

## Meeting of the Risk and Audit Committee

**Date:** 07 May 2025  
**Time:** 9.00am  
**Venue:** Council Chamber  
Hawke's Bay Regional Council  
159 Dalton Street  
NAPIER

### Agenda

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Item	Title	Page
1.	Welcome/Karakia/Housekeeping/Apologies	
2.	Conflict of Interest Declaration	
3.	Confirmation of Minutes of the Risk and Audit Committee meeting held on 12 February 2025	
4.	Audit Plan for the 2024-2025 Annual Report	3
5.	Treasury Compliance Report for the period 1 January - 31 March 2025	5
<b>Public Excluded items</b>		
6.	Confirmation of Public Excluded Minutes of the Risk and Audit Committee meeting held on 12 February 2025	
7.	May 2025 Risk Management update	11
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# Hawke's Bay Regional Council

## Risk and Audit Committee

7 May 2025

Item 4

### Subject: Audit Plan for the 2024-2025 Annual Report

#### Reason for Report

1. This item provides an update on the timing for the audit of HBRC's 2024-2025 Annual Report.

#### Executive Summary

2. The statutory deadline for the adoption of the HBRC Annual Report is 31 October 2025.
3. Our auditors, Ernst & Young (EY), performed their interim visit during April 2025 and intend to begin the Year End audit in the week commencing 1 September 2025.
4. The Audit Planning Report from EY is attached and representatives from EY will attend the meeting to present their Audit Plan and take questions.

#### Background /Discussion

5. The audit and adoption of the Annual Report follows timelines set out in the Local Government Act 2002.
  - 5.1. Section 98 (3) states that the annual report of a Council "*must be completed and adopted, by resolution, within 4 months after the end of the financial year to which it relates*".
6. Staff have had discussions with our auditors, EY, about audit timing (see table below). This may change as our auditors refine their work plans and resourcing.

Dates	Description
7 April through 17 April 2025	Audit interim visit will be conducted remotely for 2 weeks to complete the interim work for HBRC, HBRIC and FoodEast
1 September through 12 September 2025	Audit of HBRIC and FoodEast (2 weeks)
15 September through 17 October 2025	Audit of the annual report (2 weeks onsite, remainder from Wellington)

7. This timing is a bit earlier than last year as we want to adopt the Annual Report early in October before the local body elections. Our internal project plan has been reviewed internally and with the auditors to ensure that we can meet this earlier deadline.
8. The key areas of audit focus will be:
  - 8.1. Infrastructure assets and property, plant and equipment
  - 8.2. Cyclone recovery and other grants
  - 8.3. Investment property valuation
  - 8.4. Integrity of rates
  - 8.5. Performance reporting.

#### Decision-making process

9. 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 Risk and Audit Committee receives and considers the *Audit Plan for the 2024-2025 Annual Report*.

### **Authored by:**

**Chris Comber**  
Chief Financial Officer

**Pam Bicknell**  
Senior Group Accountant

### **Approved by:**

**Susie Young**  
Group Manager Corporate Services

## **Attachment/s**

- 1 HBRC Audit Plan for year ending 30 June 2025 Under Separate Cover  
*- online only*

