively revegetated 100ha (12% of the catchment draining to Lake Tūtira) of erosion-prone soils in one of the most sensitive catchments (in terms of environmental, cultural and recreational values) in Hawke's Bay.

Healthy and functioning biodiversity

8.5. The mānuka plantation has significantly increased the area of indigenous vegetation in the Lake Tūtira catchment. Mānuka is a primary colonising species and creates the conditions for other secondary species to establish and emerge through it over time, leading eventually to mature native forest.

Sustainable services and infrastructure

8.6. In increasing soil protection in the event of significant rainfall events, the mānuka plantation contributes to the protection of the landscape, infrastructure and services of the Regional Park (Attached).

9. The Tūtira mānuka plantation aligns with other significant work to conserve soils and water quality in the Tūtira catchment, including the Maungaharuru Tangitū-led *Tūtira Mai i Ngā Iwi* and *Te Waiū o Tūtira* projects, and provides valuable lessons for the Right Tree, Right Place Project and HBRC's objectives in promoting regional afforestation.

Background

10. Successive management plans for the Park since its purchase, provided for the reversion of the steep land above the Lake to native forest through managed light grazing. This was seen to be the most appropriate landcover given the objectives described previously and the cultural and biodiversity values of the property.

11. 4ha of mānuka was established in 2011 to assess the viability of converting the wider 136ha steepland area to a mānuka plantation. The objectives were to speed the reversion to native occurring naturally, trial what was then a nascent but promising sustainable landuse alternative to grazing and plantation forestry and use the results to inform landowners and a planned HBRC 'Trees on Farms' regional afforestation programme, all while making a greater than 7% return on investment.

12. Though honey had been harvested from wild trees for some time, establishing plantations by planting, using cultivars bred for high UMF honey production, had not been attempted at any scale before. UMF stands for 'Unique Manuka Factor' and is a measure of the unique type of antibiotic activity naturally present in Manuka honey.

13. Consultants advising on the venture considered HBRC's threshold ROI of 7% would be easily achieved and that the IRR was likely to be around 19.5%. This advice was given with the caveat

[4] Marden, M; Lambie, S; Phillips, C. (2020). Potential effectiveness of low-density plantings of manuka (Leptospermum scoparium) as an erosion mitigation strategy in steeplands, northern Hawke's Bay, New Zealand. *New Zealand Journal of Forestry Science.* 50:10. Retrieved from: https://nzjforestryscience.nz/index.php/nzjfs/article/view/82/33

…"*it should be pointed out that no large-scale areas of known high UMF variety mānuka have been established. Thus costs and returns to date are best estimates*[5]".

Item 11

14. The 4ha trial planting established successfully and Corporate and Strategic Committee 14 September 2011 approved the planting of a further 45ha as unbudgeted expenditure from Council reserves, with the remainder of the 136ha to be approved via the long-term plan process pending further successful establishment.

15. Ultimately, some 104ha of mānuka were successfully established. The seedlings were supplied by Comvita Ltd and had been bred for high UMF levels and for the timing of their flowering.

16. A contract signed by HBRC and Comvita in 2012 gave Comvita exclusive rights to beekeeping on the property. The contract is reviewed every 7 years, with the last review having been carried out in 2019. Given the high percentage of high UMF honey in the previous year, in the 2019 review HBRC negotiated a change from a fixed 18.5% percent share of honey revenue to the use of a 'sliding scale', with percentage share of revenue based on the UMF value of the honey (Table 1 below).

Table 1: Sliding Scale, HBRC revenue share

UMF	HBRC Share of Net Revenue
UMF <5	5%
UMF 5-8	10%
UMF 8-11	20%
UMF 11-15	30%
UMF 15+	35%

17. The first commercial harvest from the plantation occurred in 2018 and has continued annually since. Key metrics are shown in Table 2 below. The 2020-2021 season harvest was badly affected by poor weather and triggered the floor payment of $50 per hive.

18. Preliminary results from the 2022 harvest indicate an improved return this year. Hive placement and removal was aligned more strictly to the main nectar flow, resulting in a higher percentage (estimated ~80%) of monofloral honey. UMF levels are sitting in the range 4-6, with estimated final levels of 7-9 after the 10-month presale storage period. Mānuka honey is stored for a period of time prior to sale to allow greater levels of UMF to be converted from its chemical precursor (DHA).

