HAWKE'S BAY REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Meeting of the Risk and Audit Committee

Date: 31 July 2024

Time: 9.00am

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

Agenda

Hawke's Bay Regional Council

Risk and Audit Committee

Wednesday 31 July 2024

Subject: Treasury Compliance Report for the period 1 April - 30 June 2024

Reason for report

1. This item provides compliance monitoring of Hawke's Bay Regional Council's (HBRC) Treasury activity and reports the performance of Council's investment portfolio for the quarter ended 30 June 2024.

Overview of the quarter ending 30 June 2024

2. At the end of the quarter to 30 June 2024, HBRC was compliant with all measures in its Treasury Policy, however, during the quarter did breach the counterparty risk policy with BNZ over 2 weekends due to the requirement to hold additional funds for loan repayments due on Monday mornings.

3. During the quarter HBRC confirmed and updated where appropriate the delegated authorities and signatories with BNZ and Jarden. There was no requirement to file with the Covenant Trustee Service during this quarter. The next return is due by 31 October 2024.

4. The effects of Cyclone Gabrielle and its recovery continue to impact both cash balances and borrowing requirements. Additional ongoing borrowing to fund recovery will continue over the next 3-4 years, while proceeds from insurance claims are slower than earlier forecast.

5. In June, Fitch confirmed it issued to Council a Long-Term Local-Currency Issuer Default Rating of 'AA'. This rating allows any lending from LGFA to be at a discounted rate (generally 20 base points). It also increases the Council's Lending Policy Covenants with LGFA.

Background

6. Council's Treasury Policy requires a quarterly Treasury Report to be presented to the Risk and Audit 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

    6.6.   Interest rate report

    6.7.   Investment management report

    6.8.   Treasury investments

    6.9.   Cost of funds report, cash flow and debt forecast report

    6.10. Debt and interest rate strategy and commentary

    6.11. Counterparty credit report

    6.12. 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 and the Future Investment Fund.

9. Since 2018, HBRC has procured treasury advice and services from PricewaterhouseCoopers (PwC) who provide quarterly treasury reporting for internal monitoring purposes.

Treasury exceptions report and policy compliance

10. In June, the Council borrowed an additional $40m from LGFA as detailed in the debt management section below and resulted in holding larger than normal funds. As per policy they were placed with multiple counterparties and via Jarden were split between 2 banks. From 1 July 2024 the counterparty limits in the treasury policy has lifted to be $25m each.
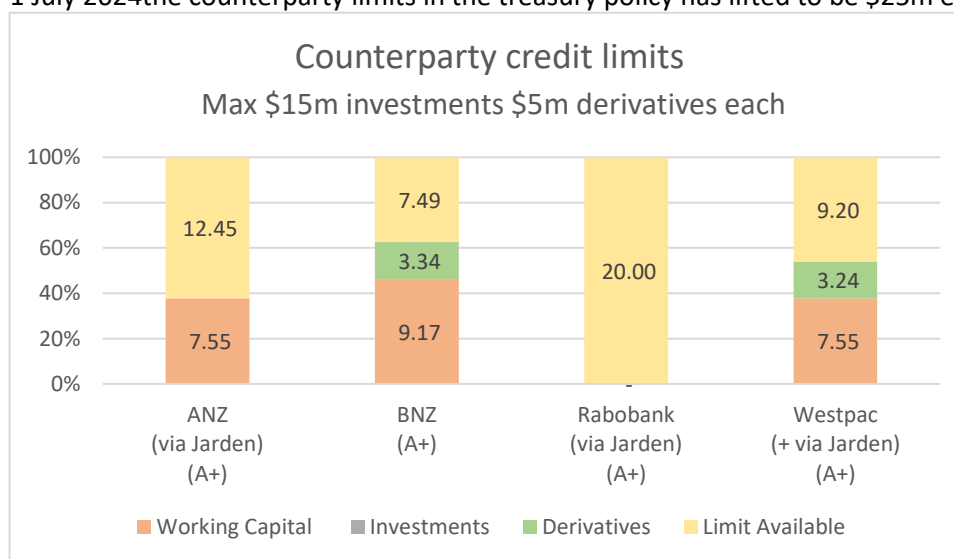
11. Council staff continue to maintain the view that management of Recovery Funding held on behalf sits outside HBRC's treasury Policy for normal operations and is excluded from treasury reporting.

12. The Treasury Policy states the CFO formally delegates to accountants the responsibility for executing treasury transactions in accordance with approved limits, managing the operation of all bank accounts, reviewing electronic batch payments to creditors, and arranging for approval by authorised signatories. Practical application of the Treasury Policy limits for authorisation of bank transactions has not been documented to date so we outlined how this is applied internally the attached report provides a breakdown of the policy and the internal application of limits.

Funding and liquidity

13. To ensure HBRC can adequately fund its operations, current policy requires us to maintain a liquid balance of '*greater than 10% of existing total external debt'.* Current liquidity ratio is 30.22% and therefore meets policy*.*

14. The following table reports the cash and cash equivalents on 30 June 2024.

| 30-Jun-24	$0
Cash on Call	24,275
Short-term bank deposits	-
Total Cash & and Deposits	**24,275**

15. To manage liquidity risk, HBRC retains a Standby Facility with BNZ. This facility provides HBRC with a same-day draw down option, to any amount between $0.3m-$10m, and with a 7-day minimum draw period.

16. With no change to the OCR, the return on on-call funds remains high with BNZ at 4.75% and Jarden at 5.45%. Because the current cash on hand is required for cashflow purposes it is not practical for this to be placed on long term deposit. Short term deposit rates with counterparties currently return less than the above on-call rates.

Debt management

17. On 30 June 2024 the current external debt for the Council group was $113m. There was no pre-funding of loans due to mature. ($130.16m including loan from HBRIC).

18. Since Q3 Council has borrowed $40m from LGFA. $25m was utilised to repay short term borrowing (cyclone related), with the balance to cover operational costs until the next rates intake and fund expected capital projects related to cyclone recovery.

19. The following summarises the year-to-date movements in Council's debt position.

Summary of HBRC Debt

	HBRC only $000	HBRC Group $000
Opening Debt – 1 July 2023 – excl HBRIC Loan	84,830	84,830
New Loans raised*	124,500	124,500
Less amounts repaid	(95,830)	(95,830)
Closing Debt 30 June 2024 (excluding HBRIC loan)	**113,500**	**113,500**
Plus opening balance - loan from HBRIC	16,663	—
Total Borrowing as at 30 June 2024 *	**130,163**	**113,500**

LGFA Debt Maturity Profile
as at 30 June 2024
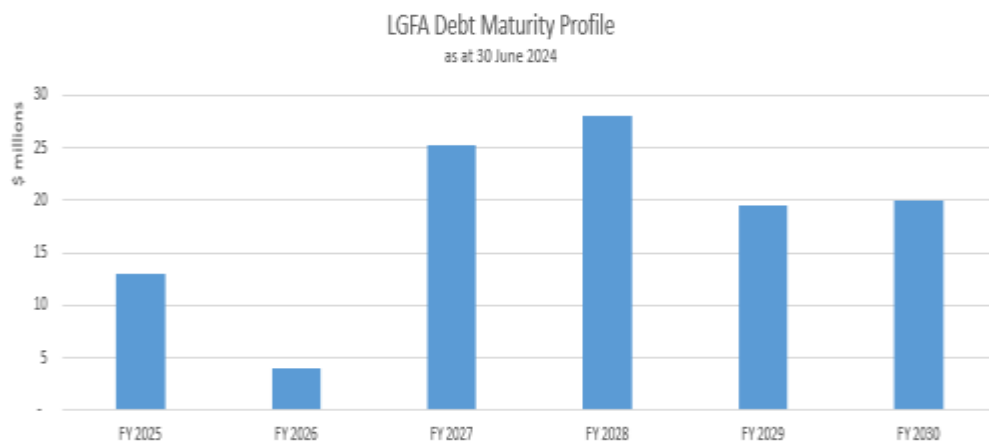
20. Council's debt maturity profile remained compliant and with the conversion of cyclone related short-term borrowing to longer term, the pressure has reduced on the 0-3 year period. As mentioned last quarter, the Council plans to utilise any insurance proceeds to minimise future borrowing. The infographic below includes our $10m BNZ overdraft facility in total debt but excludes internal (HBRIC) debt.

Funding summary

Bucket (years)	Maturing in period ($)	Policy	Actual
0 - 3	$55,799,988	15% - 60%	45%
3 - 7	$67,633,372	25% - 85%	55%
7 - 15	$0	0% - 60%	0%
Total	**$123,433,360**		**100%**

Funding summary

21. The decision for HBRC to borrow $40m in June was a result of several factors falling at the same time. With the insurance claim process taking longer than initial anticipated (although NEMA has applauded our claims information and advised our claims are well ahead of other councils) it was prudent to roll the expensive short-term borrowing of $25m into longer terms, knowing insurance proceeds received in the future would assist to limit further borrowing required for capital projects. Additional funding was also required to fund our cashflow as well to allow have sufficient funds on hand for the major flood mitigation project.

22. HBRC staff are working to firm up a cashflow forecast for the capital projects which have been challenging and this will inform the timing of any future borrowings.

