HAWKE'S BAY
REGIONAL COUNCIL
TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Meeting of the Finance Audit & Risk Sub-committee

Date: 10 August 2022

Time: 1.00pm

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

Agenda

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Follow-ups from previous meetings

Reason for Report

1. On the list attached are items raised at previous Finance, Audit and Risk Sub-committee meetings that staff have followed up on. All items indicate who is responsible for follow up, and a brief status comment. Once the items have been reported to the Sub-committee they will be removed from the list.

Decision Making Process

2. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the *Follow-ups from previous meetings*.

Authored by:

Leeanne Hooper
Team Leader Governance

Approved by:

James Palmer
Chief Executive

Attachment/s

1⇩ Follow-ups from previous meetings

Follow-ups from previous FARS meetings

Meeting held 4 May 2022

	Agenda Item	Action	Responsible	Status Comment
1	Confirmation of previous minutes	Enable discussion of matters 'arising' from previous meetings.	Governance	A *Follow-ups from previous meetings* item has been created and will be a standing item on future FARS agendas.
2	Confirmation of previous minutes	P&C Manager to share the People Plan with Stephanie Maloy to enable Stephanie to independently judge whether the management actions being undertaken adequately respond to the recommendations of the Talent Management internal audit.	L Monteith	Liana Monteith met and shared the People Plan with Stephanie Maloy on 25 May 2022 The *People Plan* and *Health, Safety & Wellbeing Strategy* were presented to the 1 June Corporate & Strategic Committee meeting inform all councilllors.
3	Fraud Internal Audit Report	Progress on Corrective Actions for medium-risk findings from the Crowe HBRC Fraud Risk Gap Analysis Report February 2022 to be monitored and reported to FARS using the Corrective Actions Dashboard.	O Giraud-Burrell /J Palmer	All updated and included in the Corrective Actions dashboard for 10 August FARS.
4	Internal Audit Plan 2021-2022 Status Update	Findings of the Data Analytics internal audit to be presented to August FARS meeting.	C Comber	Agenda item on the 10 August 2022 FARS agenda.
5	Internal Audit Plan 2022-2023	Scope for Health and Safety (H&S) business review including practices, processes and capability to be finalised.	J Palmer	This now forms part of the 2022-2023 enterprise internal audit schedule. The high-level scope of the H&S internal audit is included in the 10 August FARS Agenda.
6	Internal Audit Plan 2022-2023	GM Asset Management to present work that has been done in Asset Management around performance, internal processes/ policies and practices to the August FARS meeting to further inform a decision by the sub-committee on the nature and scope as well as timing of an asset management review.	C Dolley /J Palmer	Asset Management Review item on 10 August FARS agenda.
7	Internal Audit Plan 2022-2023	Audit Universe Dashboard showing all audit and review processes across Council (currently underway and completed, including s17a reviews and associated timeframes) to be presented to August FARS.	H Marsden /ELT	Included in the FARS Agenda as an attachment to the 2022-23 Enterprise Internal Audit Plan update.

	Agenda Item	Action	Responsible	Status Comment
8	Internal Assurance Plan 2022-2023	Schedule of which Internal Audits will be carried out in the 2022-23 financial year to be confirmed in light of further information provided in relation to Asset Management.	J Palmer	To be confirmed by the 2022-2023 Enterprise Internal Audit item on the 10 August FARS Agenda.
9	Road Safety S17a Review Outcomes	Implementation of the *collaborative regional Road Safety programme delivery* to be monitored via the Corrective Actions Dashboard.	K Nimon /O Giraud-Burrell /K Brunton	Included in the corrective actions dashboard and Agenda item.

Meeting held 2 March 2022

	Agenda Item	Action	Responsible	Status Comment
10	Quarterly Treasury Report for 1 October – 31 December 2021	Details of the leasehold portfolio management to be provided to a future FARS meeting	C Comber /R Franklin	This will be done once we have a permanent Commercial Accountant in place and up to speed. Probably in 2023.
11	Scope for Fund Manager Review	Formal scope for the joint HBRC/HBRIC review that includes timeframes, objectives and milestones, the procurement criteria used to select the current Fund Managers and performance criteria that can be assessed against their peers – to August FARS meeting to enable review to be undertaken in November/December 2022.	T Skerman / J Palmer	Due to staff workloads this will be put to FARS early in 2023 for consideration.
12	HBRC Forestry Tūtira Mānuka Plantation Update	Two items to be combined into a single item for information and discussion at the next Corporate and Strategic Committee meeting.	B Douglas /C Dolley	Considered as an information item at the 1 June C&S Committee meeting.
13	Talent Management Internal Audit Update	Additional detail to be provided to FARS members to check the management actions recommended by the audit against the Dashboard to enable them to judge whether the management actions being undertaken adequately respond to the recommendations of the audit.	L Monteith/ J Palmer	The HBRC People Plan was presented to the 1 June Corporate & Strategic Committee meeting and Manager People & Capability met with FARS Independent member, Stephanie Maloy, to discuss actions specifically in relation to her concerns/ queries.

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Quarterly Treasury Report for the period 1 April - 30 June 2022

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 30 June 2022.

Overview of the Quarter – ending 30 June 2022

2. At the end of the quarter to 30 June 2022, HBRC was compliant with all measures in its Treasury policy.
3. Investment returns are below budget due to a significant financial market decline since January 2022. The LTP budget had forecasted an annual growth of 2% ($2.3m) for capital protection and returns of an additional 3.16% ($3.685m) to subsidise rates income. However due to the decline in fund value, no withdrawals have been made by Council this financial year. The lack of investment returns has not required any additional debt due to the shortfall in Council expenditure compared to budget.
4. Financial markets, particularly international markets, continue to move around considerably given the high economic uncertainty. 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 have remained relatively low.

Background

6. 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:
   - 6.1. Treasury Exceptions report
   - 6.2. Policy compliance
   - 6.3. Borrowing limit report
   - 6.4. Funding and liquidity report
   - 6.5. Debt maturity profile interest rate report
   - *6.6. Investment management report*
   - 6.7. Treasury investments
   - 6.8. Cost of funds report cash flow and debt forecast report
   - 6.9. Debt and interest rate strategy and commentary
   - 6.10. Counterparty credit report
   - 6.11. Loan advances.
7. 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.
8. 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.

9. Treasury Investments to be reported on consist of:

   9.1. Liquidity

      9.1.1. Cash and Cash Equivalents

      9.1.2. Debt Management.

   9.2. Externally Managed Investment Funds

      9.2.1. Long-Term Investment Fund (LTIF)

      9.2.2. Future Investment Fund (FIF).

   9.3. Investment properties

   9.4. HBRIC Ltd

   9.5. 2021-22 Performance Summary.

Discussion

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

Liquidity

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

12. The following table reports the cash and cash equivalents on 30 June 2022.

30 June 2022	**$000**
Cash on Call	9,851
Short-term bank deposits	-
Total Cash & Deposits	**9,851**

13. Council's balance of cash and deposits compares with the June 2021 balance of $8.1m.

14. 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

15. On 30 June 2022 the current external debt for the Council group was $46.725m ($63.388m including the loan from HBRIC).

16. Since the March quarter additional funds of $4.0m were borrowed from LGFA. Total new debt for 2021-22 was $19.0m against a plan of $36.5m.

17. We anticipate that further borrowing will be required in the first quarter of the new financial year as expenditure of flood recovery activities and Council's capital programme ramps up.

18. 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	19,000,000	19,000,000
Less amounts repaid	(3,149,996)	(3,149,996)
Closing Debt 30 June 2022 (excluding HBRIC loan)	**46,725,018**	**46,725,018**
Plus opening balance - loan from HBRIC	16,663,036	-
Total Borrowing as at 30 June	**63,338,054**	**46,725,018**

Managed Funds

19. 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.

20. 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 received the budgeted $10.1m in dividends from HBRIC within the FY21-22.

21. The FY21-22 budget expectation for managed funds to be withdrawn to support Council operations is $3.7m. Based on the June funds result and the value above the protected amount, the funds held are not sufficient to deliver the returns required to meet Council's requirements. Borrowing will be required to cover the revenue shortfall.

22. The Fund performances for this year have been lower than we have experienced for some time. Financial markets have not performed as strongly as the FY20-21 with the June quarter 2022 bringing further significant losses to the funds.

23. Given the nature of the investments some volatility is to be expected. However, the performance of the managed funds since placement demonstrates that 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.

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

25. The view for the 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/(under) the capital protected amount.

	30 Jun 2021 $000	**30 Sep 2021 $000**	**31 Dec 2021 $000**	**31 Mar 2022 $000**	**30 Jun 2022 $000**
Total funds before withdrawals	118,563	115,745	118,221	112,099	104,449
Funds withdrawn	(4,200)				
Fund balance HBRC	**114,363**	**115,745**	**118,221**	**112,099**	**104,449**
Capital Protected Amount HBRC (2% compounded)	111,983	112,543	113,105	113,671	114,239
Current HBRC value above protected amount	**2,380**	**3,202**	**5,116**	**(1,572)**	**(9,790)**

	30 Jun 2021 $000	30 Sep 2021 $000	31 Dec 2021 $000	31 Mar 2022 $000	30 Jun 2022 $000
Funds Balances (Group + HBRIC)					
Long-Term Investment Fund	49,883*	50,484	51,712	49,013	45,679
Future Investment Fund	64,370*	65,261	66,508	63,086	58,770
Total HBRC	**114,363***	**115,745**	**118,220**	**112,099**	**104,449**
Plus HBRIC	48,503	48,771	48,907**	46,337	43,226
Total Group Managed Funds	**162,866**	**164,516**	**167,127**	**158,436**	**147,675**
Capital Protected Amount (2% compound inflation)	159,506	160,303	161,104	161,910	162,720
Current group value above protected amount	**3,360**	**4,213**	**6,023**	**(3,474)**	**(15,045)**

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

25.2. *** HBRIC withdrew $1.3m during the December quarter.*

Investment Property – Napier Leasehold Portfolio

26. 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.

27. HBRC provides a detailed report to ACC every 6 months and a 6 monthly payment is made for rents owing and for properties freeholded.

28. During the year, ten Napier Endowment Leasehold Properties were freehold totalling $2.02m. The HBRC share of $348,554 is paid into the sale of land reserve. The balance of the funds received are paid to ACC to meet Council’s obligations under the contract.

29. The HBRC share of net rentals received for the year, after payments to ACC was $118,386.

Investment Property – Wellington Leasehold Portfolio

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

31. 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 9 months and one property is currently in the process of having its review completed.