19. The improved timing was made possible by using a helicopter to place hives in locations where previously track limitations had restricted vehicle access in wet ground conditions. It remains to be seen whether the helicopter cost is justified by the increased honey returns. Once the season's final harvest report is received, staff will assess the costs and benefits of improving track access for greater returns. Given the overriding soil conservation and aesthetic considerations, doing so would only be considered if the impacts on these were minimal.

Table 2: Key Metrics of Harvest to Date, Tūtira Plantation

	Hive numbers	Kg Honey (total)	Kg Honey (per hive)	% UMF 10 or higher (after x months storage)	HBRC Return (exc GST)	Initial forecast in business case
2018	72	1,977	27	13%	$6,334	$19,384
2019	72	2,187	30	0	$6,561	$24,829
2020	96	5,598	58	0	$5,835	$28,314
2021	112	542	5	0	$5,600	$28,314

[5] Hardwood Management. (2011). Mānuka Business Proposition. Retrieved from: http://hawkesbay.infocouncil.biz/Open/2011/09/CS_14092011_ATT_EXCLUDED.HTM

	Hive numbers	Kg Honey (total)	Kg Honey (per hive)	% UMF 10 or higher (after x months storage)	HBRC Return (exc GST)	Initial forecast in business case
2022 (Preliminary results)	100	1,813	18	To be confirmed	To be confirmed	$28,314

20. As shown in the table, notwithstanding the potential improvements in the current season, honey returns have been short of those predicted in the initial business proposition presented to council in each year to date. This was reported by staff in 'significant activities' recently, where it was picked up and reported on by media. This paper aims to update Councillors on the status of the mānuka plantation accordingly.

Key Issues

Honey volumes

21. The initial business case estimated 40kg of honey production per hive once the plantation was established. Though the first three harvests following a promising trend to achieving this, the extremely poor 2021 harvest achieved only 5kg per hive, and the 2022 is also well-short at 18kg per hive.
22. While the poor 2021 harvest volume has been attributed to poor weather conditions for nectar production and collection, the 2022 volume was due to a decision to time hive placement and removal more strictly around mānuka nectar flow and therefore sacrifice some quantity for quality. This has led to an increase in honey quality as described previously, but the ultimate effect of this trade-off on revenue (including helicopter costs) won't be known until the harvest report is available in early March 2022.
23. The main factors limiting honey volumes can be summarised as:
    - 23.1. *Climate and terrain* – Bees fly less, and therefore gather less nectar, in high winds and wet conditions. Much of the plantation is very exposed and faces directly into the prevailing north-west wind.
    - 23.2. *Establishment* – As described earlier, only around 104ha of the total 136ha of mānuka planted have established successfully, an establishment rate of 76%. Though some failure has been due to competition with grasses and weeds or browsing by stock or hares, the general pattern is of successful establishment on more stable slopes and poor establishment in the skeletal soils of the many landslide scars (Attached).
    - 23.3. Attempts have been made to infill these failed areas with further mānuka, but these have failed, as obviously the same ground conditions remain. It's possible, in a spring-summer like 2021-2022 to date, establishment would be more successful, but these aren't possible to predict and plan for, and staff have opted to instead leave the bare areas to revert naturally, sometimes via seed from the surrounding mānuka, but more often from that of the dominant kanuka.
    - 23.4. *Flowering timing* – Another factor influencing honey volumes in the Tūtira plantation is the spread in flowering timing of the cultivars. The thinking when the plantation was established was that the approximately 4-week mānuka nectar flow period could be increased by up to double, by using early, medium and late flowering cultivars, instead of the same cultivar across the whole plantation. In practice, it seems that weather conditions and temperatures when the first cultivars flower are restricting nectar flow, and they constitute an underutilised part of the plantation.

Honey value

24. While demand and therefore prices for multifloral mānuka and non-mānuka honey has declined over recent years, it has remained strong for monofloral mānuka honey. The significant range in mānuka honey values shown in Table 3 below reflects the variance in value between multifloral and monofloral mānuka honeys and different UMF values.

25. The initial business case for the plantation used an average honey value of $30 per kg. At a forecast average of $22, the 2021-2022 season looks like being the closest to this the plantation has achieved to date. Average honey values in previous seasons ranged from $11.15 to $17.66.