23. The LTP debt forecast anticipates debt levels rising to $176m by the end of FY27.

Borrowing limits

24. Council continues to monitor and work within the agreed borrowing limits set by both Council and the LGFA.

25. The ratios below excludes all HB Recovery cash & cash equivalents held and any return on these funds but does include LTIF managed funds as a liquid asset for assessing net debt.

| Ratio	HBRC	LGFA	Actual to 30 June 2024
Net external debt as a percentage of revenue	<150%	<290%	15.7%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.6%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	9.7%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt		>110%	133.2%

Interest rate risk

26. Council currently holds $49m in fixed rate instruments, 42% hedging of current external debt, and remains compliant to policy. This is based on the draft FY2025-2027 LTP plan.

Interest rate summary

| #	Bucket	Min	Max	Actual
1	0 - 12	40%	90%	43%
2	12 - 24	35%	85%	46%
3	24 - 36	30%	80%	48%
4	36 - 48	25%	75%	36%
5	48 - 60	20%	70%	24%
6	60 - 72	0%	65%	15%
7	72 - 84	0%	60%	2%
8	84 - 96	0%	50%	0%
9	96 - 108	0%	50%	0%
10	108 - 120	0%	50%	0%

Interest rate risk timeline
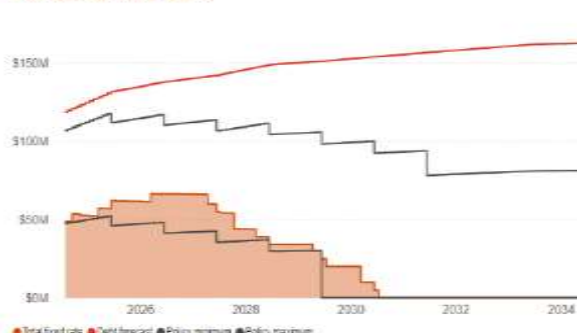
27. These instruments are currently held with two banks, Westpac and BNZ. Since 30 June, interest rates have shown movement and Council is considering additional swaps to increase hedging and proposes to spread risk by introducing swaps from ANZ.
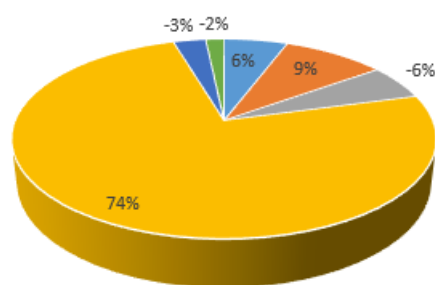
Managed funds

28. Total Group Investment Fund portfolios capital on 30 June 2024 is $167m. Adjusted for inflation this is $1.82m below the inflation-adjusted contribution target. No divestments have been made from managed funds this year.

29. Markets have overall remained static in Q4, with the portfolio decreasing by $67k (full year growth was $11.m). The funds have returned an overall 7.10% after fees and taxes, with all income reinvested into the fund.

30. The following table summarises the fund balances at the end of each period and the graph illustrates the asset allocations within each fund on 30 June 2024.

	30 June 2022	30 June 2023	30 June 2024
Fund Balances HBRC	$000	$000	$000
Fund Balance HBRC	**104,449**	**110,828**	**118,722**
Capital Protected Amount HBRC (2% compounded since inception)	114,239	115,895	118,890
Current HBRC value above/(below) capital protected amount	**(9,790)**	**(5,067)**	**(168)**
Funds Balances (Group + HBRIC)			
Long-Term Investment Fund (HBRC)	45,679	48,400	51,847
Future Investment Fund (HBRC)	58,770	62,428	66,875
Total HBRC	**104,449**	**110,828**	**118,722**
Plus HBRIC Managed Funds (FIF)	43,226	45,638	48,854
Total Group Managed Funds	**147,675**	**156,466**	**167,576**
Capital Protected Amount (2% compound inflation)	162,720	164,798	169,344
Current group value above/(below) protected amount	**(15,045)**	**(8,332)**	**(1,768)**

HBRC Group - Managed fund investments by Investment Asset as at 30 June 2024
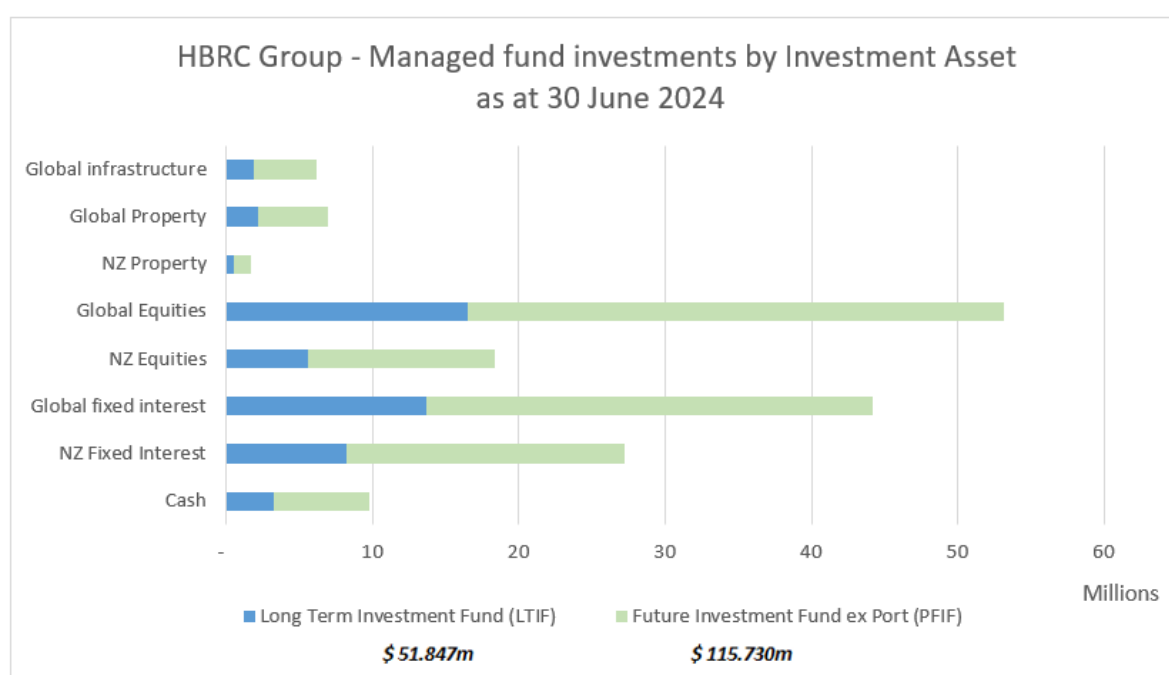
31. From 1 July HBRIC, on behalf of the Council, will transition the HBRC-managed fund portfolios to a new provider, Harbour Asset Management. The transition plan should see all assets transferred and re-invested by 31 July. Harbour has indicated that due to the nature of some of the assets transferred they may not be fully compliant with the SIPO initially but will work as quickly as possible to align to all SIPO requirements.

32. Financial markets have rallied to June and recovered earlier valuation falls within the group portfolio of up $11m on June 2023.   The performance of all portfolio's has improved this year, in part supported by all cash returns which are reinvested, leading to all gains as unrealised.

HBRC Group - PFIF Managed funds performance YTD 30 June 2024

HBRC Group - LTIF Managed funds performance YTD 30 June 2024
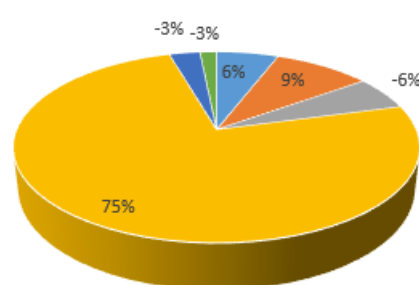
Interest · Dividends · Realised gains · Unrealised gains · Fees · Taxes

YTD Performance			
	LTIF	PFIF	Group
Cash return reinvested	0.34%	0.49%	0.43%
Unrealised return	5.13%	7.71%	6.67%
Total return	**5.47%**	**8.20%**	**7.10%**
By manager:			
Mercer	7.26%	7.26%	7.26%
Jarden	4.36%	9.47%	6.94%
	5.47%	**8.20%**	**7.10%**

Cost of funds

33. Rolling 12 months to 30 June 2024, Gross Cost of Funds (COF) was 3.93% and Net COF was 3.83%.

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. The decisions of the Committee are in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 30 August 2023, specifically the Risk and Audit Committee shall have responsibility and authority to:

35.1.1. Review the Council's revenue and expenditure policies, amongst others, and the effectiveness of those policies in ensuring limited risk is generated. (1.3)

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

Recommendation

That the Risk and Audit Committee receives and notes the *Treasury Compliance Report for the period 1 April– 30 June 2024*.