32. As previously reported the portfolio value has grown considerably from the initial cost of $6.5m in 2002 to $20.8m at 30 June 2021. Valuation advice is that we can expect another significant increase in the portfolio value when it is revalued as at 30 June 2022.

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

HBRIC Ltd

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

Decision Making Process

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

    35.1. 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".

    35.2. 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 the period 1 April – 30 June 2022*.
2. Confirms that the performance of Council's investment portfolio has been reported to the sub-committee's satisfaction.

Authored by:

Jess Bennett **Commercial Accountant**	**Chris Comber** **Chief Financial Officer**

Approved by:

Susie Young **Group Manager Corporate Services**	**James Palmer** **Chief Executive**

Attachment/s

1⇩ Treasury Reporting as at 30 June 2022

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 30 June 2022

Contents

1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was $147.675 million as at 30 June 2022, comprising $45.697 million in the Long Term Investment Fund (LTIF), $58.770 million in the HBRC Port Future Investment Fund (HBRC PFIF) and $43.226 million in the HBRIC Port Future Investment Fund (HBRIC PFIF). Total AUM is down from $158.437 million as at 31 March 2022. The three portfolios combined lost $10.762 million after fees over the quarter and are down $19.454 million from 31 December 2021.

Total capital contributed to the three portfolios since inception is $152.2 million; adjusted for inflation, this equates to $162.720 million, meaning the portfolio value at 30 June 2022 was $15.045 million below the inflation adjusted contribution target.

The Mercer sleeve of the LTIF returned -6.1% net of fees over the June quarter, bringing the total cumulative return since inception to 14.0% (3.9% annualised). The Jarden sleeve of the LTIF returned -7.5% net of fees over the June quarter, bringing the total cumulative return since inception to 12.7% (3.5% annualised).

The Mercer sleeve of the PFIF returned -6.1% net of fees over the June quarter, bringing the total cumulative return since inception to 4.6% (1.6% annualised). The Jarden sleeve of the HBRC PFIF returned -7.4% net of fees over the June quarter, bringing the total cumulative return since inception to 4.2% (1.5% annualised). The Jarden sleeve of the HBRIC PFIF returned -7.5% net of fees over the June quarter, bringing the total cumulative return since inception to 4.1% (1.5% annualised).

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

Council remains compliant to the LGFA borrowing limits.

Both Jarden and Mercer remain within SIPO asset allocation limits.

2.0 Treasury Activity Compliance Monitor

Policy document	Policy parameters	Compliance
Treasury Policy	Borrowing limits	Yes
	Funding risk control limits	Yes
	Liquidity buffer	Yes
	Interest rate risk control limits	Yes
	Treasury investment parameters	Yes
	Counterparty credit limits	Yes
SIPO	Asset allocations	Yes

3.0 Investment Management Reporting

Long Term Investment Fund (LTIF)

Summary of Assets Under Management (AUM)

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

	LTIF - AUM				
	Mercer	**Jarden**	**Total**	**Inflation Adj.**	**Monies Change**
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	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	
31/03/2022	24,437,015	24,576,623	49,013,638	49,700,953	
30/06/2022	22,946,953	22,732,100	45,679,053	49,949,458	

Performance Summary

The Mercer LTIF returned -6.1% net of fees over the quarter, underperforming the benchmark by 0.1%. Unlisted Infrastructure, Unlisted Property and Overnight Index Cash were the only three categories that delivered positive returns at 4.4%, 2.6% and 0.4% respectively. The worst performing category was International Listed Property at -18.2%, followed by Socially Responsible Overseas Shares and Socially Responsible Trans-Tasman Shares which declined by 12.2% and 10.2% respectively. The fixed income portfolios also all had negative returns because as yields continued rising globally, but the declines were lower than the equity portfolios.

The Jarden LTIF portfolio returned -7.5% net of fees over the quarter, underperforming the benchmark by 0.4%. Similar to the previous quarter, only Cash provided positive returns with all other asset classes having negative returns. The worst performing classes were International Property, NZ Property and NZ equity which returned -14.5%, -11.6% and -11.5% respectively. The fixed income portfolios had the same negative returns as Mercer due to increasing interest rates.

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	LTIF HBRC		LTIF HBRC	
31/12/2018			0.3%	
31/03/2019	3.7%	4.5%	2.7%	4.3%
30/06/2019	2.7%	3.1%	2.3%	3.9%
30/09/2019	3.0%	3.2%	1.9%	3.7%
31/12/2019	1.2%	1.4%	3.3%	1.9%
31/03/2020	(7.9%)	(8.7%)	(9.2%)	(6.9%)
30/06/2020	7.6%	7.0%	8.0%	8.8%
30/09/2020	4.0%	2.6%	3.5%	3.5%
31/12/2020	4.4%	3.8%	5.7%	4.6%
31/03/2021	0.1%	0.9%	1.0%	0.3%
30/06/2021	3.5%	3.1%	3.7%	3.2%
30/09/2021	1.0%	0.9%	0.9%	1.0%
31/12/2021	2.1%	2.7%	2.8%	2.5%
31/03/2022*	(4.9%)	(3.5%)	(5.5%)	(5.5%)
30/06/2022	(6.1%)	(6.0%)	(7.5%)	(7.1%)
Financial YTD	(7.9%)	(6.0%)	(9.4%)	(9.1%)
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	(7.9%)	(6.0%)	(9.4%)	(9.1%)
Cumulative Return Since Inception	14.0%	14.5%	12.70%	18.21%
Annualised Return Since Inception	3.9%	4.0%	3.5%	5.0%
Inception Date	18-Jan-19	18-Jan-19	18-Jan-19	18-Jan-19
Days Invested	1,259	1,259	1,259	1,259
Reported balance as at 30-Jun-22 ($)	22,946,953		22,732,100	
Total Capital Contributions ($)	23,288,784		23,288,784	
Net Returns ($)	2,797,792		2,763,470	

6

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2022)

Long Term Investment Fund (LTIF)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	116,892.4	39,771.3	-			0.2%	-	20.0%	Y
Index Cash Portfolio	1,516,434.8	1,241,832.7	0.4%	0.4%	0.1%	5.4%	-	20.0%	Y
NZ Sovereign Bonds	3,333,853.5	3,385,987.7	(3.7%)	(3.2%)	(0.4%)	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,869,730.8	2,764,829.3	(3.6%)	(4.4%)	0.9%	12.0%	5.0%	25.0%	Y
Global Credit	2,614,728.3	2,533,704.6	(6.5%)	(6.4%)	(0.1%)	11.0%	5.0%	25.0%	Y
Other Fixed Interest^	1,638,730.9	1,528,050.8	(2.0%)	0.4%	(2.4%)	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,693,008.5	1,798,143.7	(10.2%)	(10.2%)	(0.1%)	7.8%	-	18.0%	Y
Socially Responsible Overseas Shares	6,912,669.3	5,985,517.1	(12.2%)	(12.2%)	0.0%	26.1%	17.0%	37.0%	Y
International Listed Property	732,440.6	623,124.4	(18.6%)	(18.5%)	(0.1%)	2.7%	-	10.0%	Y
Unlisted Property	998,400.3	1,021,551.9	2.6%	2.9%	(0.3%)	4.5%	-	10.0%	Y
International Listed Infrastructure	738,835.5	701,749.8	(7.6%)	(6.6%)	(1.0%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	1,271,290.0	1,322,689.7	4.4%	2.0%	2.4%	5.8%	-	10.0%	Y
Total	**24,437,014.89**	**22,946,953.01**	**(5.9%)**	**(6.0%)**	**0.1%**	**100.0%**			

Jarden (3 months ending 30 June 2022)

Long Term Investment Fund (LTIF)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	1,678,402.2	1,329,940.8	1.3%	0.0%	1.3%	5.9%	2.0%	8.0%	Y
NZ Fixed Income	4,159,180.0	4,702,634.2	(0.5%)	(0.3%)	(0.2%)	20.7%	15.0%	24.0%	Y
International Fixed Income	5,792,686.4	5,533,570.5	(4.5%)	(1.1%)	(3.4%)	24.3%	23.0%	28.0%	Y
NZ Property	764,283.7	639,439.4	(11.6%)	(0.4%)	(11.2%)	2.8%	1.0%	4.0%	Y
NZ Equities	3,686,806.9	3,261,913.0	(11.5%)	(0.5%)	(11.0%)	14.3%	13.0%	18.0%	Y
Global Equities	7,625,899.9	6,521,581.5	(6.8%)	(1.5%)	(5.3%)	28.7%	25.0%	34.0%	Y
International Property	869,363.9	743,020.7	(14.5%)	(3.4%)	(11.1%)	3.3%	1.0%	4.0%	Y
Total	**24,576,622.90**	**22,732,100.1**	**(7.4%)**	**(7.1%)**	**(0.3%)**	**100.0%**			

- The Long Term Investment Fund (LTIF) was $45.679 million in size as at 30 June 2022, down from $49.014 million as at 31 March 2022. The portfolio experienced a net loss of $3.335 million over the quarter.
- Total capital invested into the LTIF was $46.578 million in January 2019. Adjusted for inflation (assuming a 2% annual rate), this was $49.949 million as at 30 June 2022, leaving the portfolio $4.270 million below the inflation target.
- The Mercer sleeve of the LTIF returned -6.1% net of fees over the June quarter, bringing the total cumulative return since inception to 14.0% (3.9% annualised).
- The Jarden sleeve of the LTIF returned -7.5% net of fees over the June quarter, bringing the total cumulative return since inception to 12.7% (3.5% annualised).
- Portfolio compliance with the SIPO - both the Mercer and Jarden portfolios are compliant.

Port Future Investment Fund - HBRC (PFIF)

Summary of Assets Under Management

	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	
31/03/2022	22,828,552	40,257,345	63,085,897	63,969,909	
30/06/2022	21,436,567	37,332,957	58,769,524	64,289,759	

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).

Performance Summary

The Mercer HBRC PFIF portfolio also returned -6.1% net of fees over the quarter, underperforming the benchmark by 0.1%. The Jarden HBRC PFIF portfolio returned -7.4% net of fees over the quarter, underperforming the benchmark by 0.3%.