Table 3: Prices and Returns for Apiculture Products, 2014-2020[6]

YEAR ENDED 30 JUNE	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/2020
Bulk honey[1] ($ per kg)							
Light (clover type)	5.50–8.30	7.00–10.75	9.50–13.00	10.00–14.00	8.50–12.00	5.00–9.25	2.50–5.50
Light amber	4.50–8.00	7.00–9.00	9.00–11.50	6.50–13.00	7.50–10.00	4.50–9.25	2.50–4.50
Dark, including honeydew	5.50–10.00	7.00–12.50	8.00–14.50	8.00–16.00	5.00–8.50	3.50–6.00	2.50–4.00
Mānuka[2]	8.00–85.00	9.50–116.50	12.00–148.00	10.80–127.00	12.00–135.00	5.00– 125.00	4.50–130.00

26. As described previously, the ‘sliding scale’ method of payment share is more favourable to HBRC at high UMF levels. Unfortunately, UMF levels of honey harvested since the contract was renegotiated have shown a general trend of decline, and no honey since that time has achieved a UMF of 10 or higher.

27. The main factors influencing the UMF level of honey can be summarised as:

    27.1. *Genetics* – The UMF value of honey is determined in most part by the amount of the antibacterial compound methylglyoxal it contains. Methylglyoxal content in mānuka honey is in turn determined in most part by the level of dihydroxyacetone (DHA) in mānuka nectar. This is because DHA transforms naturally into methylglyoxal over time as the nectar is stored by bees and turns into honey. Selection for high UMF mānuka cultivars is therefore based on DHA levels measured in nectar.

    27.2. DHA levels sampled from the Tūtira plantation in 2014 were around twice as high as those in nearby wild mānuka, indicating the cultivars planted were likely to produce relatively high UMF rated honey.

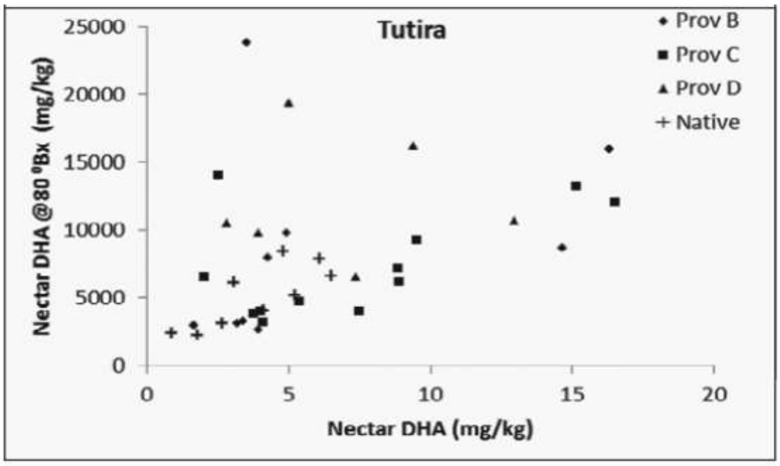


Figure 1: Scatterplots of nectar dihydroxyacetone (DHA) content and normalised nectar DHA content in Plantation and Wild Mānuka at Tūtira.[7]

[6] Ministry for Primary Industries (2021). *Ministry for Primary Industries 2020 Apiculture Monitoring Programme*. https://www.mpi.govt.nz/dmsdocument/44068

[7] Millner, J; Hamilton, G; Ritchie, C; Stephens, J. (2016). New Zealand High UMF® honey production from manuka plantations. (2016). *Hill Country – Grassland Research and Practice Series 16: 113-118.* Retrieved from: https://www.grassland.org.nz/publications/nzgrassland_publication_2772.pdf

27.3. *Alternate floral sources* – Mānuka nectar is not particularly desirable to bees, and if there are other options available, they will gather nectar preferentially from these. Depending on the extent of nectar collected from alternate sources, this results in lower UMF values, multi rather than monofloral honey, or at worst non-mānuka honey.

27.4. Alternate floral sources at Tūtira are predominantly blackberry, gorse, clover, and thistles. Blackberry and gorse have grown within the plantation as it has established over time. Control by ground is impractical and cost-prohibitive on that scale. Trials of various rates and types of herbicides have been carried out and a combination that will control blackberry (gorse was not considered as it is less of an issue) without killing mānuka has been identified, however, the cost of implementing this on a wider scale is not seen as justified by the benefits at this point.

27.5. Reducing clover flowering via hard grazing has been attempted but with limited success. This has been due to the difficulty of managing the relatively low number of cattle on the property in large paddocks on that scale, the need for the grazier to prioritise animal health and the economics of his operation, and also the pugging and other damage done to walking tracks through the plantation in the process. Grazing will continue in most paddocks going forward, and clover cover will continue to decrease over time as increasing mānuka canopy cover continues to shade it out. Grazing will need to be excluded from 27ha of the plantation from the end of this month, due to the need to keep stock from accessing newly planted pine trees and the impracticality of fencing to exclude them.