Authored by:

Tracey O'Shaughnessy
Treasury & Investments Accountant

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

1⇩   Treasury Policy application of bank authorities July 2024

Treasury Policy

Activity	Delegated authority	Limited
Approving and changing policy	Council	Unlimited
Borrowing new debt	Council CE (delegated by Council) GMCS (delegated by Council)	Unlimited (subject to legislative and regulatory limitations) Subject to Council resolution and policy
Acquiring and disposing of investments other than financial investments	Council	Unlimited
Approving charging assets as security over borrowing	Council	Subject to terms of the Debenture Trust Deed
Approving Council guarantees	Council	Unlimited (subject to legislative limitations)
Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Approving new and refinanced lending activity with CCO/CCTOs	Council	Unlimited
Overall day-to-day treasury management	GMCS (delegated by Council) CFO (delegated by Council)	Subject to policy
Refinancing existing debt	GMCS (delegated by Council)	Subject to policy
Approving transactions outside policy	Council	Unlimited
Adjusting debt risk profile	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Negotiation of lending arrangements to CCO/CCTOs	GMCS (delegated by Council)	Per approval/per risk control limits
Ongoing management of lending arrangements to CCO/CCTOs	CFO (delegated by Council)	Per approval/per risk control limits
Managing investments and funding maturities	GMCS (delegated by Council) CFO (delegated by Council)	Per risk control limits
Maximum daily transaction amount (borrowing and interest rate risk management) excluding roll-overs under bank debt facilities.	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $30 million $20 million $10 million
Maximum daily transaction amount (investing and cash management)*	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $30 million $20 million $10 million
Maximum daily transaction amount (foreign exchange risk management)	Council CE (delegated by Council) GMCS (delegated by Council) CFO (delegated by Council)	Unlimited $2 million $1 million $0.5 million
Approving bank signatories	CE	Unlimited
Approving the opening/closing bank accounts	CE	Unlimited
Reviewing Treasury Policy every three years	RAC	N/A
Ensuring compliance with Policy	GMCS	N/A

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

Internal application of authorisation of bank transactions:

Signatories	Owners	Limit ^^
	CE	as per policy
	All GMs	as per policy
	CFO	as per policy
	Finance Manager	
	Treasury & Investment Accountant	
On-line approvers	**Delegated Authority**	**Transactional Limit ** **
	Senior Accountants	up to $5m
	CFO/Finance Manager	up to $10m
	CFO/Finance Manager/ GM Corporate Services	$10m +
	CE/Other GMs	no online access

** Note this is a transactional limit not a daily limit because all outward payments are made from the cheque account at the same time and would exceed a daily limit.

^^ Any exception to these limits requires written delegation approval from level above via emails stating reason and period of exception.

Hawke's Bay Regional Council

Risk and Audit Committee

Wednesday 31 July 2024

Subject: Enterprise Assurance update

Reason for report

1. This item updates the Risk and Audit Committee (RAC) on the progress of:

    1.1. the agreed corrective actions (with priority risk ratings medium and high) that respond to findings from enterprise internal assurance reviews that have been previously reported to the RAC via the Internal Assurance Corrective Actions Dashboard

    1.2. the audits/reviews (including S.17a) completed and proposed for the future via the Assurance Universe Dashboard

    1.3. the position of reviews for the current financial year shown on the Assurance Plan for 2023-24.

Discussion

2. The Internal Assurance Corrective Actions Dashboard is **attached.**

3. The corrective actions status update provides oversight to the RAC of how the actions taken to address open internal assurance findings are progressing, including total issues raised, how many closed and how many remain open. The table below is a summary of the open audits/reviews.

Audit Performed	Review Type	Date	Total Issues raised	Issues Closed	Issues Open	Comments
Regional Assets	Section 17a	March 2020	N/A	0	3	Of the remaining three actions, two are 'on track' and one is 'at risk'.
HBRC Talent Management Report	Internal Audit	April 2021	8	7	*1*	One remaining action is behind – This action is on-hold whilst a P&C Manager is recruited.

4. The dashboard gives visibility of:

    4.1. open findings of the milestones, the milestones completed and to be completed by the next RAC, plus the tracking status since last reported

    4.2. a summary of closed actions since the last RAC report.

5. The Assurance Universe Dashboard is **attached**. This links enterprise reviews or audits undertaken over the past five years, the current year, and future years 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.

6. The Assurance Plan for 2023-24 is below. This gives a status of approved audits and the current status.

Approved Audit FY23-24	Provider	Quarter Due	Date Commenced	Management Comments	Reported to RAC
Data Analytics (2023-2024)	Crowe	Q1	August 2024	Startup meeting in place with Crowe with extraction expected end of August	No

Financial and resource implications

7. The budget provided for internal assurance in 2024-2025 is $64,600.

8. Budget provisions for s.17a reviews are allocated via the budgets for the activities identified in the Assurance Universe.

Decision-making process

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

   9.1. The decisions of the Committee are in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 30 August 2023, specifically the Risk and Audit Committee shall have responsibility and authority to:

      9.1.1. Receive the internal and external audit report(s) and review actions to be taken by management on significant issues and recommendations raised within the report(s). (2.8)

      9.1.2. Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management. (3.5)

Recommendations

That the Risk and Audit Committee

1. Receives and notes the *Enterprise Assurance update* staff report.

2. Confirms that the *Internal Assurance Corrective actions update* report has provided adequate information on the status of the Internal Assurance Corrective Actions.

Authored by:

Olivia Giraud-Burrell
Quality & Assurance Advisor

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

1⇩   Internal Assurance Dashboard July 2024

2⇩   Assurance Universe 1 July 2024

Attachment 1   Item 5

Internal Assurance - Corrective Action status update July 2024

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

Summary Table Outlining all Medium and High Audit Findings

The table below provides a high-level summary of current corrective actions that are being actively managed by HBRC as the result of recommendations made by audit and internal reviews. A detailed breakdown is provided on the following pages. *Closed actions and fully closed-out audits in this reporting period can be found at the back of this update.*

Audit Performed	Review Type	Date	Total Issues raised	Issues Closed	Issues Open	Comments
Regional Assets	Section 17a	March 2020	N/A	0	3	Of the three remaining actions, two are on track and one is at risk.
HBRC Talent Management Report	Internal Audit	April 2021	8	7	1	One remaining action is behind – This action is on-hold whilst a P&C Manager is recruited.
ISO45001 - ECAAS Certification's Gap Analysis	Review	30 November 2023	19	6	13	All actions on track
Organisational Change Consolidation and Prioritisation	Internal Audit	January 2024	5	0	5	All actions on track

Internal Assurance - Corrective Action status update July 2024

Section 17a – Regional Assets Review – May 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Service delivery and processes/ frameworks via an online asset improvement register.	High	Master Improvements Register and online asset register. Develop a structured work package program to track the execution of agreed actions. Streamline the process and reduce duplication of financial processes. ***Senior Business Analyst***	July 2024	Information system investment of 4m fully integrated with the financial system (continues). Buy-in obtained from Asset Planning Team and Regional Asset Manager for the population and adoption of an Asset Data Standards Document. Development and functional testing of part 1 of the Field App(completed) User Acceptance Testing (UAT) in progress. Business Process Reviewed and Agreed Transfer and quality assure existing infrastructure assets/ spatial records into OneCouncil environment (continues). Completion of systems architecture consulting workshops.	Continue to add spatially validated infrastructure assets in live OneCouncil environment. Completion of Asset Data Standards Document Completion of User Acceptance Testing (UAT) training and release of Field App part 1. Lack of resource time and availability places project progress at risk. Requirement to secure resourcing for duration of implementation and beyond for database administration.	At Risk
Review of the Works Group: • Reduce duplication of financial processes. • Better integration of reporting to HBRC. • Efficient and improved risk appetite process.	High	Implementation of SEAM (Technology One OneCouncil) Integration of inspections, maintenance responses and job tracking. (Fulcrum) ***Senior Business Analyst***	July 2024	SEAM project process analysis of transaction transparency within current S17 configuration. Develop a contextual framework for how best to define processes via the appropriate work system, gained from systems architecture consulting workshops (continues).	Complete OneCouncil work management process development to improve current transaction management within the appropriate work system & module in SEAM (ongoing).	On Track

Internal Assurance - Corrective Action status update July 2024

Section 17a – Regional Assets Review – May 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Review of the Framework and Processes.	Medium	Review and map processes. Managed systems and processes ID Capex project and budgets. ***Senior Business Analyst***	July 2024	Ongoing review of capital programme post Cyclone Gabrielle to reflect recovery requirements and fiscal priority in Recovery. (Continues with significant review for LTP and Infrastructure/Financial Strategy) SEAM environment will allow OneCouncil processes linked to finance if identified FUSE changes are implemented (from process analysis). These changes have been identified but not resolved. Major Finance impact. Resolution of FUSE modified structure vs Nominal OneCouncil structure (Workstream vs Asset Activity Level)	SEAM project business analysis for Maintenance processes progresses according to Project Plan (continues).	On Track

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Business Performance – Strategic risk management.	Medium	Strategic planning cycle to include a review of enterprise risks to better link and integrate the risk register and LTP. ***Acting Risk Manager & Strategy and Governance Manager***	Re-baseline date from September 2021 – August 2022	The reset of HBRC's strategic risk management approach is largely complete with the following achievements. - Refresh of the strategic risk profile linking HBRCs purposes to success (LTP) and underlying uncertainty (Risk) - Development of Risk Management Plans for each area of strategic uncertainty/risk - Ongoing strategic risk reporting to ELT and Risk & Audit Committee.		Closed