**Subject: Treasury Compliance Report for the period 1 January - 31 March 2025**

**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 31 March 2025.

**Overview of the quarter ending 31 March 2025**

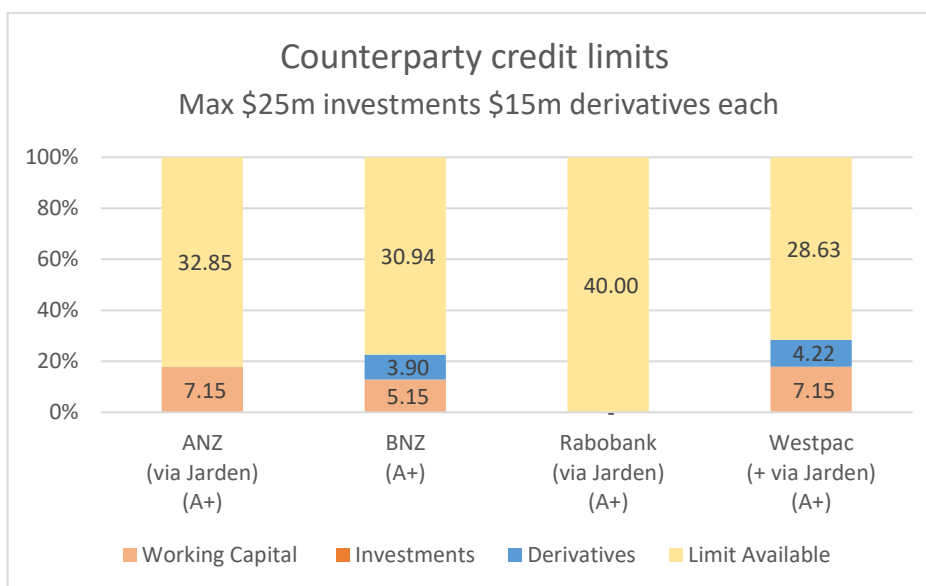
2. On 31 March 2025 HBRC was compliant with all measures in its Treasury Policy.
3. The impact of Cyclone Gabrielle continues to affect cash balances and borrowing needs. Additional borrowing to support recovery efforts will persist over the next three years, while projects and insurance claim proceeds are being received more slowly than initially expected.
4. The Council is in the final stages of transitioning its transactional banking facilities from BNZ to ANZ, and went live with ANZ on 7 April 2025. For the next 12 months, the Council will maintain its banking facilities with BNZ to ensure a smooth transition for ratepayers and to continue counterparty opportunities.

**Background**

5. 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:
  - 5.1. Treasury exceptions report
  - 5.2. Policy compliance
  - 5.3. Borrowing limit report
  - 5.4. Funding and liquidity report
  - 5.5. Debt maturity profile
  - 5.6. Interest rate report
  - 5.7. Investment management report
  - 5.8. Treasury investments
  - 5.9. Cost of funds report, cash flow and debt forecast report
  - 5.10. Debt and interest rate strategy and commentary
  - 5.11. Counterparty credit report
  - 5.12. Loan advances.
6. The Investment Management report has specific requirements outlined in the Treasury Policy. This requires quarterly reporting on all treasury investments plus annual reporting on all equities and property investments.
7. In addition to the Treasury Policy, Council has a Statement of Investment Policy and Objectives (SIPO) document setting out the parameters required for all HBRC Group funds under management.
8. 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

9. HBRC was compliant with the counterparty risk policy with all banks during the quarter to 31 March 2025, except for a 2-week period in January when we held additional funds with Jarden in anticipation of NIWE costs. This was mitigated by Jarden depositing the funds equally between ANZ and Westpac.



10. Council staff continue to maintain the view that management of Recovery Funding held on behalf of others sits outside HBRC's Treasury Policy for normal operations and is excluded from treasury reporting.
11. As the Silt & Debris program continues to wind down, the remaining \$2.3m is expected to be fully utilised by 30 June. The HB Recovery Agency has extended its agreement until March 2026, and we will continue to hold their funds until that date, or until they are fully utilised.

## Funding and liquidity

12. 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 34.66% and therefore meets policy.
13. The following table reports the cash and cash equivalents on 31 March 2025.

<b>31-Mar-25</b>	<b>\$0</b>
Cash on Call	19,456
Short-term bank deposits	-
<b>Total Cash &amp; and Deposits</b>	<b>19,456</b>

14. To manage liquidity risk, HBRC currently maintains a Standby Facility with BNZ. This facility allows for a same-day draw downs ranging from \$0.25m-to \$10m with a minimum draw period of 7 days. The facility is set to mature in May, and management is working with ANZ to establish a new facility to replace it before the current agreement expires.
15. Due to increased debt, HBRC needs additional Standby Facility headroom to manage liquidity. Council now has an additional facility with LGFA, offering same-day drawdown options for amounts between \$1m and \$10m, with a minimum draw period of 1 month. The annual holding costs of both the LGFA and ANZ facilities are 20 basis points compared to BNZ's cost of 37 basis points.