27.6. *Timing* – Honey boxes in place before or after the mānuka nectar flow will begin to be filled with honey from other floral sources, devaluing it as described previously. Timing placement and removal requires a trade-off between achieving maximum volumes of mānuka honey with minimal dilution from other floral sources.

27.7. Tracks in the plantation are unmetalled, narrow and dry weather access only, and wet conditions have in the past delayed hive placement. Some improvements for beekeeper access have been carried out, but the level of improvement required to create all-weather access is yet unjustified by the level of harvest returns.

27.8. *Regulatory changes* – In 2008, MPI brought into force a new science-based definition of mānuka honey. The new definition was established to give our trading partners greater confidence in the mānuka honey industry, following cases of mislabelling, artificial manipulation of UMF levels, and sales of more mānuka honey than was being produced.

27.9. To meet the definition of mānuka honey, samples must contain a set of four chemical markers (3-Phenyllactic acid, 2'-Methoxyacetophenone, 2-Methoxybenzoic acid, and 4-Hydroxyphenyllactic acid) and 1 genetic marker (DNA from mānuka pollen). To qualify as monofloral, the levels of 3-Phenyllactic acid and 2'-Methoxyacetophenone must be present at greater prescribed levels than in multifloral honey.

27.10. The new definition is generally agreed to have increased the proportion of honey classified as multifloral or non-mānuka, leading to a glut in supply and a fall in prices for these grades as described previously. This has negatively affected the Tūtira plantation.

27.11. *Soil conditions* – Mānuka produces higher UMF honey in low pH and low fertility soils. No fertiliser is applied to the plantation, and at this point the feasibility or benefits of lowering the pH of the soils has not been investigated.

Carbon trading policy

28. The mānuka plantation will only meet HBRC's investment requirements if a number of the NZU it has earned are sold. This is similar to cashflows for the Tūtira Forest replanting plan - the cashflows presented for the option approved by Council are only applicable if the NZU revenue is received as modelled in the cashflow analysis.

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29. No NZU from the HBRC emissions register have been sold to date, but this is set to change soon as Council has approved the sale of NZU to finance a Climate Change Ambassador role and work required in HBRC's Central Hawke's Bay Forests.

30. Table 4 below shows the IRR that would be achieved from the plantation under 3 scenarios and demonstrates the significant impact NZU sales have on the profitability of the plantation.

31. HBRC is yet to confirm a carbon trading policy, but to date has had a conservative approach. Table 5 shows the minimum number of NZU HBRC needs to sell at the current price of $82 per NZU to break even and to meet the 4% cash return targets specified in the HBRC Investment Strategy. If the price of NZU continues to climb, these numbers will obviously fall.

Table 4: IRR at different NZU Sale Scenarios

Years earned	**NZU Price at that time**	**Scenario 1: First NZU sales in 2022**	**Scenario 2: NZU sold as earned**	**Scenario 3: No NZU sales**
2018	$23	-	$19,458	-
2019	$25	-	$10,650	-
2022	$82	$169,084	$64,780	-
Total		$169,084	$91,560	-
IRR over 50 years		8%	8%	NA $830,000 loss

Table 5: Minimum NZU sale requirements to break even on investment and achieve minimum HBRC cash return requirement of 4% IRR (at $83 per NZU)

	NZU necessary to sell	***Years of sequestration***
Break even scenario	*10,002*	*2011-2031*
4% cash return scenario	*13,890*	*2011-2034*

Impact on the Community or Council

32. Staff consider that despite the lower-than-expected returns from the mānuka plantation, it has been a successful investment for Council and has created a positive impact on the Community. The other landuse options for the land were continued grazing, afforestation in a production forestry species, or afforestation in mixed native species, and given the special nature of the site and the prohibitive cost of the latter option on such a massive scale, the plantation is a good example of the right tree in the right place.

33. The plantation has significantly increased biodiversity, aesthetic, and soil conservation values on the Park (Attached), and has played an important role as a research site in the wider sustainable land management scene.

Other Council's experiences

34. Though other Regional Councils have contributed to research into mānuka plantations as a landuse, the Tūtira plantation is the only known Council-owned mānuka plantation in the country.