Internal Assurance - Corrective Action status update July 2024

Internal Audit – HBRC Talent Management Report – April 2021						
Finding / Theme	**Priority Rating**	**Action and _Owner_**	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
People & Capability Succession Planning	Medium	Carry out succession planning workshop with Group Managers, section managers and individually with Team Leaders. **_P&C Manager_**	December 2021	Due to resourcing issues, this objective will not be commenced until 2024. _P&C has been collating the technical training requirements for the technical competency framework which was decided as the priority piece of work. This is nearly completed. The digital solution has not been confirmed._	This piece of work has been reprioritised due to focus for the next 6 months on gathering technical training information. The team are investigating a digital solution for this work as an alternative to doing this manually. Recruitment continues to be a high priority for the team which reduces their capacity for developing or implementing best practice HR. However, the team remain passionate about delivering on the original recommendations from the audit. _This work is temporarily on hold and will recommence on recruitment of a P&C Manager._	**Behind**

Internal Assurance - Corrective Action status update July 2024

Review – ISO45001 - ECAAS Certification's *Gap Analysis* – 30 November 2023						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Context of the organisation						
Scope (context of the organisation)	High	Work with other stakeholders to update and consolidate scope e.g., HSW, Quality, Environmental *Senior H&SW Advisor*	July 2024	Initial stakeholder meetings: single scope approach agreed	Draft scope for stakeholder review	On Track
Leadership						
HSW Policy	High	Consult with relevant stakeholders to review and update the HSW Policy *Senior H&SW Advisor*	July 2024	Draft reviewed and signed off	Completed	Closed
Roles, responsibilities and authorities	High	Update HSW JDs *Senior H&SW Advisor*	June 2024	JDs updated	Completed	Closed
		More clearly define roles in HSWMS *Senior H&SW Advisor*	October 2024	Roles in draft HSWMS	None scheduled for July	On Track
Consultation & Participation						
HSWC Terms of Reference (ToR)	High	Consult with the HSW Committee and review ToR *Senior H&SW Advisor*	January 2024	ToR updated and approved	Completed	Closed
HSWMS	High	Consult with HSW Committee (HSWC) review/update HSWMS *Senior H&SW Advisor*	November 2024	Progress reflected via other areas and actions that contribute to the whole e.g., Document Control (refer Support)	Progress reflected via other areas and actions that contribute to the whole e.g., Document Control (refer Support)	On Track
Planning						
Legal and other requirements	High	Define and document legal and other requirements *Senior H&SW Advisor*	November 2024	Update CoP to WM (complete) Review dates in place in SharePoint for each WM (updated due to SharePoint migration)	Review occurs as due	On Track

Internal Assurance - Corrective Action status update July 2024

Review – ISO45001 - ECAAS Certification's *Gap Analysis* – 30 November 2023						
Finding / Theme	**Priority Rating**	**Action and *Owner***	**Due Date**	**Milestone Achieved Since Last Report**	**Milestone For Next Report**	**Tracking Status**
Objectives	High	Consult with relevant stakeholders to update/develop HSW objectives 2024-2027 HSWC, HSW team, Org *Senior H&SW Advisor*	October 2024	Draft objectives 2024-2027	Draft objectives 2024-2027	On Track
Support						
Communication	High	Work with HSWC to formalise HSW communication process *Senior H&SW Advisor*	July 2024	Update HSWC minutes template	Update other relevant HSWC documents	On Track
Documentation	High	Work with HSWC and other stakeholders to formalise document control process *Senior H&SW Advisor*	March 2024	Formalised and documented in draft HSWMS	Completed	Closed
Hazards & Risks						
HSW hazards and risks	High	Update control hierarchy to reflect practice Work with Procurement to more clearly define HSW requirements *Senior H&SW Advisor*	February 2024	Updated and documented in draft HSWMS Procurement docs updated	Completed	Closed
Manage change	High	Work with HSWC and other stakeholders to develop change management process *Senior H&SW Advisor*	November 2024	N/A	None scheduled for July	On Track
Performance Evaluation						
Internal Audit	High	Update IA audit plan to reflect new standard *Senior H&SW Advisor*	July 2024	N/A	Updated org IA plan	On Track
HSW/HSWMS performance	High	Criteria to evaluate HSW performance *Senior H&SW Advisor*	July 2024	Draft criteria for ELT and HSWC report	Define data parameters More clearly define report measures	On Track
System Non-conformance	High	Establish process to report and capture *Senior H&SW Advisor*	March 2024	Included in existing incident reporting system	Completed	Closed

Internal Assurance - Corrective Action status update July 2024

Internal Audit – Organisational Change and Prioritisation – January 2024						
Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
2.1 Prioritisation of activities There is a lack of formal methodologies for determining how projects should be prioritised. As a consequence, different departments apply their own methodologies for prioritising projects (for example ICT have undertaken RICE (reach, impact, confidence, effort) analyses to determine priorities, Integrated Catchment Management have undertaken a strategic alignment of their project portfolio to determine priorities. However, without consistent prioritisation methodologies used across the Council., the ability to assess project priorities on a Council-wide basis is limited. It is important for Council to have a method of assessing project prioritisation because it will help with (the following is not an exhaustive list of benefits): - Making informed decisions - Allocating scarce resources efficiently and time management - Ensuring decision making is transparent - Promoting project accountability for project delivery - Ensuring the focus is on projects that align to key organisation strategic initiatives - Maximising return on investment - Evaluating the costs and benefits of each project	High	Organisational wide project management documentation will be established and rolled out across the organisation through the Corporate Services team. Specifically, these will include: 1. Implement Change Initiative thresholds (matrix) where project documentation (PMO templates) must be used (or rationale as to equivalent templates). Where corporate PMO document will not be used, appropriate rationales captured in project brief documents as to why. 2. Corporate Services to hold a Centralised register of projects that are proposed across year projects underway (and those complete) to ensure awareness of impacts to organizational resources, to be implemented in order to track for 3. Appropriate assurance will be established to ensure that material programmes of work are adopting best practice. Once implemented, formal training (initial and refresher training) should be provided to intended users. **Corporate Services Manager**	June 2025			On-track

Internal Assurance - Corrective Action status update July 2024

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
2.2. Lack of clear definitions relating to change initiatives During our discussions with members of staff across the Council, we noted there were different interpretations of what a change initiative is. The Project Management Office has documented a definition of project terminology including: • Change Project • Repeatable Project • BAU Workstream/Activities We noted that these definitions were not well-known or applied when initiating or undertaking projects to determine whether they are a change initiative/change project or not. For initiating projects we note that project initiation templates exist. However, these are defined as follows: • Business Case Template (LTP or Major Projects) • Project Brief Template (Complex Projects) • Project Brief Template (Simple Projects) activities.	Medium	Actions to address this issue will be incorporated into the material in 2.1 above. **Corporate Services Group Manager**				See 2.1 above
2.3. Lack of formal policies relating to change and project management Whilst change management and project management frameworks and tools have been developed, there are no formal policies in place to determine the circumstances in which those frameworks must be applied (or where other frameworks such as ISO 55001, NZS 3910 etc) may be applied. A Project Management manual is currently in draft and under peer review although this is on hold as current events divert resources elsewhere. As such there is inconsistent use of the change and project management frameworks and tools.	Medium	Actions to address this issue will be incorporated into the material in 2.1 above. **Corporate Services Group Manager**				See 2.1 above

Item 5

Attachment 1

Internal Assurance - Corrective Action status update July 2024

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
2.4. Development of the change management methodology The Council first set up a change function and employed a change manager in 2021. For the first 12 months, the Change Manager was engaged directly on a limited number of large projects. As a result, the change manager has only in the past 12 months begun working on a more strategic change management framework and developing change competency and capability across the Council. The change management framework applied follows the PROSCI framework, a globally recognised change management methodology but aside from its application in a limited number of large projects, is currently in its infancy at the Council with awareness sessions currently being offered and provided to managers across the Council. Plans are in place to further develop the change management process and to integrate it with the project management methodology (where a project includes change). The Council's Change Manager estimates a 3 year timeframe to have the change management framework fully integrated, provided executive support remains and the Change Manager is able to focus on being a change 'enabler' rather than undertaking change management activity on projects himself.	Medium	Change Management as an activity will be considered as a function in the Annual plan refresh in 2025. Currently there is no dedicated funding to enable full resourcing to occur. Across 2024/2025 fixed term resourcing will be required to support strategic large programmes of work such as NIWE programme, Synergy and Iris Next Gen as interim solutions. **Corporate Services Group Manager**	July 2025			On track