8

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	HBRC (port proceeds)	HBRIC & HBRC (port proceeds)	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%
31/03/2022*	(4.9%)	(3.5%)	(5.5%)	(5.5%)
30/06/2022	(6.1%)	(6.0%)	(7.4%)	(7.1%)
Financial YTD	(7.9%)	(6.0%)	(9.3%)	(9.1%)
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	(7.9%)	(6.0%)	(9.3%)	(9.1%)
	-	-		
Cumulative Return Since Inception	4.6%	3.8%	4.21%	5.67%
Annualised Return Since Inception	1.6%	1.3%	1.5%	2.0%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	1,018	1,018	1,019	1,019
Reported balance as at 30-Jun-22 ($)	21,436,567		37,332,958	
Total Capital Contributions ($)	21,978,750		21,978,750	
Net Returns ($)	1,497,957		1,350,938	

*Before 31 March 2022 Jarden consolidated HBRC and HBRIC port proceeds so the returns are equal across each portfolio over this period. From 30 June 2022 onwards the funds will be managed separately.

9

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2022)

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	109,198.4	37,153.5				0.2%	-	20.0%	Y
Index Cash Portfolio	1,416,621.9	1,160,094.4	0.4%	0.4%	0.1%	5.4%	-	20.0%	Y
NZ Sovereign Bonds	3,114,416.7	3,163,119.5	(3.7%)	(3.2%)	(0.4%)	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,680,843.0	2,582,846.1	(3.6%)	(4.4%)	0.9%	12.0%	5.0%	25.0%	Y
Global Credit	2,442,624.9	2,366,934.2	(6.5%)	(6.4%)	(0.1%)	11.0%	5.0%	25.0%	Y
Other Fixed Interest^	1,530,868.4	1,427,473.3	(2.0%)	0.4%	(2.4%)	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,581,573.4	1,679,788.5	(10.2%)	(10.2%)	(0.1%)	7.8%	-	18.0%	Y
Socially Responsible Overseas Shares	6,457,672.3	5,591,545.9	(12.2%)	(12.2%)	0.0%	26.1%	17.0%	37.0%	Y
International Listed Property	684,230.8	582,109.9	(18.6%)	(18.5%)	(0.1%)	2.7%	-	10.0%	Y
Unlisted Property	932,684.8	954,312.6	2.6%	2.9%	(0.3%)	4.5%	-	10.0%	Y
International Listed Infrastructure	690,204.8	655,560.1	(7.6%)	(6.6%)	(1.0%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	1,187,612.7	1,235,629.3	4.4%	2.0%	2.4%	5.8%	-	10.0%	Y
Total	**22,828,552.3**	**21,436,567.4**	**(5.9%)**	**(6.0%)**	**0.1%**	**100.0%**			

Jarden (3 months ending 30 June 2022)

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	2,704,552.4	2,652,224.0	2.4%	0.0%	2.4%	7.1%	2.0%	8.0%	Y
NZ Fixed Income	6,958,490.3	7,388,249.0	(0.8%)	(0.3%)	(0.5%)	19.8%	15.0%	24.0%	Y
International Fixed Income	9,481,617.5	9,057,490.0	(4.5%)	(1.1%)	(3.4%)	24.3%	23.0%	28.0%	Y
NZ Property	1,144,465.2	1,010,989.0	(11.2%)	(0.4%)	(10.8%)	2.7%	1.0%	4.0%	Y
NZ Equities	6,105,562.0	5,363,147.0	(10.5%)	(0.5%)	(10.0%)	14.4%	13.0%	18.0%	Y
Global Equities	12,421,269.4	10,628,945.0	(12.3%)	(1.5%)	(10.8%)	28.5%	25.0%	34.0%	Y
International Property	1,441,387.7	1,231,913.0	(14.5%)	(3.4%)	(11.1%)	3.3%	1.0%	4.0%	Y
Total	**40,257,344.54**	**37,332,957.0**	**(7.4%)**	**(7.1%)**	**(0.2%)**	**100.0%**			

- The HBRC PFIF was $58.770 million in size as at 30 June 2022, down from $63.086 million as at 31 March 2022. The portfolio experienced a net loss of $4.316 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 $64.290 million as at 30 June 2022, leaving the portfolio $5.520 million below the inflation target.
- The Mercer sleeve of the HBRC PFIF returned -6.1% net of fees over the June quarter, bringing the total cumulative return since inception to 4.6% (1.6% annualised).
- The Jarden sleeve of the HBRC PFIF returned -7.5% net of fees over the June quarter, bringing the total cumulative return since inception to 4.2% (1.5% annualised).
- Portfolio compliance with the SIPO - both the Mercer and Jarden portfolios are compliant.

Port Future Investment Fund - HBRIC (PFIF)

	PFIF HBRIC				
	Mercer	Jarden	Total	Inflation Adj.	Monies Change
Initial capital					
31/12/2018					
31/03/2019					
30/06/2019					61,625,795
30/09/2019	29,665,878	29,509,415	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
31/03/2022	31,453,091	14,884,106	46,337,196	48,239,241	
30/06/2022	29,535,219	13,690,729	43,225,949	48,480,437	

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).

Performance Summary

The Mercer HBRIC PFIF portfolio also returned -6.1% net of fees over the quarter, underperforming the benchmark by 0.1%.The Jarden HBRIC PFIF portfolio returned -7.5% net of fees over the quarter, underperforming the benchmark by 0.4%.

Quarter ending	Mercer Net Returns	Mercer Benchmark Returns	Jarden Net Returns	Jarden Benchmark Returns
	HBRIC (port proceeds)	HBRIC & HBRC (port proceeds)	HBRIC (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%
31/03/2022*	(4.9%)	(3.5%)	(5.5%)	(5.5%)
30/06/2022	(6.1%)	(6.0%)	(7.5%)	(7.1%)
Financial YTD	(7.9%)	(6.0%)	(9.4%)	(9.1%)
Days Invested in Financial Year	365	365	365	365
Financial YTD (annualised)	(7.9%)	(6.0%)	(9.4%)	(9.1%)
Cumulative Return Since Inception	4.6%	3.8%	4.11%	5.67%
Annualised Return Since Inception	1.6%	1.3%	1.5%	2.0%
Inception Date	16-Sep-19	16-Sep-19	15-Sep-19	15-Sep-19
Days Invested	1,018	1,018	1,019	1,019
Reported balance as at 30-Jun-22 ($)	29,535,219		13,690,729	
Total Capital Contributions ($)	30,812,898		30,812,898	
Net Returns ($)	1,053,420		1,168,343	

*Before 31 March 2022 Jarden consolidated HBRC and HBRIC port proceeds so the returns are equal across each portfolio over this period. From 30 June 2022 onwards the funds will be managed separately.

12

Breakdown of individual funds by Investment Manager

Mercer (3 months ending 30 June 2022)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	150,453.2	51,189.9				0.2%	-	20.0%	Y
Index Cash Portfolio	1,951,816.2	1,598,373.5	0.4%	0.4%	0.1%	5.4%	-	20.0%	Y
NZ Sovereign Bonds	4,291,031.3	4,358,133.8	(3.7%)	(3.2%)	(0.4%)	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,693,655.0	3,558,635.4	(3.6%)	(4.4%)	0.9%	12.0%	5.0%	25.0%	Y
Global Credit	3,365,439.2	3,261,152.8	(6.5%)	(6.4%)	(0.1%)	11.0%	5.0%	25.0%	Y
Other Fixed Interest^	2,109,224.6	1,966,767.2	(2.0%)	0.4%	(2.4%)	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	2,179,085.7	2,314,406.1	(10.2%)	(10.2%)	(0.1%)	7.8%	-	18.0%	Y
Socially Responsible Overseas Shares	8,897,355.8	7,704,010.2	(12.2%)	(12.2%)	0.0%	26.1%	17.0%	37.0%	Y
International Listed Property	942,730.6	802,028.7	(18.6%)	(18.5%)	(0.1%)	2.7%	-	10.0%	Y
Unlisted Property	1,285,049.5	1,314,848.2	2.6%	2.9%	(0.3%)	4.5%	-	10.0%	Y
International Listed Infrastructure	950,961.5	903,228.2	(7.6%)	(6.6%)	(1.0%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	1,636,288.2	1,702,445.3	4.4%	2.0%	2.4%	5.8%	-	10.0%	Y
Total	**31,453,090.8**	**29,535,219.4**	**(5.9%)**	**(6.0%)**	**0.1%**	**100.0%**			

Jarden (3 months ending 30 June 2022)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	993,323.1	953,625.3	2.6%	0.0%	2.6%	7.0%	2.0%	8.0%	Y
NZ Fixed Income	2,572,864.6	2,627,374.0	(0.9%)	(0.3%)	(0.6%)	19.2%	15.0%	24.0%	Y
International Fixed Income	3,506,413.3	3,349,566.0	(4.5%)	(1.1%)	(3.4%)	24.5%	23.0%	28.0%	Y
NZ Property	423,299.9	373,929.5	(11.2%)	(0.4%)	(10.8%)	2.7%	1.0%	4.0%	Y
NZ Equities	2,261,461.4	1,998,196.9	(10.6%)	(0.5%)	(10.1%)	14.6%	13.0%	18.0%	Y
Global Equities	4,593,636.6	3,932,406.4	(12.3%)	(1.5%)	(10.8%)	28.7%	25.0%	34.0%	Y
International Property	533,106.8	455,631.3	(14.5%)	(3.4%)	(11.1%)	3.3%	1.0%	4.0%	Y
Total	**14,884,105.61**	**13,690,729.4**	**(7.5%)**	**(7.1%)**	**(0.3%)**	**100.0%**			

- The HBRIC PFIF was $43.226 million in size as at 30 June 2022, down from $46.337 million as at 31 March 2022. The portfolio experienced a net loss of $3.111 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 $48.480 million as at 30 June 2022, leaving it $5.254 million below the inflation target.
- Portfolio compliance with the SIPO - both the Mercer and Jarden portfolios are compliant.