Next Steps

35. Staff will continue to work with Comvita to trial different beekeeping and plantation management approaches in order to find out more about the variables affecting mānuka honey production and improve the performance of the plantation.

36. Staff will also continue to work with Comvita to establish the productive capacity of the plantation and the level of investment in tracks and other management justified by honey revenue.

37. Bird feed species will begin to be established throughout the plantation over time to encourage seed dispersal from frugivore bird species and subsequently speed the regeneration of secondary native forest species.

38. Staff will continue to refine plant pest control and grazing programmes to better minimise alternate floral sources.

39. Staff will report back to Council when the 2022 harvest report is available.

Decision Making Process

40. 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:

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

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

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the "*Tūtira Mānuka Plantation Update*" staff report.

Authored by:

Ben Douglas **Forests and Reserves Officer**	**Russell Engelke** **Team Leader Open Spaces**
Nicole Simpson **Management Accountant**	

Approved by:

Chris Dolley **Group Manager Asset Management**	**Jessica Ellerm** **Group Manager Corporate Services**

Attachment/s

1⇩ Tutira Camping Ground Post-Cyclone Bola

2⇩ Variation in establishment on different slopes and soils

3⇩ Photo point - 2014 and 2022

Attachment 1: Tūtira Camping Ground Post-Cyclone Bola

Attachment 2: Variation in establishment on different slopes and soils

Attachment 3: Photo point - 2014 and 2022

Item 12

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Internal Assurance Dashboard - Corrective Actions Status Update

Reason for Report

1. This item updates the Finance, Audit and Risk Sub-committee (FARS) on the progress carrying out corrective actions that respond to internal audit findings as previously reported to the FARS.

Officers' Recommendation

2. Council officers recommend that the sub-committee considers and notes the internal assurance dashboard corrective action status update, with a view to confirming the adequacy of corrective actions undertaken and reporting as such to the Corporate & Strategic Committee (C&S).

Discussion

3. The purpose of the corrective action status update is to provide oversight to the FARS on the progress of actions taken to address open internal assurance findings. The dashboard gives visibility of the following:
   - 3.1. Open findings of the tracking status milestones plus milestones completed since last reported
   - 3.2. Milestones to be completed by the next FARS report
   - 3.3. Summary of closed actions since the last FARS report
   - 3.4. Lastly, a summary of the overall progress to close out the full audit review through the reporting of all previous closed actions.
4. A separate agenda item has been prepared for this meeting, accompanies this item providing a detailed progress update on the Talent Management internal audit by the People & Capabilities Manager.

Financial and Resource Implications

5. There are no financial implications or additional resource requirements resulting from this internal audit 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. 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:
     - 6.1.1. 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).
     - 6.1.2. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management
     - 6.1.3. Report to the Corporate and Strategic Committee to fulfil its responsibilities.

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the '*Internal Assurance Dashboard - Corrective Actions Status Update*' staff report and accompanying dashboard.
2. Confirms that management actions undertaken or planned for the future adequately respond to the findings and recommendations of the internal audits.
3. Confirms that the dashboard reports provide adequate information on the progress of corrective actions and the progress of the approved Annual Internal Audit programme.
4. 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:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Jessica Ellerm
Group Manager Corporate Services

Attachment/s

1⇩ Internal Assurance Dashboard February 2022

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. ***ELT***	March 2021	Draft bowties complete.	Draft risk appetite being reviewed in consultation with specialist prior to final approval.	Behind
People and Development - Risk roles ad responsibilities beyond the risk and assurance lead were not defined. With no risk related training.	Not Stated	Develop a competency framework to upskill staff on risk and embed the risk policy. Communicate and train BU on the risk policy and framework. Provide targeted training to specialist risk roles e.g. risk champions. ***ELT and Risk & Corporate Compliance Manager***	October 2021	Risk Champions commenced training in November 2021.	Completed	Closed
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	Risk reporting updated to reflect insights from risk bowties as bowties were completed.	Update risk report to reflect approved risk appetite.	Behind
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***	Rebaseline date from September 2021 – August 2022	Session with Startegy and Comms Team completed.	For Council decision papers a Risk section will be developed as a standard item in the paper template.	On track