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

Internal Assurance - Corrective Action status update July 2024

Closed Actions

Internal Audit – Risk Management Maturity – June 2020						
Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Business Performance – Change and transformation.	**Medium** (based on internal assessment)	Develop a change management framework to ensure a portfolio view of risks related to significant change is managed. **Marketing & Communications Manager**	September 2021	Roadmap and framework for change management in place and being applied to organisation.		**Closed as at August 2022 FARS**
People and Development - Risk roles and responsibilities beyond the risk and assurance lead were not defined. With no risk related training.	Not Stated	Develop a competency framework to upskill staff on risk and embed the risk policy. Communicate and train BU on the risk policy and framework. Provide targeted training to specialist risk roles, e.g. risk champions. *ELT and* **Risk & Corporate Compliance Manager**	October 2021	Risk Champions commenced training in November 2021.	Completed	**Closed as at Feb 2022 FARS**
Risk, Governance, Policy and accountabilities – to improve risk and assurance challenge, with clearer risk escalation.	Not Stated	Develop risk management policy and framework that includes roles and responsibilities. **Risk & Assurance Lead**	September 2020	Council approved single Regional Council risk management policy and framework.		**Closed as at Nov 2020 FARS**
Leadership and Direction – Risk system continuous improvement.	Not Stated	Incorporate into the risk policy and framework a risk vision. Tailor the Council's risk policy and framework to align to the strategy. Develop a risk maturity roadmap to execute the risk vision. **Risk & Assurance Lead**	September 2020	Council approved risk policy includes a risk vision that aligns to the C&S approved risk maturity roadmap – and the risk policy and framework tailored based on HBRC's strategy.		**Closed as at Nov 2020 FARS**
Processes and Tools – For risk assessment and mitigation.	Not Stated	Through a single risk management policy and framework ensure that clear risk and control identification and assessment criterion exists. **Risk and Assurance Lead**	September 2020	Council approved risk framework includes a criteria of risk and control identification and assessment, with recommended tools.		**Closed as at Nov 2020 FARS**
Processes and Tools – For assurance.	Not Stated	Develop a formal assurance framework based on the 'three lines of defence model'. Framework should ensure assurance targets critical council functions and activities applying a risk-based approach. **Risk & Corporate Compliance Manager**	July 2021	Developed a targeted approach to implement the framework, approved by ELT and submitted to May FARS for approval. Internal Assurance Framework adopted at Council May 2021		**Closed as at Aug 2021 FARS**
Business Performance – Managing Risk in Partnerships.	Not Stated	Develop risk and performance monitoring of key third parties. Ensure contingency planning is included. **Procurement Lead**	December 2020	All contracts now risk assessed at inception and on completion. Assessments inform future selection.		**Closed as at Aug 2021 FARS**
Business Performance – Business resilience ensure continuity planning is sufficient to cover HILP events.	Low	Develop a process to assess disruptive and extreme events (low probability high impact 'HILP' events). **Risk & Corporate Compliance Manager**	Re-baseline date from December 2021 – December 2022	BCP tested and deemed fit for purpose during Cyclone Gabrielle response	**Closed** – new improvements maybe identified through post-cyclone organisational reviews	**Closed as at Oct 2023 RAC**

Internal Assurance - Corrective Action status update July 2024

Internal Audit – Risk Management Maturity – June 2020

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Leadership and Direction – improve linkage of risk informed decision-making to strategy. Improving clarity of boundaries for decision making.	Medium	Develop a comprehensive risk appetite statement that defines tolerance levels for individual enterprise risks. *ELT*	March 2021	On 6 December 2023 all workshops with GM and SME's for HBRC's Success and Uncertainty statements were complete. Providing explicit linkages for decisions.		Closed as at Feb 2024 RAC

Internal Audit – HBRC Talent Management Report – April 2021

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
P&C Strategy	High	Develop council's P&C Strategy – which will describe how the P&C team will manage its people including its approach to Talent management, recruitment, staff and leader engagement etc. P&C will work with ELT to ensure aligned to Strategic Plan. *P&C Manager*	October 2021	People Plan approved by ELT and presented to FARS – Feb and to the wider council in March 2022.		Closed as at May 2022 FARS
P&C Objectives	Medium	In conjunction with P&C Strategy- Performance Objectives to be developed as appendix to P&C Strategy. *P&C Manager*	October 2021	Work plan as part of People Plan	P&C Leader to deliver objectives to ELT (included in People Plan)	Closed as at May 2022 FARS
P&C Recruitment Process	Medium	Develop cultural values for inclusion in P&C Strategy. *P&C Manager*	October 2021	Delivered to ELT in February 2022		Closed as at May 2022 FARS
P&C Performance Management	Medium	Review of PPDC policy and process to aid staff engagement. P&C Team to spot check PPDC completed PPDC forms. *P&C Manager*	October 2021	N/A	Completed	Closed as at Oct 2021 FARS
Exit Interviews	Low	Non mandatory exit Interview letter to be created and sent to all exiting staff for optional interview with Group Manager or P&C Person. *P&C Manager*	July 2021	N/A	Implemented – Completed	Closed as at Oct 2021 FARS
P&C Reward & Recognition	Low	Create centralised recognition programme, gather information from each group on current reward system. *P&C Manager*	July 2022	Completed – results delivered at Leaders' Forum		Closed at ELT 26 Sept 2023
P&C Competency Framework	Medium	Develop competency framework for Council to include – communication skills, people management skills, team working skills, customer service skills, results-orientation, analytical skills, technical skills. Including Maori cultural competencies. *P&C Manager*	Late 2021 roll out by 2023	Draft delivered to ELT in September 2022	Framework has been developed. Focus is now on Technical Training complemented with soft skills development as and when required. Due to this work priority rating will change to low.	Closed as at Feb 2024 RAC

Internal Assurance - Corrective Action status update July 2024

Closed Audits

Section 17a – Hawke's Bay Road Safety Review - March 2022						
Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Review road safety strategy to provide strategic direction, including goals and objectives.	Medium	Transport manager and Transport strategy planner (vacant role) to review previous strategy documents, and draft proposed regionally collaborative strategy for review and approval and adoption of Technical Advisory Group (TAG), followed by periodic reviews. *Transport Manager*	December 2023	Transport strategy planner has now been recruited. Previous strategy documents have been reviewed and a regionally collaborative strategy has been drafted. This has now been reviewed and adopted by the TAG.	Closed	Closed as at May 2023 RAS
Develop roles, responsibilities and relationships in consultation with HBRC, the RTC, and the TAG.	Medium	Establish and recruit Transport Strategy Planner role to enable development of RSS and work programme. *Transport Manager*	June 2023	Transport strategy planner has been recruited and has begun work on Road Safety Strategy.	Closed	Closed as at May 2023 RAS
Further investigate how best to establish and/or implement the proposed focused Road Safety Group to ensure buy-in and ongoing engaged participation.	Medium	TAG to establish Road Safety Sub Committee of the TAG, to ensure that all RLTP activities are undertaken with a road safety focus. *TAG*	June 2023	Road Safety Sub Committee has been established and is now known as the Road Safety Workstream.	Closed	Closed as at May 2023 RAS
Terms of Reference for Technical Advisory Group (TAG) to be reviewed to provide road safety focus and link to Road Safety Strategy.	Medium	TAG to review current terms of reference, and draft proposed changes to align with regionally collaborative strategy, review objectives, and Waka Kotahi vision. Once approved by TAG, Terms of Reference will be formalised and will underpin meeting structure. *Transport Strategy Planner & TAG*	November 2023	Terms of Reference for the TAG workstream have been agreed. RTC terms of reference have been submitted to council and identify governance of Road Safety as a key activity.	ToR agreed. Action completed.	Closed as at Oct 2023 RAC
		Road safety promotion activity updates will be reported to the RTC in a collaborative function from the TAG, in alignment with the Road Safety Strategy (RSS), across all authority's activities, rather than only HBRC activities. Future state will see this operate in alignment with RLTP as well as RSS. *Transport Strategy Planner & TAG*	November 2023	First meeting under this structure took place in January. Road Safety workstream reporting is now a standing item and is presented collaboratively.	Complete and ongoing [closed].	Closed as at Oct 2023 RAC
Review road safety strategy to provide strategic direction, including goals and objectives.	Medium	Transport strategy planner to draft work programme in collaboration with TAG and SMEs for approval and adoption, and to be monitored semi-annually by TAG. *Transport Strategy Planner*	December 2023	Draft activity list for 24 – 27 NLTF period completed and submitted to Waka Kotahi for approval. Final funding and associated allocations known by March 2024. Full strategy development ongoing with TA partners at a slower pace.	Action plan for 24 – 27 NLTF period completed and funding for 24-27 period finalised (By March 24 per NZTA timelines).	Closed as at Feb 2024 RAC
Develop roles, responsibilities and relationships in consultation with HBRC, the RTC, and the TAG.	Medium	Ensure Road Safety Sub Committee (TAG workstream) are aligned with the RSS and successfully monitor report on the delivery of the work programme by respective authorities. *Road Safety Workstream*	June 2023	RoadSafe Hawke's Bay TAG workstream well developed with agreed ToR. Regular meetings scheduled, including RTC representation.	Action closed	Closed as at Feb 2024 RAC

Internal Assurance - Corrective Action status update July 2024

Section 17a – Hawke's Bay Road Safety Review - March 2022

Finding / Theme	Priority Rating	Action and *Owner*	Due Date	Milestone Achieved Since Last Report	Milestone For Next Report	Tracking Status
Further investigate how best to establish and/or implement the proposed focused Road Safety Group to ensure buy-in and ongoing engaged participation.	Medium	HBRC to create resources in alignment with RSS and "Workstream" needs for regional collaborative approach. Resources must align with regional risks, and individual authority needs, as well as being regionally branded. *Transport Team*	June 2023	Resources continue to be developed with Comms and RSHB TAG workstream. Website redeveloped to act as resource hub with significant amount of best practice content available. Full rebrand completed with relaunch on 18 October	Action closed	Closed as at Feb 2024 RAC