Combined Funds (LTIF & PFIF)

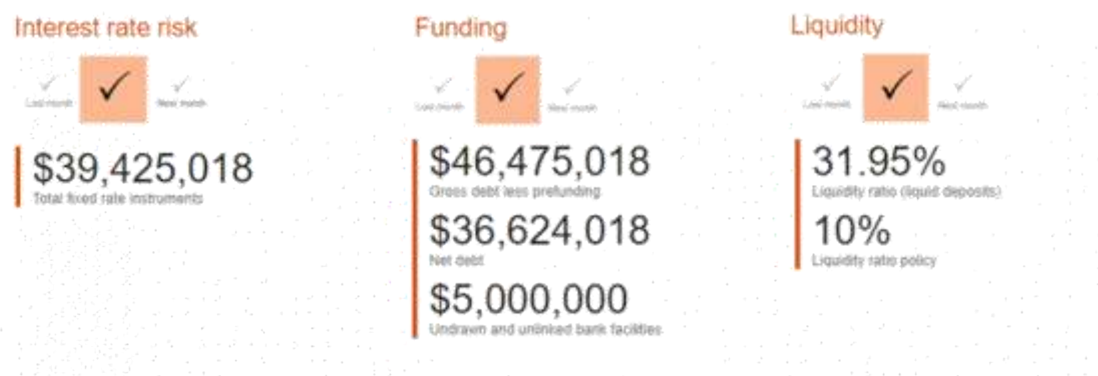
	Total AUM				
	Mercer	**Jarden**	**Total**	**Inflation Adj.**	**Monies Change**
Initial capital					
31/12/2018					40,000,000
31/03/2019	20,467,057	20,403,260	40,870,317	40,200,000	
30/06/2019	21,035,196	20,874,345	41,909,541	40,486,575	112,160,864
30/09/2019	76,728,303	76,077,266	152,805,569	153,377,789	
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
31/03/2022	78,718,658	79,718,073	158,436,731	161,910,104	
30/06/2022	73,918,740	73,755,787	147,674,526	162,719,654	

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD $m)	Maturity
30-Jun-2022	BNZ	Cheque/call	3.777	Overnight
30-Jun-2022	ANZ	Cheque/call	6.074	Overnight
Total			9.851	

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 of $9.851 million. New treasury transactions in the period are outlined in Appendix 1.

6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	**Actual (as at 30 June 2022)**
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%	**34%**

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

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.

Funding and liquidity risk timeline

Liquidity summary

31.95%

Liquidity ratio (liquid deposits)

$46,475,018

Gross external debt, less prefunding

$5,000,000

Undrawn and unlinked bank faciliti...

$9,851,000

Liquid assets

$0

Linked deposits

Funding summary

Bucket (years)	Maturing in period ($)	Policy	Actual
0 - 3	25,124,988	15% - 60%	49%
3 - 7	26,350,030	25% - 85%	51%
7 - 15	0	0% - 60%	0%
Total	**51,475,018**		**100%**

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

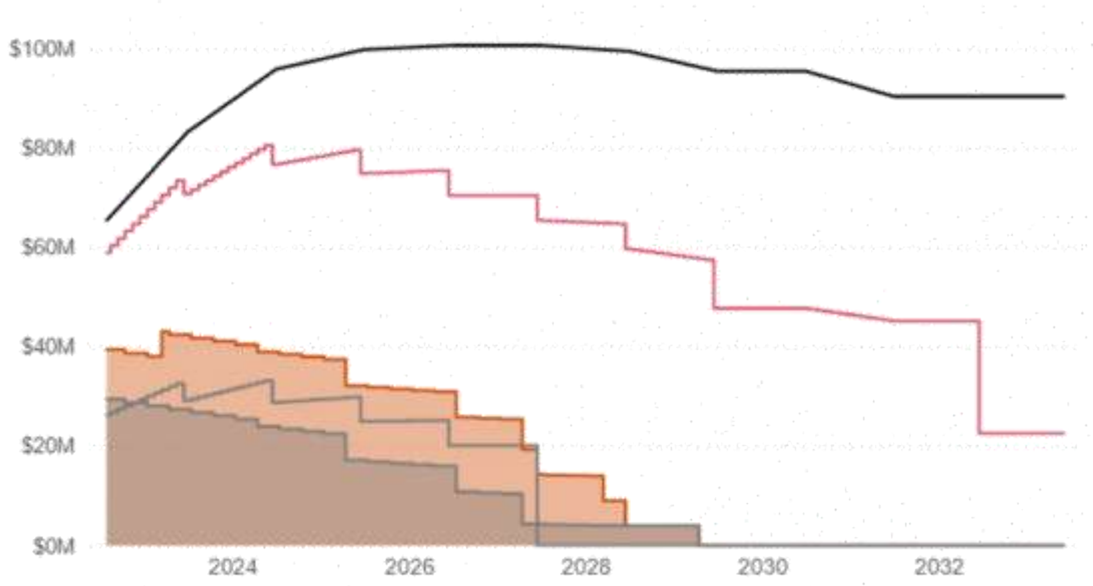
Debt Funding Strategy

As at 30 June 2022 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. LGFA credit margins in the June quarter were broadly unchanged since the end of March, with the relatively wide spread between shorter-dated and longer-dated credit margins remaining, so our strategy remains to target medium-term debt maturities (3-7 years). Alongside this, LGFA have increased their base margin by 5bps p.a. across the curve to primarily cover their liquidity costs as they hold shorter term liquidity assets but borrow in longer term maturities.

8.0 Interest Rate Risk Position

This section is based on the long-term debt forecast (management approved) which is based on 80% of 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%	55%
2	12 - 24	35%	85%	46%
3	24 - 36	30%	80%	38%
4	36 - 48	25%	75%	31%
5	48 - 60	20%	70%	25%
6	60 - 72	0%	65%	13%
7	72 - 84	0%	60%	3%
8	84 - 96	0%	50%	0%
9	96 - 108	0%	50%	0%
10	108 - 120	0%	50%	0%
11	120 - 132	0%	25%	0%

17

Interest rate strategy

As at 30 June 2022 the interest rate risk position was within policy compliance.

The current swap curve and implied BKBM rates have fallen since the end of March, but still have steep 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 0-2 year time period as any hedging activity would lock in heighted OCR increases priced by the current market. The longer-term interest rate management strategy is to move towards policy mid-points from 2-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 inverted after year two as the market begins to price in cuts in the OCR as inflation mandates are met and growth slows. This supports forward starting swap strategies at appropriate rates. Minimum percentages will be maintained but any increase in the fixed rate position above minimums will be transacted when swap rates approach levels of 3.50% and below.

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 ($m)	31/06/22 ($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.

18

Counterparty credit limits

Counterparty	Investment exposure	Investment limit	Derivatives exposure	Derivatives limit	Total exposure	Total limit	Compliance
ANZ	$6,074,000	$15,000,000	$0	$5,000,000	$6,074,000	$20,000,000	✓
BNZ	$3,777,000	$15,000,000	$0	$5,000,000	$3,777,000	$20,000,000	✓
Westpac	$0	$15,000,000	$2,494,045	$5,000,000	$2,494,045	$20,000,000	✓

12.0 Market Commentary

Interest rate markets

Overview

The New Zealand interest rate market has continued to push higher, spurred on by increasingly elevated market-implied OCR expectations. Broad interest rate drivers remain similar to the first quarter of 2022 as central banks continue to fight their uphill battle against rising inflationary pressures. Over the quarter, the Reserve Bank of New Zealand (RBNZ) hiked the official cash rate (OCR) 50 bps on two separate occasions, resulting in a cash rate of 2.00% on 30 June 2022. The RBNZ has not been alone in tightening monetary policy settings, with most developed economy central banks broadly moving in unison in an effort to address global inflationary pressures. The past quarter saw year-on-year inflation hit multi-decade high levels in New Zealand (7.3%), the United States (9.1%), and Australia (5.1%). While central banks currently maintain a laser focus upon inflation levels across the short to medium term, economic growth concerns are weighing upon interest rate expectations beyond the three-year point on the curve. Evolving dynamics have largely contributed to the flat, and on occasion, the technically inverted structure of the domestic interest rate swap curve over the second quarter.

Over the second quarter, the increase in the swap curve was relatively uniform across different tenors, with the domestic 2-year interest rate swap appreciating from 3.32% to 4.00% (68 bps) and the 10-year interest rate swap increasing from 3.40% to 4.05% (65 bps). That point-to-point comparison masks the intra-period volatility that saw the curve structure flitter between broadly flat and mildly inverted across the period. This has been partially driven by the market expectation that aggressive policy tightening today may have to be unwound at some point in the future. Given that many major global economies printed negative quarter-on-quarter economic growth in the three months to June, including the United States and New Zealand, at a time when consumer inflation is recording multi-decade highs, the flirtations with inversion were relatively unsurprising.

Drivers

Movement in the short-end of the domestic interest rate swaps curve (0-2 years) continues to be largely driven by central bank rhetoric, actions and associated cash rate expectations, while volatile global economic sentiment continues to dominate movements in the long-end (7-10 years). That being said, the lines of delineation of influence have become increasingly blurred, with traditional long-end and short-end drivers having (at times) a material impact across the wider curve as concerns regarding economic headwinds grow.

Second quarter data releases have broadly supported the RBNZ's current inflation-fighting stance. The central bank's inflation expectations survey (where respondents expect to see year-on-year changes in the Consumer Price Index 2-years out) is pointing to expectations continuing to hold at levels outside of the bank's 1-3% target range. Printing at a multi-decade high of 3.29%, up 2-bps from Q1, the survey provides additional justification that aggressive hiking of the OCR is needed to rein in inflation and medium-term expectations. With unemployment still sitting at a record low of 3.2%, and inflation moving to a multi-decade high of 7.3%, there is a strong argument for continued raises in the domestic cash rate.

From a central bank perspective, the RBNZ has broadly reinforced its stance from the previous quarter, emphasising the need for a continued tightening of monetary policy conditions at pace to maintain price stability and support maximum sustainable employment. The most recent May Monetary Policy Statement issued a revised, and broadly higher OCR track. Implying a cash rate of around 3.5% by the end of the year, up dramatically from the 2.25% level identified in the February Monetary Policy Statement.

With first-quarter gross domestic product printing at -0.2%, rising inflation and interest rates are already taking a toll on economic activity. In the RBNZ's June Monetary policy review, the bank expressed that *'...once aggregate supply and demand are more in balance, the OCR can then return to a lower, more neutral, level'*. The relaxation of longer-dated cash rate expectations has become evident in the long end of the domestic interest rate swaps curve, contributing to the curve periodically moving in and out of technical inversion.

Looking ahead

From a short-end perspective, with market expectations of the year end level of the OCR oscillating between 3.50% and 4.00% during June, the degree of upwards appreciation in RBNZ expectations witnessed across the second quarter is unlikely to continue. Effectively, the market increasingly looks to be 'fully priced'. Volatility will continue being a prominent feature of the New Zealand interest rate market, as participants balance domestic inflation and growth data.

The long-end of the curve will continue to be principally influenced by sentiment toward the outlook for the global economy, as reflected by the yield on US 10-year Treasury bonds. Current concerns that the global economy will face headwinds over the coming years, in part as a consequence of the present elevation of consumer inflation and the response of central banks (including the RBNZ) to that inflation, will likely continue to apply downward pressure to long-end rates. The extent of that pressure may not be sufficient to prompt a material move lower in the near term, but should limit the ability of long end rates to appreciate.