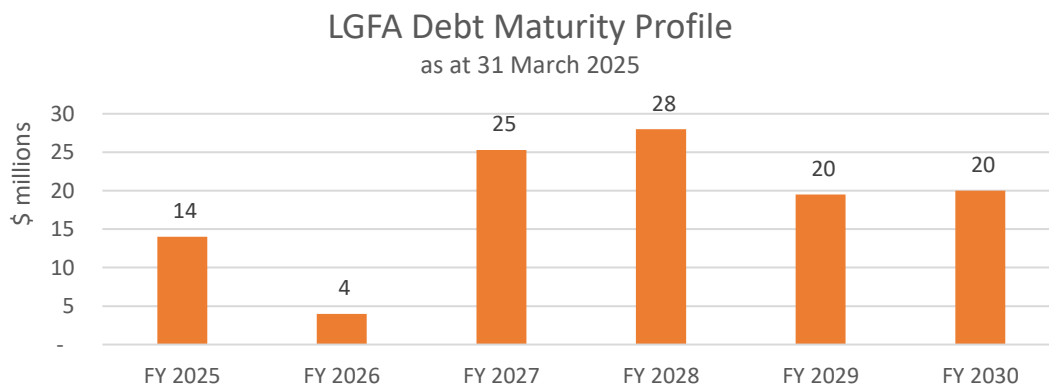
16. The OCR reduced in both February and April 2025 to sit currently at 3.50%. The next OCR review is 28 May 2025, with markets anticipating a 0.25% decrease. Current returns for on-call funds with Jarden are 3.50%, BNZ 3.45% and ANZ 3.24%.
17. In April 2025 we deposited \$4m with Rabo, at a return rate of 4.2%. This will mature in April 2026 and will be used to repay maturing debt with LGFA.

**Debt management**

18. On 31 March 2025 the external debt for the Council group was \$113.8m of which \$14m matured in April 2025. \$8m of the maturing debt was pre-funded from the 2024 rates intake. (external debt is \$130.5m including loan from HBRIC).
19. The additional \$6m debt taken out in December 2024, which matures in April 2025, was a short-term commercial note intended to support the cashflow for the Crowns portion of the NIWE project while HBRC negotiated repayments terms with the Crown.
20. 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 2024 – excluding HBRIC loan	113,500	113,500
New loans raised	6,000	6,000
Less amounts repaid	(5,675)	(5,675)
<b>Closing Debt 31 March 2025 (excluding HBRIC loan)</b>	<b>113,825</b>	<b>113,825</b>
Plus loan from HBRIC	16,663	-
<b>Total Borrowing as at 31 March 2025</b>	<b>130,488</b>	<b>113,825</b>



21. Council’s total debt maturity profile remains compliant. The table below includes our current \$20m overdraft facilities (\$10m with both BNZ and LGFA) in total debt. The internal (HBRIC) debt is excluded.

**Funding summary**

Bucket (years)	Maturing in period (\$)	Policy	Actual
0 - 3	\$73,358,363	15% - 60%	58%
3 - 7	\$53,500,000	25% - 85%	42%
7 - 15	\$0	0% - 60%	0%
<b>Total</b>	<b>\$126,858,363</b>		<b>100%</b>

## Funding summary

22. Council's 0-3 year funding policy will remain under pressure as we finance the NIWE projects during this period. Additional short-term funding is necessary due to delays in the Crown reimbursing their share of the project costs. Meanwhile, the Council's portion will be funded through longer-term inter-generational debt to match the asset's lifecycle.
23. While the Long-Term Plan (LTP) forecasts debt annually for the next 10 years, management is developing a short-term debt forecast to provide better visibility during the NIWE project period. Given the pressures on the debt profile, current forecasts suggest that debt could rise to \$200m during the short term, depending on the timing of the Crown's reimbursements.