	Success statements	2020-21	2021-22	2022-23	2023-24	2024-25
A	We live our values of collaboration, accountability, transparency, integrity and excellence					
B	We understand the expectations and needs of the community we serve and our plans meet community needs					
C	We deliver on the commitments we make					
D	We keep our community safe					
E	We uphold the principles of Te Tiriti o Waitangi in all that we do					
	Uncertainties					
1	Effectiveness of Governance and Partnerships including with mana whenua, Councils and the crown	Audit NZ – Consultation Document for the Long-Term Plan			Audit NZ – Consultation Document for the Long-Term Plan - *Note, due to the LTP being under SWERLA the 2024-27 LTP will not be audited.*	
2	Effectiveness of Policy and Regulation, with compliance by those we regulate				Marine Safety Code Report April/March 2024	
3	Effectiveness of integrated catchment management					*Rural Partnerships and Erosion Control Scheme (ECS) To be confirmed.*
4	Effectiveness of asset management					
5	Effectiveness of transport management		*S.17a Road Safety*		Annual Waka Kotahi NZ, Financial & Activity Audit	Annual Waka Kotahi NZ, Financial & Activity Audit
6	Culture, capability and capacity of people	Talent Management				
7	Capability and capacity of service providers and partners					
8	Effectiveness of technology	Data Analytics	Data Analytics	Data Analytics	Data Analytics	Data Analytics
9	Health, safety, resilience and wellbeing of people				Health, Safety & Wellbeing HSWMS Document Review	
10	Effectiveness of funding and financial management	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Audit NZ – External Financial Audit	Ernest & Young – External Financial Audit	Ernest & Young – External Financial Audit
11	Ability to implement change			Organisational Change Consolidation & Prioritisation		
12	Coordination and connectedness of activity and decision making across HBRC					
13	Legislative and regulatory compliance by HBRC					
14	Impact of reform					
15	Quality of external stakeholder relationships					
16	Resilience from disruption to operations					
17	Effectiveness of investment strategy					
18	Effectiveness of communication, consultation and engagement		Strategic Communications & Engagement Framework			
19	Our impact on the environment					
20	Security, integrity and privacy of information	Information Management				
21	Effectiveness of Cyclone Gabrielle recovery					
22	Misc	ISO 9001:2015 Review NCC MOU	ISO 9001:2015 Revalidation	ISO 9001:2015 Review	ISO 9001:2015 Review	ISO 9001:2015 Revalidation

Hawke's Bay Regional Council

Risk and Audit Committee

31 July 2024

Subject: Risk Management update

Reason for report

1. This item and the accompanying strategic risk report provide the Risk and Audit Committee (RAC) with a quarterly update of:

    1.1. the strategic risk profile for HBRC, expressed in terms of HBRC's purpose, strategic priorities and definition of success, together with an outline of the major areas of uncertainty/risk relating to this

    1.2. the sentiment of both the Executive Leadership Team and Councillors as to the aggregate level of confidence/concern (i.e risk rating) with respect to the strategic risk profile of HBRC

    1.3. a deep dive into specific areas of uncertainty/risk, with the associated One Page Management Plans that provide transparency as to what these areas are, why these matter, what contributes to these, how these are managed and monitored, and specific actions recommended.

2. This item also provides an update on the wider external environment and specific issues for the attention of the Risk and Audit Committee, as well as a draft forward work plan (**attachment 1**) for discussion and feedback.

Executive summary

3. The external environment continues to impact on HBRC – both in terms of the political landscape, economic landscape and climate-related events.

4. Specific areas of focus since the last meeting include work associated with:

    4.1. central government led priorities and the legislative reform work

    4.2. the insurance renewal process and wider changes within the insurance landscape

    4.3. affordability pressures related to the conclusion of the Long Term Plan

    4.4. management of continued cyber security threats and resilience

    4.5. the recent 26th June weather related event and impact on the Wairoa community and HBRC

    4.6. engagement with the Cyclone Recovery Unit and work related to the North Island Weather Event (NIWE) Resilience Programme for delivery of Category 2 flood mitigations.

Discussion

Central Government priorities and legislative reform

5. As at mid-2024, the coalition Government continues strong momentum in its ambitious resource management and legislative reform work programme. There are 'big ticket' items such as the Fast-track Approvals Bill, re-setting legislation for the 'Local Water Done Well' programme and the three-phased reforms of the RMA. There are also a number of more focussed proposals – some new and others remain a legacy from the previous Government. Other examples are amendments to national Policy Statements (for housing, highly productive land and renewable energy) and laws to grant 20-year extensions to existing marine farms and

ports. For Hawke's Bay in particular, there may be an ongoing need for further temporary relaxation of laws to support our recovery from the impacts of Cyclone Gabrielle.

6. The Government's reform programme presents some opportunities for re-focussing HBRC's own work, but it also poses risks including:

    6.1. uncertainty of content and timing (e.g. how long do we continue working to the current laws, before we face a switch?)

    6.2. short-term policy resets by Government impact on service delivery and environmental outcomes in our communities

    6.3. increasing number and complexity of reform proposals across multiple tranches over time

    6.4. should we invest in responding/submitting on all of these proposals, while we also need to focus on our own BAU programmes

    6.5. community misunderstanding about what are the Government's proposals and what HBRC might be proposing (or responding)

    6.6. HBRC needing to revisit some of its previous decisions (e.g. establishment of Māori Wards), reduced Crown funding for some of HBRC's activities as a result of public sector personnel cuts, and Budget 2024

    6.7. further uncertainty beyond this current term of Government if the programme will be maintained or face further U-turns by the next Government.

7. Treaty partners are increasingly feeling vulnerable given the combined effect and intent of the Government's reforms on the role and interests of Māori in resource management.

8. The Government has initiated a targeted review of the Public Works Act 1981. The review seeks to facilitate the delivery of critical infrastructure projects.

9. The programme of work related to the Cyclone Gabrielle Category 2 risk mitigation projects, including flood protection measures continues to progress. Pressure continues to be felt from central government in particular the Cyclone Recovery Unit, Crown Infrastructure partners for delivery of Category 2 Flood Mitigations. Timeframes and scheduling for delivery has limited contingency with pressure to deliver.

The insurance renewal process

10. Navigating the challenging insurance market continues to present difficulties for HBRC. Namely, due to the market conditions for capacity in different types of insurances and the effects that the natural catastrophes around the world in 2023 have had on the markets.

11. The global market is facing affordability issues for insurance for risks in the natural catastrophe exposed locations and pricing locally is being driven by the increasing frequency of weather-related claims as well as inflationary pressures.

12. Prior to 30 June 2024, HBRC held various insurance policies via AON, Asteron and Marsh.

13. In June Marsh advised 13 councils across New Zealand that they could no longer obtain insurance for Professional /Public Liability, citing a significant deterioration in the council claims being presented to the London Market as the primary driver for London Markets exiting this offer. This was mainly due to the professional exposure associated with building control, which is considered high risk.

14. HBRC immediately engaged with AON for an offering of this product leveraging existing relationships. AON have provided a primary layer of cover $15m, however this is a significantly reduced capacity and cover from our previous $300m cover with Marsh. Further work is being undertaken to access secondary layers of protection.

15. AON holds the following policies which are due for renewal on 1 November 2024.

☐ Forestry (Standing Timber)	☐ Infrastructure (40%)
☐ Contract Works	☐ Material Damage & Business Interruption
☐ Commercial Motor Vehicle	☐ Commercial Marine Hull
☐ Aviation Hull (Drone)	☐ Travel Policy
☐ Statutory Liability Policy	☐ Employers Liability
☐ Personal Accident	☐ Crime Liability

16. From 30 June 2024, AON also holds:

    16.1. Public Liability & Professional Indemnity

    16.2. Harbour Masters Wreck Removal ($10m)

17. Staff are working with AON regarding the Environmental Impairment insurance and reviewing the cover required and the HBRC insurable risk that might exist. There is currently no cover in place for this and we will report back once appropriate cover is found.

18. Marsh held the following policies:

    18.1. Public Liability & Professional Indemnity

    18.2. Harbour Masters Liability

    18.3. Environmental Impairment.

19. As of 1 July 2024, HBRC does not hold any other current policies with Marsh.

20. Asteron held the following policies:

    20.1. Employee Income Protection

    20.2. Employee Life.

21. Staff are still working with AON regarding further excess layers for the Public Liability & Professional Indemnity, Harbourmasters Wreck Removal and Environmental Impairment insurance following the change from Marsh.

22. Insurance renewal processes (roll over/annual reviews) for all insurance policies for HBRC is underway and will continue to renew until November 2024.

23. HBRC expects more premium increases, with lower cover due to international insurance markets.

24. Officers have begun looking at self-insurance options, our current valuation methods used across asset types and other Councils approaches to their insurances in preparation for the impending renewal of our HBRC policies.