The aggressive slope of the short-end, a function of anticipated aggressive monetary policy tightening, coupled with a subdued long-end will result in a curve that is likely to become increasingly inverted over the coming months.

Equity markets

**Note all international equity returns are converted into NZD terms with local currency returns also provided. With the material depreciation in the NZ dollar over the quarter (10.9% down against the US dollar) this softened losses for unhedged investors.*

The June quarter of 2022 brought more pain for equities as the sell off continued as many of the themes from the first quarter continued, with investors pricing in further interest rate increases and increasing recession risks. As discussed in more detail above, inflation continued to move higher in most major economies, which was against expectations of it reaching its peak. The war with Russia also showed no signs of resolution and its impacts have meant gas and other energy prices have continued to soar, worsening the energy crisis in Europe. The war has also caused a spike in food prices which has also contributed to record high inflation. One of the consequences has been central banks doubling down on their commitment to fight runaway inflation, some with record high interest rate increases. The MSCI World Index fell 7.5% in NZD terms over the second quarter, meaning it is now down 13.7% from the beginning of this year (-16.6% and -21.2% in USD terms respectively). Reflecting the increasing rates environment, the MSCI World Value index outperformed its growth counterpart over the quarter, but both indexes still experienced losses, down 2.6% (-12.2% in USD terms) and 12.8% (-21.4% in USD terms) respectively. One surprising region standout was China, which was one of the only index markets to finish the quarter in positive territory. Not so surprisingly, energy was also an exception to the negativity.

Australasian equities were not excluded from the widespread losses. Australian equities have outperformed global equities year to date – its economy happening to be one of the beneficiaries of the high gas and wheat prices caused by the Ukraine conflict – but during Q2, the market also followed its global counterparts downwards. The ASX200 fell 10.4% over the quarter (-12.4% in AUD terms). For New Zealand, the clouds are slightly darker. New Zealand equities have seen similar moves with the NZX50 Gross Index down 10.3%, which extends its year-to-date loss to 16.6%.

With the pace and magnitude of Fed tightening required being ramped up, the idea that the Fed will be able to engineer a soft landing became increasingly difficult for the market to reckon with. This ultimately pushed US stocks to officially cross into bear market territory in June as year-to-date losses exceeded 20% in USD terms. In the last two decades this is the fourth bear market to occur and the one brought about by the Covid-19 pandemic was more of a so-called 'shock trade'. There is concern this selloff could have more in common with the 2000s dotcom bust, sharing the combination of high tech valuations and a commodity crisis. During the bear market of 2000, the S&P 500 fell 51% in USD terms from peak to trough over 638 days. At the end of June, the S&P 500 had so far fallen 20.6% in USD terms (-13.0% NZD terms) over 180 days. Over the June quarter alone, the S&P 500 fell 16.5% (-7.3% in NZD terms). Declines hit all sectors, but media and entertainment and auto sectors were the worst while consumer staples and utilities continued to be more resilient.

European equities also continued steep declines, as its economy is the most threatened by the Russia-Ukraine war due to its gas reliance on Russia. This said, the companies represented in European stock market indices are globally diversified, with only 40% of their revenues estimated to come from Europe itself. Europe also has a greater exposure to sectors performing better in the current environment, namely financials and energy. As a result, European equities did slightly outperform US equities, the MSCI EMU Index (Europe Economic and Monetary Union) falling 12.0% in EUR terms (-7.7% in NZD terms) over the quarter. The fall was led by information technology and real estate sectors while energy and communication services were the top performing sectors. UK equities were also down but to a lesser extent than other markets. The FTSE 100 index fell a smaller 4.6% in GBP terms (-2.0% in NZD terms) in Q2, helping make it one of the best-performing major equity markets this year. The outperformance of the FTSE 100 index is no reflection of the UK's economy holding up but rather that most of its companies generate their revenue outside of the UK, with high exposure to commodity prices and financial stocks and almost none to technology stocks.

Negative returns were also the case for Asian equities, which were rocked mostly by recession fears with China as the only positive with the lifting of prolonged lockdowns in some major cities helping Chinese shares outperform. The MSCI China Index was up 13.4% (+2.5% in HKD terms) over the quarter. While helping the MSCI Emerging Market Index with its outperformance of developed market indices (China has the largest index weighting of 35.4%), this index also fell over the quarter, returning -2.8% (-12.4% in USD terms). The strong US dollar was particularly harmful to emerging markets performance.

LGFA debt funding markets

A total of 52 local government borrowers raised $1.3 billion in the June quarter from a total of 118 separate funding transactions, with only three not conducted via the LGFA. Borrowing volumes were far greater than the March quarter ($676 million) - not uncommon for the June quarter, which has historically been an active quarter for local government issuance, but borrowing volumes were still significantly higher compared to last June last year ($935 million). Borrowing continued to be primarily undertaken on a floating interest rate basis (73% of all borrowing). The weighted average term of borrowing decreased from 6.5 years in the March quarter to 5.25 years in the June quarter. LGFA credit margins in the June quarter were broadly unchanged since the end of

21

March, with the relatively wide spread between shorter-dated and longer-dated credit margins remaining, resulting in a steep funding curve.

The LGFA April bond syndication was a record issuance volume of $1.1 billion, which was a great result for the LGFA given the underlying market volatility and general financial market risk-off sentiment. The May and June LGFA bond tenders also showed excellent results as higher yields (driven by higher wholesale rates) meant that there was strong investor demand for LGFA bonds. There was strong competition for investor demand in the June quarter with $1.0 billion of Kauri bond issuance. We continue to anticipate strong competition for investor demand throughout 2022 by the likes of Kāinga Ora and Kauri issuers as investors prefer more highly credit rated investments with uncertainty abounding.

Continued global financial market volatility over coming months informs our view that LGFA credit margins will continue to move more or less across the page in the next quarter. We anticipate a slight steepening bias in the LGFA funding curve with relatively stronger demand for shorter dated bonds to anchor yields at lower levels whilst long term yields remain at elevated levels.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
No breaches			

14.0 Appendix

New Treasury Transactions up to 30/06/2022

Borrowing activity

LGFA	Amount (NZDm)	Start Date	Maturity Date	Margin
Floating rate note	4.0	14-Apr-22	15-Apr-2026	64 bps p.a

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Asset Management Group review

Reason for Report

1. This item presents a summary of management reviews of the Asset Management function undertaken since 2018 to assist in decision-making on the timing of an Asset Management internal audit proposed through the 2022-2023 internal audit plan.

Executive Summary

2. The draft 2022-2023 enterprise internal audit plan identified an opportunity to audit the Asset Management function.
3. Management reviews of the Asset Management Group, s17a Review of Works Group, Asset Management Framework and Asset Management plans were conducted in the preparation of the 2021-2031 LTP.
4. The Group Manager of the Asset Management Group will provide a presentation to the sub-committee, outlining the previous management reviews and their findings.
5. The recommendation of the Group Manager Asset Management is to defer the audit, to allow time for the identified improvements from previous reviews to be implemented.

Background

6. A number of management reviews have been undertaken since 2018 to assist in the improvement of both service delivery and Asset Management processes/frameworks. These include:
   - 6.1. A review of structure in 2018 and creation of a capital delivery team with the sole focus on delivering the capital works programme and improving capital delivery processes.
   - 6.2. A Section 17A review of Works Group undertaken by Morrison Low in 2020 and presented to Finance Audit and Risk Sub-committee on 11 November 2020.
   - 6.3. A review of our Asset Management framework (processes) undertaken by Waugh Infrastructure in March 2020.
   - 6.4. A review of our Asset Management plans by Waugh Infrastructure providing feedback to improve Asset Management plans for the 2021-2031 LTP.
   - 6.5. A review of the Asset Management Group structure in 2022 which separated the operations function from the strategic asset management function to assist in the management of change for the Asset Management framework.
7. Many of the process improvements are still to be delivered through the Enterprise Asset Management ICT project, which is a significant activity with regular reporting to Council. The Enterprise Asset Management ICT project is only just commencing, with an expected duration of 24 months. The solution is fully integrated with the new finance system.

Next Steps

8. It is proposed to improve the visibility of the various Asset Management improvement actions to Council by the creation of a master *Improvement Register* to track execution of agreed actions and report on a regular basis.

9. Defer the proposed 2022-23 audit to 2024-2025 to allow time for the improvements from previous reviews to be implemented.

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

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

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

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

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the *Asset Management Group review* staff report.

Authored & Approved by:

Chris Dolley
Group Manager Asset Management

Attachment/s

There are no attachments for this report.

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: 2022-2023 Enterprise Internal Audit Plan

Reason for Report

1. This item provides the Finance Audit and Risk Sub-committee (FARS) with an update on the proposed 2022-2023 Enterprise Internal Audit Plan for consideration and confirmation.

Background

2. The Internal Audit Framework requires that an Annual Enterprise Internal Audit Plan be adopted by FARS each year for the following financial year.
3. Council's internal auditors, Crowe, provided a potential plan to the May 2022 FARS meeting. After discussions it was agreed that further information would be provided to the August 2022 FARS meeting to enable to the sub-committee to confirm the schedule of audits in relation to the:
   - 3.1. Asset Management Group review
   - 3.2. Health & Safety review.

Discussion

4. An update on Council's Asset Management Framework is being provided to FARS as a separate agenda item. Maturity of Council's Asset Management Framework is making good progress. As the framework maturity is not fully implemented it is considered too soon for an internal audit to provide full assurance that the updated Asset Management Framework is effective both operationally and in design. Therefore, staff propose that the Asset Management Framework enterprise internal audit be deferred to 2023-2024.
5. Council's Health and System Management Framework is benchmarked to a standard that is no longer being maintained – ACC's Workplace Safety Management Practices (WSMP). Therefore, Council's Health and Safety Management Framework is under review to align to a new Health and Safety Management external standard that is recognised by Worksafe. Undertaking a Health and Safety internal audit in FY23 is timely and will provide two purposes:
   - 5.1. assurance that the maturity of Council's current Health and Safety Management Framework remains 'fit for purpose', with no immediate operational areas of concern, and
   - 5.2. as a gap analysis to the new Health and Safety Management external standard allowing the Health and Safety Team to prioritise key focusses areas for updating Council's current Health and Safety Management Framework.
6. Therefore, proposed audits for the FY23 Annual Enterprise Internal Audit Plan include Council's Health and Safety Management Framework and the two audits agreed at the May 2022 FARS meeting, being Data Analytics and Organisational Change Consolidation and Prioritisation. The high-level scope of the proposed enterprise internal audits for FY23 are as follows.
   - 6.1. Data Analytics – a 12-monthly cyclical review to interrogate transactions and master data within Council's payroll and financial system to identify potentially suspicious relationships, trends, or transactions.
   - 6.2. Organisational Change Consolidation and Prioritisation – seeking assurance that decisions on 'when' to programme and 'how' to execute our strategic organisational change initiatives effectively consider organisational impacts, risks, resource constraints and

process/system integration. The audit will consider opportunities to strengthen decision making to ensure organisational change effectively drives the creation of value while ensuring the organisation is protected from undue risk, e.g., impact on people, compliance, etc, which is sometimes referred to as 'risk in change'. The strategic decision-making process on each individual organisational change initiative and project management process is out of scope.