## 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 exclude 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 31 March 2025
Net external debt as a percentage of revenue	<250%	<285%	36.4%
Net interest on external debt as a percentage of total revenue	<20%	<20%	3.3%
Net interest on external debt as a percentage of annual rates income	<30%	<25%	10.5%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>110%	>110%	134.7%

## Interest rate risk

26. At 31 March Council held \$72m in fixed rate instruments, hedging 56% of current external debt, and was outside policy, based on the FY2025-2027 LTP plan. However, Council's Liability Management Policy states fixed rate maturity profile outside limits but self-correcting within 90 days is not in breach of this Policy. In April additional hedging was purchased bringing Council back within policy.



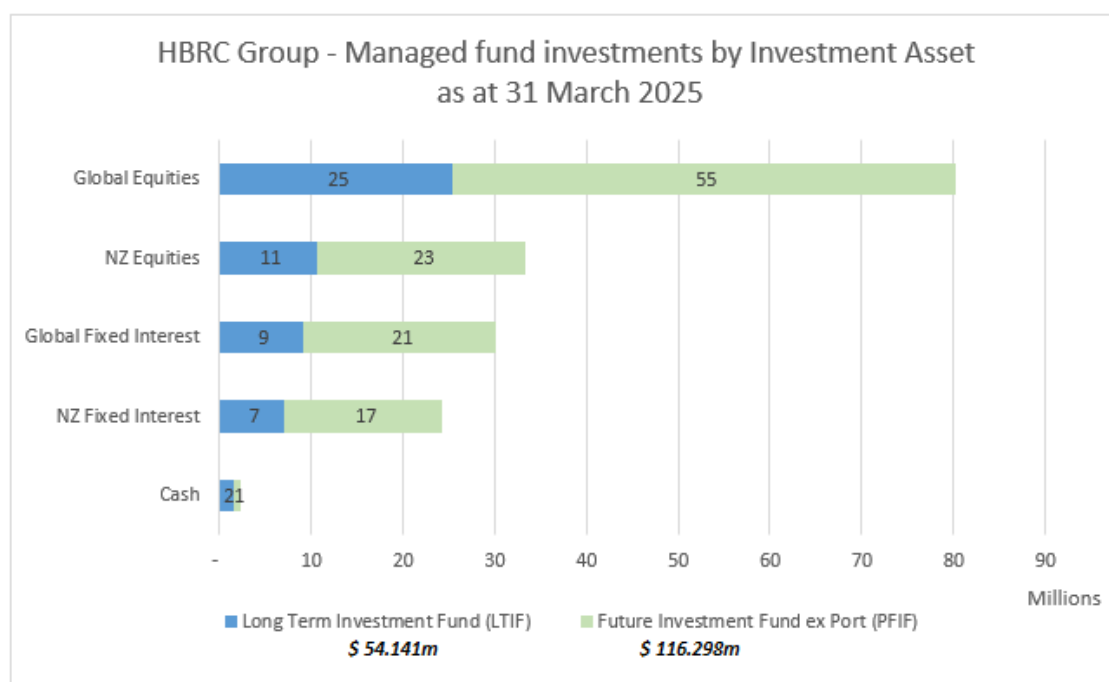
27. These hedging instruments were held at 2 banks, Westpac and BNZ, at the end of March 2025. In April additional hedging was established with ANZ.



## Managed funds

28. Total Group Investment Fund portfolios capital at 31 March 2025 was \$170.4m, \$2.1m below the inflation-adjusted contribution target due to the down-turn in global financial markets.
29. Excluding fair value losses of \$361k, the portfolio's net return amounted to \$8.2 million, representing an overall YTD return of 4.9%.
30. During the quarter, and prior to the financial market pull-back, \$5.0 million was withdrawn from the managed funds to support meeting the Council's cash dividend requirements.
31. Markets are expected to continue their volatility and should be viewed through the lens of a long-term asset, with returns assessed on a rolling 5-year average.
32. The following table summarises the fund balances at the end of each period and the graph illustrates the asset allocations within each fund on 31 March 2025.