25. A workshop with the Risk and Audit Committee on 31 July will provide an overview of the current state of the insurance market, HBRC's insurable risk and the nature of cover provided/sought. We would then look to confirm HBRC's risk appetite for insurable risk with Council prior to renewal.

Long Term Plan and affordability

26. The recent Long Term Plan deliberations and rate payer sentiment have raised affordability concerns across our region. This sentiment has been felt not only across Hawke's Bay but nationally across all of the local government sector.

27. Nationally, economists have stated New Zealand is in a state of recession, a combination of relative high interest rates, stubborn persistent inflation and increasing levels of unemployment.

28. These factors have implications on HBRC in terms of the affordability of rates by ratepayers and need for strong community engagement and support, with clear narrative as to trade-off choices made and LTP priorities in the near term.

29. HBRC have budgeted ~$1.2M for the impact of rates remissions and expect that days to payment for rates may increase outwards of 90 days+.

30. To enable appropriate management of remissions and bad debts, HBRC have recruited short term assistance to manage the increasing assistance our rate payers may require with expected increase in payment plan options, and remissions.

Cyber security

31. We continue to see increased cyber activity across NZ and into our organisation. The overall focus in the industry currently pertains to human-introduced vulnerabilities as phishing becomes increasingly sophisticated.

32. At the start of June 2024, the Government Communications Security Bureau advised us of a new phishing campaign that's targeting NZ organisations. The emails look like they originate from trusted or known contacts, thus deceiving people into clicking on them. This reinforces the need for HBRC to remain vigilant around security controls and cyber training.

33. Most recently, on 19 July, HBRC was impacted by the global IT outage as a result of the routine but faulty security software update by global firm *crowdstrike*. This resulted in one of the largest operating system outages across the world has experienced. HBRC experienced computer crashes (the blue screen) and inability to restart.

34. HBRC immediately triggered incident response lead by the Information technology team, manually applying fixes to desk machines, and putting in place weekend drop ins for staff across the weekend. There were very limited impacts as the result of the immediate response HBRC put in place.

35. Since the presentation to the RAC in April pertaining to cyber risk, further controls around staff adherence to phishing training have been undertaken:

    35.1. Phishing training for new employees has been increased from 2 introduction courses to completion of all 3 introduction modules within the first 6 months of tenure.

    35.2. The completion of an additional phishing training course will now be required of all staff each year, upon their annual anniversary.

    35.3. Further courses and communications will be available each October, during "Cyber Security Awareness" month.

    35.4. Course completion is monitored and provided to the GMs each quarter.

36. In response to this focused campaign, we have increased our Phishing training completion rates from ~50% to 71.25% over the past 8 weeks.

Issues and concerns

37. This quarter, high risk events are outlined below.

Type	Number of High-Risk Events
Non-financial Risk Incidents	1
Health and Safety	3

38. One significant non-financial risk incident was recorded this quarter, relating to an outage of Hilltop data display on the HBRC public website. This was deemed high risk, at that time, given the high reputational potential damage this had, with external media enquiries, community enquires combined with a potential rain event at that time. A copy of the Post Implementation Report is **attachment 2** to this report.

39. This was caused by an internal action, where an unidentified / generic external Hilltop user account was disabled, without going through standard ICT change procedures and approval processes. This action resulted in an interruption to the flow of data to the website. The issue was resolved with follow up actions taken to ensure this is not repeated.

40. Three public health and safety incidents were noted that all involved NZ Police.

   40.1. An external contractor working for HBRC in Wairoa was threatened whilst on site specifically threat to life and tried to the contractor's boat. Police were called at the time with immediate escalation. Increased communications with Police, Wairoa District Council, local Iwi and Community Groups has been undertaken.

   40.2. Late one evening in June the HBRC Dalton Street security card readers were intentionally smashed from fittings. Police were notified immediately with the sharing of security footage. The offender was caught and charged. Reader cards were immediately fixed with reminders sent to all staff regarding the need for vigilance when entering and exiting buildings.

   40.3. HBRC has and continues to receive threatening messages, notably one threatening email which was received suggesting harm and a bomb threat through info@HBRC email address. This was immediately notified to the Chief Executive and reported to Police via 105 Police Report. Police Intelligence Unit conducted a sophisticated search and found no matches for the email supplied and were unable to identify a source or who sent the email. As a result, a security guard has been placed in HBRC reception. Dealing with Aggressive People training has been undertaken by CX/Reception staff.

Assurance Activities

Security Reviews

41. For sensitive data (held on-premise but residing outside of our core enterprise stack), we requested a review of data security and access controls.

   41.1. Rates (MagiQ): All user access is controlled at a role-level, with read-only access provided where needed.

   41.2. HR (Sharepoint): A review of user access to the P&C folders has been completed, and access streamlined to critical users only.

Audits

42. This quarter saw two separate audits undertaken.

Information Management

43. This audit was conducted by Increment, (funded by Microsoft), across HBRC's data and information management policies, with a focus on data classification, how to then manage the storage and sharing of documents labelled 'confidential' or 'restricted', and record retention and disposal.

44. This is an area which has not been addressed within HBRC over the past few years, as the Information Management role within the organisation has not been funded.

45. Unsurprisingly, this highlighted several known issues in our Information Management space regarding the use of metadata, rules around storage and sharing of documents with specific classifications, and lack of retention & disposal.

46. ICT has received approval for a Fixed Term 1-Year Information Management role in FY24/25 to work through these recommendations and provide an initial IM framework. This is expected to occur in early 2025.

External Security

47. This complimentary audit, conducted by Orange Cyber defence, was a 1-week trial of their external attack programme, which seeks to find vulnerabilities in our external facing network.

48. HBRC obtained 'Hero' status, with only 3 prioritised findings relating to dead-link sites on the HBRC website. These have been addressed.

Financial Reviews

49. Ernst and Young is currently preparing for the HBRC onsite audit review.

50. Next quarter will focus on preparing for the annual security audit with EY. This is scheduled for Sept/Oct 2024.

51. A forward workplan is attached as Appendix 2 outlining tasks that the Risk and Audit Committee will undertake aligned with the Terms of Reference for clarity.

Independent Flood Review

52. At the time of submission of this paper, the independent review into the performance of all HBRC-owned and operated flood protection, control, and drainage schemes during Cyclone Gabrielle (HBIFR) was released.

53. On 24 July the Council received the report on the HBIFR from the panel, noting that the range of recommendations from the review will be considered in detail by the Executive Leadership Team in conjunction with flood scheme reviews and mitigation works currently under way.

Decision-making process

54. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that:

54.1. The decisions of the Committee are in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 30 August 2023, specifically the Risk and Audit Committee shall have responsibility and authority to provide advice and recommend actions, responses, and changes to the Council about risk management, assurance activities, governance oversight and internal control matters, including external reporting and audit matters. Specifically, this includes:

54.1.1. The robustness of Council's risk management systems, policies, practice and assurance processes. (1.1)

54.1.2. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks in place. (2.1)

54.1.3. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks. (2.2)

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

Recommendations

That the Risk and Audit Committee receives and considers the *Risk Management update* staff report.

Authored by:

Jess Bennett
Programme Finance & Controls Manager

Katrina Brunton
Group Manager Policy & Regulation

Karina Campbell
Strategic Advisor

David Nalder
Acting Risk Manager

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

1⇩   Risk & Audit Committee forward work plan

2⇩   21 May 2024 Hilltop Data Display Incident Report

**Risk and Audit Committee
Forward Work Plan
31 July 2024**

This paper provides a forward view of intended agenda items for the Risk and Audit Committee, mapped to specific areas of responsibility as per the Terms of Reference for the committee, adopted by Hawke's Bay Regional Council resolution on August 2023

The Terms of Reference for the Risk and Audit Committee is online here (https://www.hbrc.govt.nz/our-council/council-committees/risk-and-audit-committee/)

In summary, the purpose of the Committee is to provide advice and recommend actions, responses and changes to the Council about risk management, assurance activities, governance oversight and internal control matters, including external reporting and audit matters. Specifically, this includes:

1. The robustness of Council's risk management systems, policies, practice and assurance processes.

2. The appropriateness of controls to safeguard the Council's financial and non-financial assets, the integrity of internal and external reporting and accountability arrangements.

3. Review the Council's revenue and expenditure policies, amongst others, and the effectiveness of those policies in ensuring limited risk is generated.