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**
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***	Rebaseline date from December 2021 – December 2022		Scope of the BCP refresh to be integrated with the information management project.	On track
Business Performance – Change and transformation.	Not Stated	Develop a change management framework to ensure a portfolio view of risks related to significant change is managed. ***Marketing & Communications Manager***	September 2021	Business to determine strategy for Change Management	Develop roadmap and framework for change management	Behind
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 – 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**
Processes and Tools - For assurance.	Not Stated	Develop a formal assurance framework based on the 'three lines of defence model'. Framework should ensure assurance targets critical council functions and activities applying a risk based approach. ***Risk & Corporate Compliance Manager***	July 2021	Developed a targeted approach to implement the framework, approved by ELT and submited to May FARS for approval. Internal Assurance Framework adopted at Council May 2021		**Closed as at August 2021 FARS**
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 as at August 2021 FARS**

Internal Assurance Dashboard - Corrective Action Status Update

Review - 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. ***Risk & Corporate Compliance Manager & Senior Health and Safety Advisor***	Rebaseline date from March 2021 – December 2022		Add reviewed Covid19 response plan to the BCP suite of docs in Herbi. ELT to consider establishing a working group to review the governments change to zero community cases of COVID-19 to controlled transmission (HBRC's response is work from home now need to consider potential impact of loss of staff due to illness and disrupted supply chains)	On-track

Internal Assurance Dashboard - Corrective Action Status Update

Review - HBRC Covid-19 Response Debrief Report – November 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Communication (Internal & External) Internal communication in lockdown were positive. Therefore, the approach should be documented to ensure it is repeatable for future requirement to work remotely. There are a number of key stakeholder groups that may need to be specifically commuicated with tailored messages depending on the event. Telephony processes need to be consistent regardless of whether the call is being responded to by Council or Contact Centre staff.	Low	Update BCP suite of documents. ***Marketing and Communications*** Identify HBRC's key stakeholdder groups through developing a key stakeholder wheel and document in HBRC's BCP. ***Marketing and Communications*** 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***	March 2021	Closed		**Closed as at October 2021 FARS**
The corrective actions to control the risk of cross contamination of work bubbles at Guppy Road should now be documented.	Low	Ensure the pandemic safety plan is up to date with the most recent pandemic response process. ***Senior Health and Safety Advisor***	Febuary 2021	*Reviewed Guppy Road staff bubbles to ensure continuity in case of a second Covid wave.*		**Closed as at April 2021 FARS**

Internal Assurance Dashboard - Corrective Action Status Update

Review - HBRC Covid-19 Response Debrief Report – November 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Improve the rostering system for prolonged and slow-moving events (e.g. pandemics) with the aim of ensuring equitable distribution of tasks.	Medium	Improved rostering system to better manage staff resourcing requirements. ***Team Leader Hazard Reduction***	December 2020	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**
Strengthen the Disaster Recovery (DR) and BCP linkage.	Medium	**Refer -** Cyber security audit - resilience finding and action ***CIO***	March 2021	IT DR Plan completed		**Closed as at August 2021 FARS**

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit - HBRC Talent Management Report – April 2021						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
P&C Strategy	High	Develop council's 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&C Manager***	October 2021	Draft Strategy delivered to ELT yet to be approved.	P&C Leader to make further amendments and redeliver Strategy to ELT for approval in January 2022	Behind
P&C Objectives	Medium	In conjunction with P&C Strategy- Performance Objectives to be developed as appendix to P&C Strategy. ***P&C Manager***	October 2021	As above and once approved objectives for the team will be developed.	P&C Leader to deliver objectives to ELT (included in Strategy)	Behind
P&C Competency Framework	Medium	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&C Manager***	Late 2021 roll out by 2023	Yet to commence.	Deliver framework to ELT in June 2022.	At Risk
P&C Rcruitment Process	Medium	Develop cultural values for inclusion in P&C Strategy. ***P&C Manager***	October 2021	As above and once approved objectives for the team will be developed.	P&C Leader to deliver to ELT with P&C Strategy	Behind
P&C Training Programmes	Medium	Produced centralised training programme and collate technical training and providers via section managers. ***P&C Manager***	May 2023	*N/A*	No action at current time	On track
P&C Reward & Recognition	Low	Create centralised recognition programme, gather information from each group on current reward system. ***P&C Manager***	July 2022	*N/A*	No action at current time	On Track