6.3. Health and Safety – to seek assurance that the structure of Council's Health and Safety Management Framework adequately aligns to a Worksafe recognised Health and Safety Management external standard, and to provide the gap analysis against the new external standard to assist the Health and Safety Team with prioritising the Health and Safety workplan. In addition, the audit will review how effectively of Health and Safety processes and procedures are embedded into the operational business that ensures compliance with Council's Health and Safety Management Policy.

7. Council's Assurance Universe is attached to this paper. The Assurance Universe links enterprise reviews or audits undertaken over the past four years at Council to an enterprise risk. Reviews and audits in the Assurance Universe include external audits, enterprise internal audits, business reviews with an enterprise focus, and section 17a reviews.

Financial and Resource Implications

8. The internal audits will be undertaken, as per the approved plan, within the 2022-2023 budgets allocated.

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

9.1.1. 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

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

Recommendations

That the Finance, Audit and Risk Sub-committee:

1. Receives and considers the *2022-23 Enterprise Internal Audit Plan* staff report
2. Confirms the internal audit plan for the 2022-2023 financial year, will include:

2.1. data analytics *(as resolved 4 May 2022)*

2.2. organisational change consolidation and prioritisation *(as resolved 4 May 2022)*

2.3. Health & Safety management framework.

Authored by:

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young	**James Palmer**
Group Manager Corporate Services	**Chief Executive**

Attachment/s

1⇩ Assurance Universe as at 6 July 2022

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

Key	
Purple Text	Enterprise Internal Audits
Green Text	Group Business Reviews
Grey Text	External Audit
Orange Text	S17a Review

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Data Analytics audit report

Reason for Report

1. This item presents the internal audit report (attached) for the Data Analytics audit undertaken by Crowe in July 2022.

Executive Summary

2. The Finance, Audit and Risk Sub-committee (FARS) agreed at its meeting on 13 October 2021, as part of the internal audit work programme, to engage Crowe to conduct an internal audit of Council's Data Analytics.
3. The agreed scope and purpose of the audit was to review payables and payroll, and master and transactional data for the financial year ended 30 June 2021. Due to the change in financial system from 1 July 2021, the scope was changed to use transaction data from 1 July 2021 to 30 April 2022 and master data extracted on 24 May 2022. This data was then analysed independently by Crowe for any potential anomalies or suspicious transactions.
4. The report was then provided to staff, along with separate spreadsheets listing the transactions that required review. These spreadsheets were initially analysed by the Payroll Officer and the Team Leader Finance and then reviewed by the Chief Financial Officer to identify any findings requiring further investigation.
5. This is the fifth consecutive annual Data Analytics audit conducted by Crowe. Previous reporting of the findings of the 2019-20 audit was presented to the sub-committee on 5 May 2021. A comparison to previous findings is also provided in this paper.
6. It is important to note that, when a transaction is identified, it does not necessarily indicate that there is anything suspicious. There are often legitimate business reasons for a transaction being identified, such as different types of payments to a Council (rates credits versus payment for services). These types of transactions may display in areas such as 'duplicate address', 'GST/non-GST transactions', or 'duplicate IRD number'.
7. In addition, some transactions are listed purely for review purposes due to their deemed higher risk nature, such as 'top 50 vendors by amount' as an example. This, in itself, allows staff to easily assess whether vendors are in line with expectations and would highlight any vendors that may appear erroneous.
8. Given the small size of Hawke's Bay, there are times when an employee may share the same address as a vendor, usually a spouse. Transactional processing staff ensure that employee approvals are not allowed where any known conflicts exist between an employee and a vendor.

Audit Findings

9. The report includes three high risk results pertaining to:
   - 9.1. Vendors with multiple purchase orders on same day that would exceed approver's delegation, e.g. 33 cases were identified where a purchase order for the same supplier was approved on the same day by the same individual and the total value exceeds delegated authority.
   - 9.2. Invoices approved by persons over or on their delegated authorities – 40 cases identified where Purchase Order approval appeared to exceed delegated authority. We note that in 26 cases the PO was approved after the invoice date.

9.3. Payments to Vendors with an employee master data match approved by the employee – one record was identified where the purchase requisition approver is linked to the vendor. A Companies Office search confirmed the employee who approved the purchase requisition is a director and shareholder of the vendor. The transaction value is $1,710 excluding GST.

10. All of the cases where a purchase order for the same supplier was approved on the same day by the same individual and the total value exceeds delegated authority relate to either sustainable homes or vehicle purchases, where requisitions are for specific individual items and a number can be put through on the same day. No unusual items were noted.

11. On review of the cases identified where Purchase Order approval appeared to exceed delegated authority it was noted that 35 cases were approved by the correct person with the correct financial delegation at the requisition stage. The remaining five cases were for staff that had been given higher financial delegation due to covering management roles. With regard to purchase orders being raised after invoice date, this is a known issue which we will be addressing through increased training.

12. The one record identified where the purchase requisition approver is linked to the vendor was a valid payment. Staff will be reminded to ensure that one-up approval is obtained for any transactions where a conflict of interest may be perceived.

13. All other findings have been reviewed in detail, and no unusual or unexpected transactions were identified.

Comparison to the Last (2020) Audit

14. The number of duplicate bank accounts, vendor names and addresses in the supplier master file decreased from 184 last audit to 74.

15. Last year there were eight possible duplicate payments identified while this year none were identified.

16. Overall, the number of errors arising from internal processes is better than the prior year, with internal checks continuing to keep the number of flagged or highlighted transactions arising within the review to a low percentage of the overall transactions. Staff recognise that there is a need to maintain appropriate process to reduce errors and to ensure correct internal controls are used to reduce the risk of fraud or misappropriation.

Actions to Address Findings

17. While reviewing the findings of the audit, corrective action has been taken where needed to remove duplicates and complete any missing details. Staff have also streamlined some vendor accounts where multiple sub-accounts were causing problems.

18. Staff have also been requested to update their contact details in the system, which most have now done.

19. Finance continues to train users on processes with the new financial system, especially the raising of requisitions and purchase orders before goods and services are received. The Council is also preparing some fraud training, which will include reminders about ensuring any situations where a conflict of interest may be perceived are appropriately managed.

Decision Making Process

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

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

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

20.2.1. 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)

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

Recommendations

That the Finance, Audit and Risk Sub-committee receives and considers the *Data Analytics audit report* staff report.

Authored by:

Chris Comber
Chief Financial Officer

Approved by:

James Palmer
Chief Executive

Attachment/s

1⇩ Crowe 2022 HBRC Data Analytics Report


Crowe
Hawke's Bay Regional Council
Internal Audit Data Analytics
8 July 2022
Audit / Tax / Advisory
Smart decisions. Lasting value.

Contents

1. Executive Summary

1.1. Objectives and scope

The objective of this assignment was to perform the specified tests per the Scoping Document dated April 2022 to detect suspicious transactions and master data. The testing areas were payroll and accounts payable payments and master data.

The transactional data testing included transactions during the period 1 July 2021 to 30 April 2022 with the master data testing as at the date of extraction which was 24 May 2022.

The data analysis work did not include assessment of the respective internal controls within the business processing areas and was limited to factual reporting of identified data anomalies as per the specified tests undertaken.

Completion of the specified tests was subject to the availability of data from the Council's systems. Tests where the data was unavailable are indicated in the results where applicable.

1.2. Results

This report includes a summary of the results of the payroll and finance application data testing. The results are presented in three sections:

- Accounts payable master data and transactions
- Cross matching of data between accounts payable and the payroll system
- Payroll master data and transactions

We have provided management with an Excel workbook containing the results for each area. Each Excel workbook includes a summary results table with risk indicators and recommended actions and the detailed transactions and master data records identified through completion of the specified tests. Individual records are highlighted in the Excel workbook that we consider require further investigation.

1.3. Basis and use of report

This report has been prepared in accordance with our Scoping Document dated April 2022 and subject to the limitations set out in the Appendix - Basis and Use of the Report.

1.4. Risk indicators

Each test result has been given a risk indicator. The risk indicators were determined based on a subjective determination of the likelihood of the results containing fraud or error and the potential materiality of any fraud or error identified. The indicators are as follows:

L = Low

M = Medium

H = High

N/A = No results or no actions required

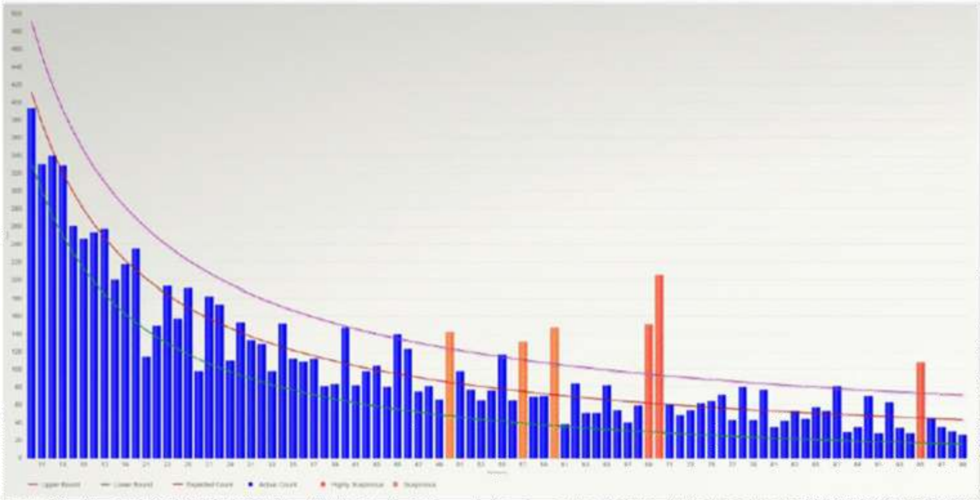
2. Results and recommendations

2.1. Accounts payable

No	Test	Result	Indicator	Recommended action(s)
1	No bank details in Vendor master data and paid	No records identified.	N/A	N/A
2	Duplicate vendor bank account	45 duplicate bank accounts were identified amongst active vendors.	M	Review and block duplicate vendors as required to ensure invoices cannot be posted twice.
3	Duplicate vendor name	7 vendors with duplicate name identified. Having duplicate vendors with different bank accounts increases the risk of paying a fictitious vendor or the wrong bank account. Having duplicate vendors with different bank accounts increases the risk of paying a fictitious vendor or the wrong bank account.	M	Review the records to identify any unknown Vendors and payments not as expected. Block Vendors as required.
4	Duplicate vendor address	22 duplicate vendor addresses were identified.	M	Review the records to identify any unknown vendors and deactivate any duplicate vendors as required.
5	Multiple bank account changes	No vendors identified with more than 1 bank account change in the reporting period.	N/A	N/A
6	Payment transactions with no master data	No records identified.	N/A	N/A
7	Payment transactions to blocked Vendors	4 vendors identified that were blocked in the master data and paid. Assumption is that payments were made prior to deactivation. Amounts paid were not significant.	L	Review the records to identify any payments not as expected.
8	Invoices posted on a weekend	65 invoices were posted on a weekend. Of these 3 were for a value of more than $3,000. All invoices had an approved purchase order.	L	Check the 3 invoices paid over $3,000 for validity.
9	Round numbered payments	304 round numbered payments identified. 12 had no associated purchase order.	L	Review the 12 payments with no purchase order and verify validity.
10	Benford's Law - Graph of expected frequencies for the first 2 digits	As shown in the graph below the significant spike patterns outside the expected upper range are invoice amounts starting with the two-digit numbers 50, 57, 60, 69, 70 and 95. Summary results of the invoices starting with those digits are below.	L	Based on our review of the transactions at face value (no substantive testing) the spikes appear to have been caused by various vendors and amounts for heating systems and installations and other regular

No	Test	Result	Indicator	Recommended action(s)
				services. We recommend management scans the listings for any unexpected amounts. services.
11	Multiple payment methods used (Duplicate Vendor Number and Gross Amount AND different payment type)	No records identified.	N/A	N/A
12	Top 50 Vendors by amount	As shown.	L	Scan the list for any vendors that are not known for the services provided
13	Duplicate invoice date and amount	No records identified.	N/A	N/A
14	Duplicate payments	17 potential duplicate payments identified. No subsequent credits/refunds were identified.	M	Review the listed payments and confirm that no outstanding duplicate payments remain.
15	Vendors with multiple purchase orders on same day that would exceed approver's delegation.	33 cases identified where a purchase order for the same supplier was approved on the same day by the same individual and the total value exceeds delegated authority.	H	Review the cases identified to ensure the purchase order approvals were appropriate and did not represent splitting of purchase orders to evade delegation limits.
16	Invoices approved by persons over or on their delegated authorities	40 cases identified where Purchase Order approval appeared to exceed delegated authority. We note that in 26 cases the PO was approved after the invoice date.	H	Review the cases and understand the reason for authority being able to be exceeded and if there is a systems issue permitting approvals outside delegated authority.
17	Vendors where all purchase orders were created and approved by the same person	8 cases identified where all POs were requisitioned and approved by 1 person. In 6 cases there was only 1 purchase order for the vendor.	L	Review the list and ensure the approvals were appropriate.
18	Credit notes by Vendor, volume and amount (where amount >$1,000)	18 Vendors issuing credits of more than $1000.	L	Scan the list of vendors where total credits were greater than $1,000 for any unknown vendors or vendors where credits would not be expected.
19	Vendors with transactions with and without GST	40 Vendors identified with GST and non-GST payments.	L	Scan the list for vendors where non-GST transactions would not be expected. Individual transaction details for those vendors can be provided by us.

Figure 1 – Benford's analysis



Benford's Law states that if you randomly select a number from a natural data set of numbers, the value of the first digit(s) in that number will occur at a predictable frequency. For example, the probability that the first digit will be a '1' is approximately 30%, rather than 11.1% as we might expect if all digits were equally likely (1 out of 9). We use Benford's Law to highlight variances from the normal expected occurrences of the first two digits in a transaction.

Anomalies that would appear as spikes and gaps against Benford's expected results could be an indication of payments being split at a certain level to avoid financial delegation limits. For example, a spike before the 5's and a gap after the 5's could indicate payments being split to overcome a financial delegation limit of $5,000.

By applying the expected results of the Benford's Law theory to the vendor payments tables, the results generally match with the expected probabilities.

As shown in the graph above, the significant spike patterns outside the expected upper range are payments amounts starting with the two-digit numbers 50, 57, 60, 69, 70 and 95.

2.2. Matching master data between the accounts payable and payroll systems

No	Test	Result	Indicator	Recommended action(s)
1	Vendors with a bank account match to the employee master data (excluding employees)	10 matching bank accounts identified.	M	Scan the records to identify any unknown relationships or vendors to ensure vendor is valid. Understand why one employee appears to have the same bank account as Napier City Council.
2	Vendors with an address match to employee master data (excluding employees). Fuzzy logic is employed to identify address matches where characters differ within a set tolerance (allows Street and St to be matched for example).	11 vendors were identified.	L	Scan the records to identify any unknown relationships or vendors to ensure vendor is valid.
3	Payments to Vendors with an employee master data match approved by the employee	1 record identified where the purchase requisition approver is linked to the vendor. A Companies Office search confirmed the employee who approved the purchase requisition is a director and shareholder of the vendor. The transaction value is $1,710 excl. GST.	H	Ensure the transaction was valid and consider the conflict of interest implications of the purchase requisition approval.
4	Employees paid more than $1,000 through accounts payable (where Vendor is classed as EMPLOYEE in the vendor masterfile)	12 employees paid more than $1,000 through AP with 4 employees paid more than $5,000.	M	Review the 4 employees paid more than $5,000 through AP for appropriateness.

2.3. Payroll

No	Test	Result	Indicator	Recommended action(s)
1	Master data records with no address recorded	14 employees were identified with no address in the masterfile. A further 77 have only their city/town of residence recorded.	L	Confirm the employees exist and update master data as required.
2	Referral address	12 records identified with only a referral address although 11 are Councillors and one is an employee.	L	Confirm the employee noted exists.
3	Invalid or missing IRD number An IRD number was determined invalid if the last digit (the check digit) was not consistent with the expected value. The expected value was determined based on the IRD methodology for setting the check digit.	16 employees with no IRD number recorded. All appear to be contractors or staff who had not started at time of extract.	L	Review list to ensure all required information is held.
4	Duplicate IRD number in master data	No records identified.	N/A	N/A
5	Employee with no bank account in the master data	14 records identified with no bank account in the masterfile. All are contractors or do not appear to have started work yet.	L	No action required.
6	Duplicate bank account	5 duplicate bank accounts identified.	L	Scan the listing for any unknown relationships that could potentially present a segregation of duties or conflict of interest issue.
7	Duplicate name and different IRD numbers	No records identified.	N/A	N/A
8	Duplicate address	7 duplicate addresses identified.	L	Scan the listing for any unknown relationships that could potentially present a segregation of duties or conflict of interest issue.
9	Employees paid prior to start date	5 Employees in the Payrun data were paid before their Start dates. They are fixed term and casual employees and potentially previously hired on different contracts.	L	Review the records highlighted and confirm that payments were as expected.

No	Test	Result	Indicator	Recommended action(s)
10	Employees paid after termination date	10 employees were paid more than 14 days (2 payment runs) after their termination date. Total amounts ae not significant.	L	Review the records highlighted and confirm that payments were as expected.
11	Short duration of employment (less than 30 days)	One employee identified.	L	Ensure the employee was genuine.
12	Analysis of allowances per person (total per employee per allowance description)	14 employees received an allowance in excess of $5,000 over the year.	L	Confirm the 5 highest paid allowances are consistent with contractual arrangements
13	Hourly rate paid that is less than minimum wage	5 incidences identified where pay for the hours worked do not appear to align with pay.	L	Review the payments made and ensure they were as expected.
14	Round numbered payments	2 round numbered allowances identified. One appears to be related to termination.	L	Ensure the records highlighted are consistent with contractual arrangements.
15	Transactions with no match to the master data	No records identified.	N/A	N/A
16	Overtime Statistics	One anomaly identified. 22 employees with overtime exceeding $4,000 identified. Significant overtime across the Works Group.	L	Review the overtime values for reasonableness including the outlier identified. Consider any potential health and safety risks of catchment staff and mower operators undertaking significant overtime.