	30 June 2023	30 June 2024	31 March 2025
<b>Fund Balances HBRC</b>	\$000	\$000	\$000
Fund Balance HBRC	<b>110,828</b>	<b>118,722</b>	<b>120,449</b>
Capital Protected Amount HBRC (2% compounded since inception, increasing to 2.5% from 1 July 2024)	115,895	118,890	121,133
<b>Current HBRC value above/(below) capital protected amount</b>	<b>(5,067)</b>	<b>(168)</b>	<b>(684)</b>
<b>Funds Balances (HBRC + HBRIC)</b>			
Long-Term Investment Fund (HBRC)	48,400	51,847	54,141
Future Investment Fund (HBRC)	62,428	66,875	66,308
<b>Total HBRC</b>	<b>110,828</b>	<b>118,722</b>	<b>120,449</b>
Plus HBRIC Managed Funds (FIF)	45,638	48,854	49,991
<b>Total Group Managed Funds</b>	<b>156,466</b>	<b>167,576</b>	<b>170,439</b>
Capital Protected Amount (2%/2.5% from 1 July 2024 compound inflation)	164,798	169,343	172,539
<b>Current group value above/(below) protected amount</b>	<b>(8,332)</b>	<b>(1,768)</b>	<b>(2,099)</b>



### **Cost of funds**

33. Rolling 12 months to 31 March 2025 gross cost of funds (COF), interest spend, was \$4.6m and 4.28% on the average debt in the last 12 months, while net COF after offsetting interest received was \$4.4m equating to 4.09%.

### **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 January - 31 March 2025*.

### **Authored by:**

**Tracey O'Shaughnessy**  
**Treasury & Investments Accountant**

**Chris Comber**  
**Chief Financial Officer**

### **Approved by:**

**Susie Young**  
**Group Manager Corporate Services**

### **Attachment/s**

There are no attachments for this report.

# Hawke's Bay Regional Council

## Risk and Audit Committee

7 May 2025

Item 7

### Subject: May 2025 Risk Management update

That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 7 May 2025 Risk Management 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 are:

<b>General subject of the item to be considered</b>	<b>Grounds under section 48(1) for the passing of the resolution</b>	<b>Rationale for passing this resolution</b>
May 2025 Risk Management update	<p>s7(2)(f)(ii) Excluding the public is necessary to maintain the effective conduct of public affairs by protecting councillors and/or council employees and contractors/consultants from improper pressure or harassment.</p> <p>s7(2)(j) Excluding the public is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.</p>	<p>To prevent information about Council's critical controls being accessed and used maliciously to harm the Council, its systems, employees or elected councillors.</p> <p>The public interest is protected by not allowing the information to be accessed by anyone outside the organisation.</p>

#### Authored by:

**David Nalder**  
Acting Risk Manager

**Olivia Giraud-Burrell**  
Quality & Assurance Advisor

#### Approved by:

**Susie Young**  
Group Manager Corporate Services



# Hawke's Bay Regional Council

## Risk and Audit Committee

7 May 2025

Item 8

### Subject: May 2025 Legal update

That the Risk and Audit Committee excludes the public from this section of the meeting, being Agenda Item 8 May 2025 Legal 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 are:

<b>General subject of the item to be considered</b>	<b>Grounds under section 48(1) for the passing of the resolution</b>	<b>Rationale for passing the resolution to exclude the public</b>
May 2025 Legal update	s7(2)(g) Excluding the public is necessary to prevent disclosure of information that is legally privileged.	The matters being discussed may potentially be the subject of litigation and the Council has engaged legal advisors to provide advice on associated issues.

### Authored by:

**Aimee Sandilands**  
Chief Legal Advisor

### Approved by:

**Susie Young**  
Group Manager Corporate Services