Internal Assurance Dashboard - Corrective Action Status Update

Internal Audit - HBRC Talent Management Report – April 2021						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
P&C Succession Planning	Medium	Carry out succession planning workshop with Group Managers, section managers and individually with Team Leaders. ***P&C Manager***	December 2021	Included in Strategy	Approved Strategy	**Behind**
Human Resources Information System (HRIS)	Low	Cost benefit analysis to be performed for a fit for purpose HRIS. P&C Manager and Chief Information Officer	2022	HRIS project to commence in April 2022.	Analysis to be completed before project commences.	**On Track**
P&C Performance Management	Medium	Review of PPDC policy and process to aid staff engagement. P&C Team to spot check PPDC completed PPDC forms. ***P&C Manager***	October 2021	N/A	Completed	**Closed as at Octobr 2021 FARS**
Exit Interviews	Low	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&C Manager***	July 2021	*N/A*	Implemented - Completed	**Closed as at October 2021 FARS**

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

Internal Assurance Dashboard - Corrective Action Status Update

CLOSED AUDITS

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

Internal Audit – Health and Safety (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 ***Senior Health, Safety & Wellbeing Advisor***	June 2021	ELT Lead and lag indicators in place		**Closed as at August 2021 FARS**
Increased reporting to ELT.	High	Create dashboard report for H&S reporting. ***Senior Health, Safety & Wellbeing Advisor***	March 2021	Work with Governance to finalise H&S reporting in Organisational Dashboard		**Closed as at August 2021 FARS**
Improvement in Contractor Inductions.	Medium	Review induction process of contractors and service providers ***Senior Health, Safety and Wellbeing Advisor***	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 as at August 2021 FARS**
Improvement in Contractor Engagement process.	Medium	A full review of contractor inductions across all risks ***Senior Health, Safety & Wellbeing Advisor***	August 2021	Contractor processes reviewed ensuring inclusion into H&S expectations related to risks.		**Closed as at August 2021 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**
Improve indicator risk control reporting.	High	Bow tie analysis for identified critical risks to ensure hierarchy of controls To enhance lead indicators. ***Senior Health, Safety & Wellbeing Advisor and Risk & Assurance Lead***	March 2021	H&S bowtie analysis complete.	Now bowtie analysis complete the Lead Indicator Action 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) ***Senior Health, Safety & Wellbeing Advisor***	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 ***Senior Health, Safety & Wellbeing Advisor***	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 ***Senior Health, Safety and Wellbeing Advisor***	October 2020	Safety Plan signed off.		**Closed as at April 2021 FARS**

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Talent Management Internal Audit Update

Reason for Report

1. This item provides the Finance Audit and Risk Sub-committee (FARS) with an update on the talent management internal audit corrective actions.

Background

2. Crowe undertook an Audit in April 2021 to assess the Council's talent management strategies and processes against the NZ Public Service Commission's Talent Management Maturity Model, developed in 2017. To do this, they reviewed the following People and Capability activities and assessed those activities against the categories included in the Maturity Model:
    2.1. Status of the People and Capability strategy with regard to talent management
    2.2. Recruitment and Selection
    2.3. Reward and Performance
    2.4. Training and Development
    2.5. Employee and Leadership Engagement.
3. The findings of the audit were transferred into the Internal Assurance Dashboard as Corrective Actions. Dates of milestones were inserted and these now show that the following are now "behind":
    3.1. The People and Capability Strategy, (People Plan) – a draft delivered by October 2021 to Executive Leadership Team (ELT). Since delivered in October, further amendments have been made and the document is now sitting with ELT to consider on14 Feb 2022)
    3.2. People and Capability (P&C) Objectives which form part of the draft People Plan have been developed and delivered to ELT (14 Feb 2022)
    3.3. Cultural values for inclusion in P&C Strategy – these were identified at the Leaders' Forum and have now been inserted into the draft People Plan
    3.4. Succession Planning workshop with Group Managers and section managers/leaders is also part of the draft People Plan and will now be part of the Talent Mapping process indicated in the plan to commence in March 2022.
4. In hindsight the dates set for completing the corrective actions were overly optimistic with what has subsequently transpired for the P&C Team. However, good progress has continued to be made on managing the critical risks facing the organisation as we build off a low base of historic service maturity. The Crowe Audit identified that the P&C services to the organisation, in terms of maturity, are largely at the 'just starting' point. The organisation has grown rapidly over the past 3-5 years and the capacity to focus on anything much, other than recruitment, the yearly Performance Development Plan process, Staff Survey and annual remuneration processes, has certainly resulted in a slower response to the organisation than the P&C team would like. The People Plan will provide the team with clear direction and the ability to now plan ahead and schedule their work.
5. It is important to note that the team, whilst not working to a People Plan previously, have continued to support managers with performance management, disciplinary and restructuring processes, whilst simultaneously being involved in the implementation of the new TechOne

system - inputting employee data and now learning how to extract that data in order to inform our approach.