4. Assurance on the independence and adequacy of internal and external audit functions.

5. Council's compliance with applicable laws, regulations, standards and best practice guidelines.

Specific responsibilities	July 2024 (this meeting)	October 2024	February 2025	May 2025
1. Review whether Council management has a current and comprehensive risk management framework and associated procedures for effective identification and management of the Council's significant risks in place	Decision item 6 - Risk Management update	Risk Management update	Risk Management update	Risk Management update
2. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks	Decision item 7 – Strategic risk deep dives: 2.1 Effectiveness of funding and financial management 2.2 Coordination and connectedness of activity and decision-making across HBRC 2.3 Extent to which we understand expectation needs of our community 2.4 Effectiveness of the NIWE Resilience Programme Decision item 8 – Wairoa flood event reviews	Strategic risk deep dives: 2.5 Effectiveness of integrated catchment management 2.6 Effectiveness of emergency management 2.7 Legislative and regulatory compliance by HBRC 2.8 Effectiveness of external partner and stakeholder relationships	Strategic risk deep dives: 2.9 We deliver on the commitments we make 2.10 Effectiveness of infrastructure asset management 2.11 Resilience from disruption to operations 2.12 Effectiveness of investment strategy	Strategic risk deep dives: 2.13 We uphold Te Tiriti 2.14 Effectiveness of governance and partnerships 2.15 Capability and capacity of service providers and partners 2.16 Effectiveness of communication, consultation and engagement
3. Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), Council's own standards, and best practice guidelines, including health and safety	Decision item 4 – Treasury Compliance Report	Overview of HBRC's compliance management approach, adoption of *ComplyWith* and deep dive into the strategic risk related to legislative and regulatory compliance by HBRC		

Specific responsibilities	July 2024 (this meeting)	October 2024	February 2025	May 2025
4. Consider the appropriateness of the Council's existing accounting policies and principles and any proposed changes		Undertaken in conjunction with external audit (Ernst and Young)	Undertaken in conjunction with external audit (Ernst and Young)	
5. Satisfy itself that the financial statements and statements of service performance are supported by adequate management sign-off and adequate internal controls		Undertaken in conjunction with external audit (Ernst and Young)	Undertaken in conjunction with external audit (Ernst and Young)	
6. Confirm that processes are in place to ensure that financial information included in Council's Annual Report is consistent with the signed financial statements			Annual report review and assurance (TBC)	
7. Confirm the terms of appointment and engagement of external auditors, including the nature and scope of the audit, timetable, and fees		To be completed in conjunction with finalisation of FY24 Audit.		
8. 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)	Decision item 5 – Enterprise Assurance update, including: 8.1 Corrective action status update 8.2 Assurance universe	Enterprise Assurance update, including: 8.3 Corrective action status update 8.4 Assurance universe	Enterprise Assurance update, including: 8.5 Corrective action status update 8.6 Assurance universe	Enterprise Assurance update, including: 8.7 Corrective action status update 8.8 Assurance universe

Specific responsibilities	July 2024 (this meeting)	October 2024	February 2025	May 2025
9. Enquire of internal and external auditors any information that affects the quality and clarity of the Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to this			External Audit report	
10. Conduct a Committee-members-only session with Council's appointed Auditors to discuss any matters that the auditors wish to bring to the Committee's attention and/or any issues of independence			External auditor only session, with Ernst & Young	
11. Review and recommend to Council the approach to insurance strategy and placements as part of its risk management practices	Workshop: HBRC Insurance arrangements (facilitated by AON)			

ICT – Production Incident Report

Incident Summary

Incident Title	Hilltop data display on HBRC public website
Incident Date	Tuesday, 21 May 2024
Incident Time	7.12pm
Incident Reported or Detected by:	1. Reported to HBRC via Facebook by a member of the public and picked up by Comms & Engagement (C&E) 7:16pm.
	2. Escalated through C&E digital team to GMs (Iain Maxwell, Chris Dolley, Susie Young) and C&E (Mike J) 7:40pm (Text Iain Maxwell to Susie Young) and phone call Chris Dolley to Susie Young circa 7:45pm
	3. Escalated to Sam French by C&E (via Web producer)
	4. Susie Young created a Teams group with key stakeholders and escalated to ICT (Pip O'Connor) at 8.25pm.
	5. This was picked up by Pip via Teams at 8.35pm
Incident Classification	Severity 1
Incident Summary	All continuous timeseries data collected from the Hilltop environment was not updating on both the LAWA and the HBRC public website for a period of approximately 2 ¾ hours.
	This was during a time when Hawke's Bay was under a Level 3 Weather Warning, and the information was of a high degree of interest to members of the public.
	Note that all river monitoring and alerting functions were working as normal, the issue was ring-fenced to the display of this data on the website.
ICT Responder(s)	1. Pip O'Connor
	2. Tim Farrier
	3. Rob Simpson
Other People Involved in the Response	1. Sam French
	2. Jeff Cooke
	3. Sarah Harman
	4. Lee Tong (Webshed – supplier to HBRC)
Systems Affected	Internal Hilltop Server, HBRC file system and the HBRC public website.
Users Affected	All users of the HBRC public website and LAWA website interested in Hawke's Bay continuous data
Vendors Involved	The following vendors are part of the end-to-end technical environment, but were not involved in root cause or resolution: • NCC – manages delivery of the HBRC public website • Hilltop

Function Affected	All continuous timeseries data was affected. This data was not updating on the HBRC public website or being transferred to LAWA.

During the issue investigation we determined that:

1. Data was still coming into Hydrotel and the Hilltop telemetry file.
2. Alerting and monitoring was working as expected
3. The telemetry.hts file was being populated as expected
4. Data wasn't being updated on the public website.
5. The continuous data wasn't being transferred to LAWA when requested.
6. The Hilltop Server API wasn't providing data.

When troubleshooting, one of the first things to check is whether the issue affects both LAWA and HBRC websites. If it affects both then it is likely to be an issue with a common element, the Hilltop server (or earlier).

As such, we were able to determine that the issue was likely related to an HBRC component, and the issue was ring-fenced to a data access issue.

Current Status   Resolved

Resolution Actions

1. Rob rebooted the Hilltop Servers – this action alone did not resolve the issue.

2. Rob suspected that the actions from ICT earlier in the day to disable accounts may have been related to the issue.

    2.1. Rob checked and confirmed that the Hilltop user account had been disabled.
    2.2. Rob re-enabled the account and did another server reboot. However, this action did not resolve the issue.

3. Jeff and Rob then identified that that the Hilltop Server Application Pool hadn't automatically reset when the servers rebooted. Jeff reset the Hilltop Application Pool. At this point, data started flowing again.

Incident Timeline

1. Time the incident occurred	7.12pm
2. Time the incident was reported / identified	7.16pm C&E alerted
	8.25pm ICT alerted
	8.35pm ICT responded
	8.36pm ICT escalated to 2nd line response
3. Time the incident was resolved	9.52pm
Total Elapsed time	2 hours, 40 minutes

HAWKE'S BAY

Hawke's Bay Regional Council

Risk and Audit Committee

Wednesday 31 July 2024

Subject: Strategic risk deep dives

That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 7 Strategic risk deep diveswith 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	Plain English reason for excluding the public	Rationale	Grounds under section 48(1) for the passing of the resolution
Strategic risk deep dives	s7(2)(j) to prevent disclosing information that could be used for improper gain or improper advantage.	To prevent information about Council's critical controls being accessed. The public interest is protected by not allowing the information to be accessed by anyone outside the organisation.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

Authored by:

David Nalder
Acting Risk Manager

Approved by:

Susie Young
Group Manager Corporate Services

Hawke's Bay Regional Council

Risk and Audit Committee

Wednesday 31 July 2024

Subject: Wairoa Flood Event reviews

1. That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 8 Wairoa Flood Event reviewswith 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
Wairoa Flood Event reviews	The matters being discussed may potentially be the subject of litigation and the Council has engaged legal advisors to provide advice on associated issues. In relation to the public interest, the fact that reviews are under way has been widely shared by the Council and by the media so it is considered the public interest has been served in that way.	s7(2)(g) Excluding the public is necessary to prevent disclosure of information that is legally privileged.

2. That Kent Perry – Partner, Heaney & Partners – be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the law. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because they are representing HBRC in legal proceedings.

Authored by:

Matt McGrath
Chief Legal Advisor

Approved by:

Susie Young
Group Manager Corporate Services

Hawke's Bay Regional Council

Risk and Audit Committee

31 July 2024

Subject: Confirmation of Public Excluded Minutes of the Risk & Audit Committee meeting held on 1 May 2024

That the Risk & Audit Committee excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 9 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	Rationale for passing this resolution	Grounds under section 48(1) for the passing of the resolution
Incident report - Payroll Holidays Act compliance	The information contained in this paper may result in both industrial negotiations with affected staff members and commercial negotiations with the vendor of the TechOne product. The premature disclosure of information contained in the paper may prejudice the position of HBRC in such negotiations. The paper also contains information derived from legal advice provided by in-house and external counsel. Inclusion of such material in public-facing papers is likely to prejudice the free-flow of information and advice in-confidence with HBRC's legal advisors. While there may be public interest in this matter, as it relates to the expenditure of public monies, such public interest is unlikely to outweigh the justifications for withholding the information. The public interest may be satisfied by the matter being reported on, with legally privileged material removed or redacted once the public disclosure of these matters would not affect these industrial and commercial positions. Moreover, relevant disclosures of these matters will be made to the appropriate unions, satisfying the need to ensure accountability in HBRC's dealings with staff.	s7(2)(g) Excluding the public is necessary to prevent disclosure of information that is legally privileged s7(2)(i) Excluding the public is necessary to enable the local authority holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)
Strategic risk deep dives	To prevent information about Council's critical controls being accessed. The public interest is protected by not allowing the information to be accessed by anyone outside the organisation.	s7(2)(j) Excluding the public is necessary to prevent the disclosure or use of official information for improper gain or improper advantage

Authored by:

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Desiree Cull
Strategy & Governance Manager