Figure 2 – Summary of allowances

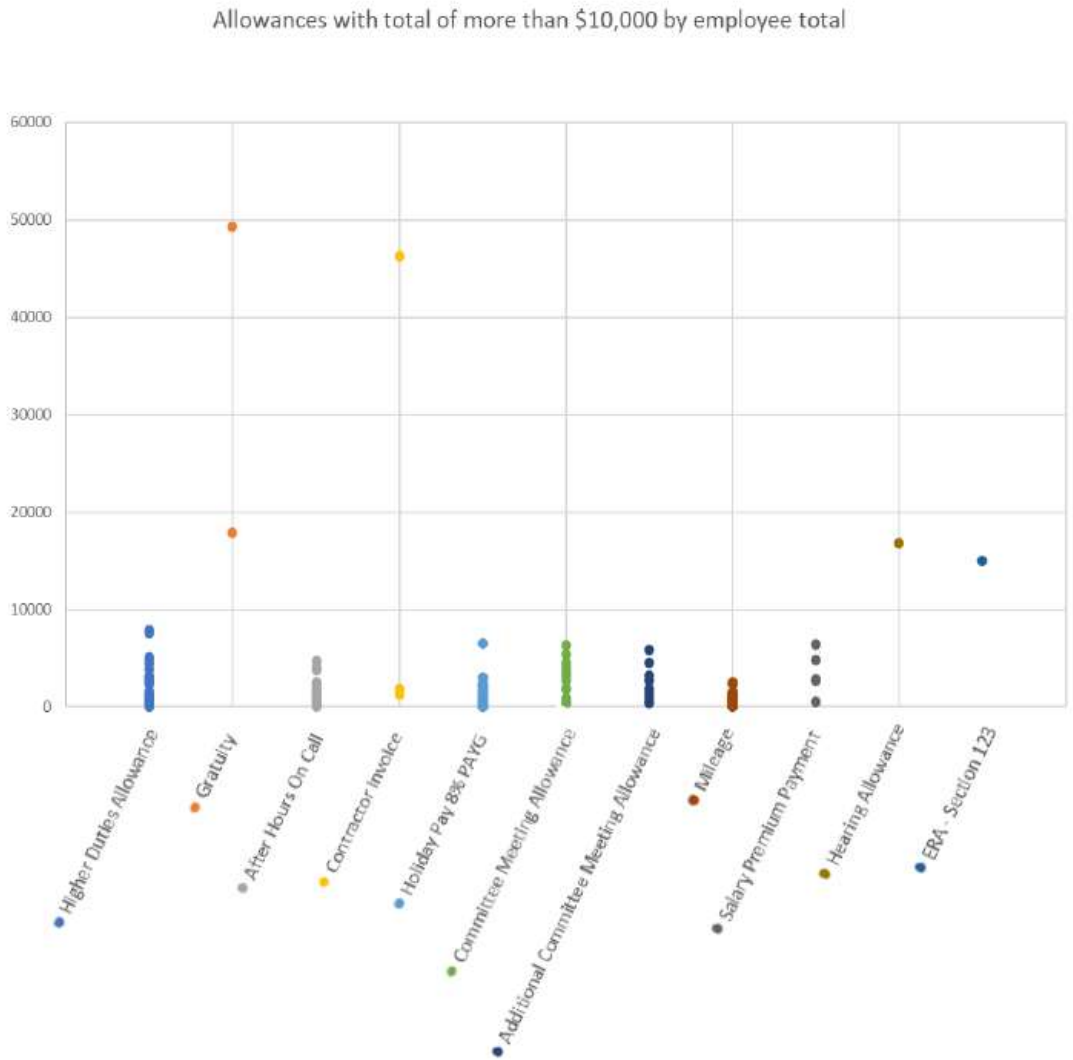
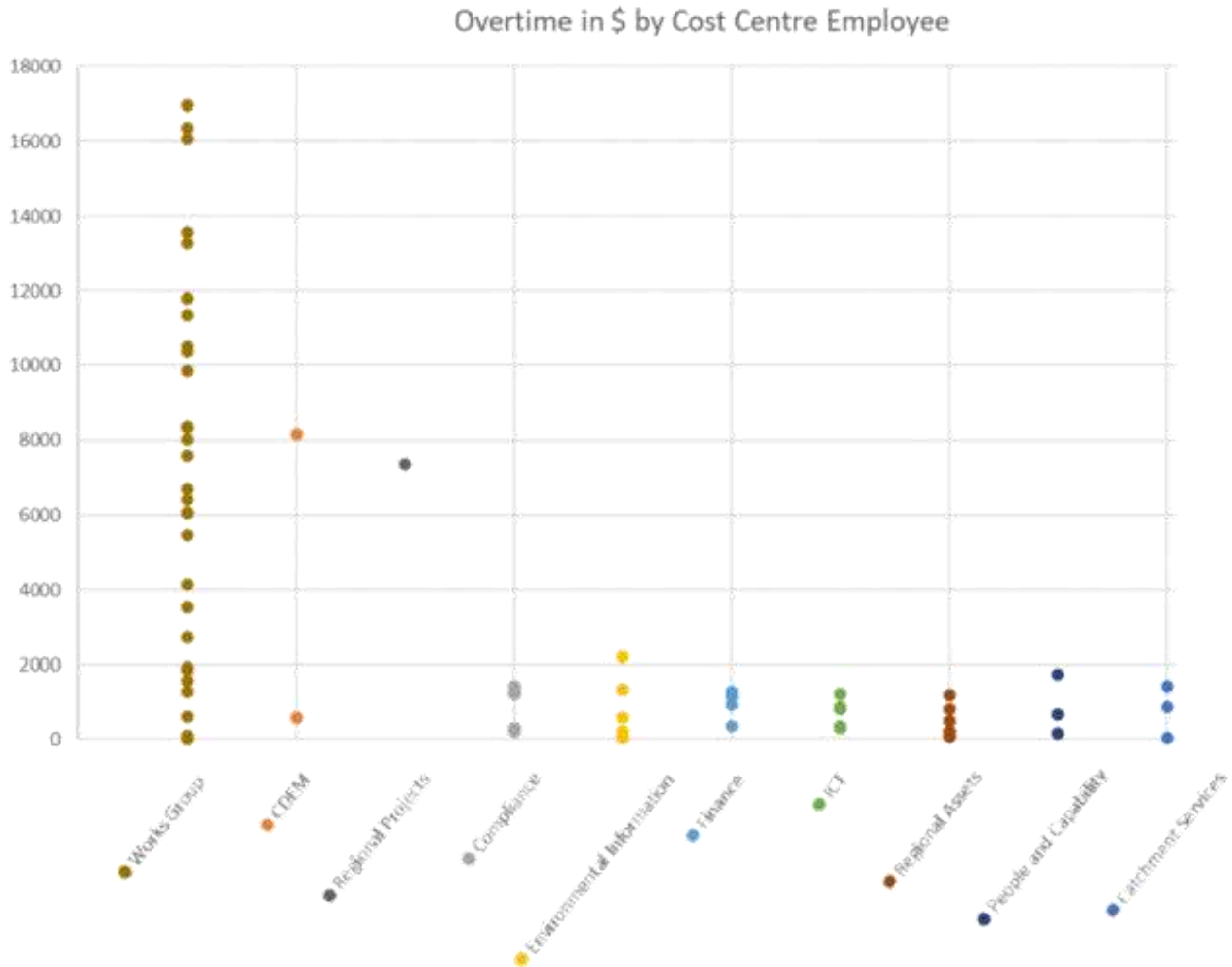


Figure 3 – Overtime statistics - overtime for employees in each cost centre (where total overtime for the cost centre exceeds $2,000)



Appendix

Basis and use of opinion

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

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

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Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: 2021-2022 Enterprise Internal Audit plan status update

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.

Discussion

2. The intention of this update is to provide the FARS with oversight and progress of individual internal audits that form part of the approved annual internal audit plan.
3. The Data Analytics audit carried out by Crowe commenced in mid-May, and the full report is being presented to the FARS by the Chief Financial Officer in this meeting.
4. As shown on the following dashboard, the internal audits for FY21-22 have now been completed and reported to FARS.

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

Decision Making Process

5. 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:
   5.1. This agenda item is in accordance with the Sub-committee's Terms of Reference, specifically:
      5.1.1. 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
      5.1.2. 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)
      5.1.3. 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 *2021-22 enterprise Internal Audit plan status update* staff report.

2. Reports to the Corporate and Strategic Committee, the Sub-committee's satisfaction that the *2021-22 Enterprise Internal Audit plan* has been completed.

Authored by:

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

Approved by:

Susie Young **Group Manager Corporate Services**	**James Palmer** **Chief Executive**

Attachment/s

There are no attachments for this report.

Item 10

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Audit Plan for the 2021-2022 Annual Report

Reason for Report

1. This item provides an update on the timing for the Audit of Council's 2021-22 Annual Report.

Executive Summary

2. Legislation has been passed to extend the statutory deadlines for the completion of the audited 2021-2022 Annual Report by 2 months due to the continued impacts of Covid-19 on the resourcing for the audits.
3. The statutory deadline for the adoption of the HBRC Annual Report is now 31 December 2022.
4. Staff have been given 3 October 2022 as the date for the commencement of the audit process. This will require the scheduling of a meeting of the Finance Audit and Risk Sub-committee in early December to review the draft Annual Report prior to its submission to Council for adoption.

Background /Discussion

5. The audit and adoption of the Annual Report follows timelines set out in the Local Government Act 2002. This Act has been amended to extend the timeframes for the 2020-2021 and 2021-2022 Annual Reports.
   5.1. Section 98 (7) now states that the annual report of a Council must be adopted no later than 31 December (31 December 2022 for the 2021-2022 Annual Report).
6. Officers have had discussions with our new auditors, Ernst & Young (EY), about audit timing (see table below) and have received an audit start date of 3 October 2022. This may change as our auditors refine their work plans and resourcing.

3 – 28 October 2022	Audit field work will be conducted (3 weeks onsite and 1 week remotely)
w/b 24 October 2022	Audit of the debenture trust deed
w/b 24 October 2022	Audit of the summary annual report
w/b 24 October 2022	ACC contract Agreed Upon Procedures
w/b 31 October	Wrap-up of annual report review
8 November 2022	EY issue draft audit closing report, report on control findings and representation letters for management review
16 November 2022	EY clear the annual report, summary annual report, debenture trust deed reporting and AUP

7. Given the timing of the appointment of the new auditors, officers have not requested the production of an audit planning report for FARS from Ernst & Young.
8. Officers are comfortable with the timing of the audit process.

Financial and Resource Implications

9. Staff do not expect the cost of the audit for 2021-2022 to exceed the budget allocated for the audit programme.

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

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

        10.2.1. Satisfy itself that the financial statements and statements of service performance are supported by adequate management signoff and adequate internal controls and recommend adoption of the Annual Report by Council

        10.2.2. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements

    10.3. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and considers the *Audit Plan for the 2021-2022 Annual Report*.

Authored by:

Tim Chaplin **Senior Group Accountant**	**Sarah Bell** **Team Leader Strategy & Performance**

Approved by:

Chris Comber **Chief Financial Officer**	**Susie Young** **Group Manager Corporate Services**

Attachment/s

There are no attachments for this report.

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Item 11

Subject: Internal Assurance corrective actions update

That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting, being Agenda Item 11 *Internal Assurance corrective actions 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 corrective actions update	s7(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)(e) 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 avoid prejudice to measures that prevent or mitigate loss to members of the public. s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Helen Marsden
Risk & Corporate Compliance Manager

Andrew Siddles
Chief Information Officer

Approved by:

Susie Young
Group Manager Corporate Services

James Palmer
Chief Executive

Item 12

Hawke's Bay Regional Council

Finance Audit & Risk Sub-committee

10 August 2022

Subject: Six-monthly Enterprise Risk Report

That the Finance, Audit and Risk Sub-committee excludes the public from this section of the meeting, being Agenda Item 12 *Six-monthly Enterprise Risk Report* with the general subject of the item to be considered while the public is excluded. The reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are:

General subject of the item to be considered	Reason for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Six-monthly Enterprise Risk Report	s7(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)(e) 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 avoid prejudice to measures that prevent or mitigate loss to members of the public. s7(2)(j) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

Helen Marsden
Risk & Corporate Compliance Manager

Approved by:

Susie Young
Group Manager Corporate Services

James Palmer
Chief Executive