6. Improvements have also been made to the various processes utilised across the organisation. For example, recruitment processes – P&C now provide an end-to-end service to managers from assisting to update job descriptions, size and price the jobs, write job ads, shortlisting, pre-screening interviews, interviewing shortlisted candidates, reference checking and the provision of contractual documentation, which has improved the service to managers, applicants and new employees. As well, the team have moved from running individual inductions to developing and running group inductions for new employees, thereby creating efficiencies and developing cohort relationships between new employees.

7. Managers/leaders have attended briefing sessions run by the P&C team on how to benefit from the Performance Development Plan annual process. The team have also developed an on-line Exit Survey, an on-line On-boarding survey and continue to make improvements to the annual Staff Survey and how the organisation responds to what staff are telling us. The team has also been working closely with the Civil Defence and Emergency Management Team and have taken on the coordination of civil defence training, and during the last lockdown were tasked with managing the CDEM roster. Over the past month, the development of the Covid Vaccination and Business Continuity Policy was a major focus.

8. On top of the above, the team itself has had two team members on parental leave who have since left to undertake HR Management roles locally, and the team's coordinator moved to a role in another team and the new coordinator entered the team as TechOne was being implemented. Payroll also joined the P&C team last year (from Finance) and has required the team to adjust to learning a new system. With support, the payroll issues are being worked through, but at times this has been stressful and time-consuming for all those involved.

9. The P&C team was involved in the development of the People Plan and are looking forward to undertaking the work in the plan. They see this work as the 'more exciting' aspects of their HR roles, where they themselves can learn and grow.

10. The proposed People Plan has three key focus areas: Leadership, People Experience and Sustainable Workforce.

    10.1. The main focus under 'Leadership' is development of people leaders and working with and through them to foster and promote the behaviours and cultural values they have agreed to as a leadership group

    10.2. 'People Experience' is about endeavouring to improve the experience our people have throughout their time with the Hawke's Bay Regional Council (HBRC). We will be gathering data, analysing it and making improvements to the services we provide staff. Included in the plan is the development of centrally coordinated generic training which will be made available to staff throughout the year. The intention is to strengthen staff training and development to improve performance and confidence, as well as job satisfaction.

    10.3. 'Sustainable Workforce' focuses on the development of a competency framework, undertaking a talent mapping exercise and ensuring we employ the 'right' people. There is also work to be done to align the competencies already defined in any existing tools with any new solutions developed to ensure that all these competencies are captured within the Competency Framework (yet to be developed).

    10.4. We will also be gathering data and information so that we can better understand our current and future workforce needs and build further targeted initiatives and interventions around critical skill dependencies, such as we have undertaken for river engineers. We will also be focusing on students as a potential permanent workforce and developing a Corporate Alumni to keep in touch with our ex-employees who, along with current staff are our ambassadors. Ex-employees may wish to return to HBRC and bring back with them the skills and experiences they have gained elsewhere.

Item 13

11. The People Plan is both a strategy and a plan to shift the HBRC's Talent Management practices as assessed by Crowe along the maturity model. The P&C Manager proposes to report to the Sub-committee on progress against the plan annually.

Decision Making Process

12. 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:

    12.1. 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:

        12.1.1. 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.

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

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

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and notes the '*Talent Management Internal Audit Update*' staff report.
2. Confirms that management actions undertaken or planned for the future adequately respond to the findings and recommendations of the 2021 internal audit.
3. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *Talent Management Internal Audit Update* provides adequate evidence of the adequacy of the management actions undertaken or planned to respond to the findings and recommendations from the Crowe Audit of the Council's talent management strategies and processes undertaken in April 2021.

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Approved by:

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Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Finance Audit & Risk Sub-committee

02 March 2022

Subject: Internal Assurance Dashboard - Cyber Security Corrective Actions Status Update

That Hawke's Bay Regional Council excludes the public from this section of the meeting, being Agenda Item 14 Internal Assurance Dashboard - Cyber Security Corrective Actions Status Update 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
Internal Assurance Dashboard - Cyber Security Corrective Actions Status Update	7(2)(f)(ii) The withholding of the information is necessary to maintain the effective conduct of public affairs through the protection of such members, officers, employees, and persons from improper pressure or harassment. 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.

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