

Meeting of the Risk and Audit Committee

Date: 12 Feb 2025
Time: 9.00am
Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

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1.	Welcome/Karakia/Housekeeping/Apologies	
2.	Conflict of Interest Declaration	
3.	Confirmation of Minutes of the Risk and Audit Committee held on 23 October 2024	
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Subject: Risk management update

Reason for report

1. This item provides 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 Councilors as to the aggregate level of confidence/concern (i.e. risk rating) with respect to the strategic risk profile of HBRC
 - 1.3. 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
 - 1.4. results of assurance work undertaken across key controls including the external Crowe review of Data Analytics (**confidential attachment 2**)
 - 1.5. incidents and events raised for the attention of the Committee.

Executive summary

2. HBRC has experienced a relatively quiet December quarter with a generally positive rate payer and community attitude with few incidents of concern.
3. A notable change in the financial risks and delivery risk from NIWE is reflected in the risk rating for this programme. Financial Risks are presenting potential over-runs in particular in Whirinaki. HBRC continues to work with Crown Infrastructure Programme (CIP) in regard to the allowable transfer of under and overs within programmes.
4. Council staff have undertaken control testing on two key controls – Conflicts of Interest and Gift Registering. Results are positive and outlined within the Assurance updates.
5. The annual Data Analytics review (Externally Lead) has also concluded that there have been no unauthorised or misappropriated funds identified across sample testing.
6. Two operational incidents occurred in November (driven by one event) when unauthorised access was obtained into HBRC internal network. This resulted in some malicious activity occurring, which resulted in personal identifiable information being breached. (A full review breakdown is in **confidential attachment 3**).
7. Three medium Health and Safety Events were noted. However, although this report is for the quarter to 31 December, two concerning, significant H&S incidents occurred in January 2025, involving two attacks on HBRC staff and one of our staff was hospitalised.

Discussion

Wider external context

Legislative and regulatory changes

8. Central Government continues to publicly highlight the local government reform programme which we anticipate will remove references to the 'Four Well-beings' from the Local

Government Act 2002, restoring a purpose focused on fixing pipes, filling potholes, and delivering core local services.

9. The intent, amongst other things, includes refocusing local government on basics, guiding council decision-making and avoiding duplication of roles with central Government, including benchmarking councils' performance.
10. The Department of Internal Affairs (DIA) will publish a yearly report on key financial and delivery outcomes, helping ratepayers hold councils accountable. The first benchmarking report on local councils will be released in the middle of 2025 and is expected to include a number of key council performance metrics such as:
 - 10.1. rates – so that ratepayers know the number of rates levied per unit, the change in rates since the previous year, and the forecast change in rates over the next 10 years
 - 10.2. Council debt – including debt per rating unit, percentage change in council debt since the previous year, and forecast change over the next 10 years
 - 10.3. a balanced budget – to show whether a council is balancing its budget or borrowing to support expenditure.
11. An overhaul of the Resource Management Act (RMA) continues. The Resource Management (Freshwater and Other Matters) Amendment Bill returned to Parliament for its final reading and came into force on 25 October 2024. It was introduced in May to make targeted amendments to the RMA and a range of national direction instruments.
12. The external rate payer environment continues to be challenging, in particular the fiscal environment. In December 2024, New Zealand's annual inflation rate was 2.2% for the quarter. Although lowered, the cost-of-living crisis continues.

North Island Weather Events (NIWE) Flood Resilience Programme

13. There continues to be challenge and focus from central government on our ability to deliver critical category 2 flood mitigation and the NIWE team has put measures in place to provide assurance to our governors that effective and transparent processes are put in place.
14. Most recently, leadership changes have been made within the NIWE programme and Council has endorsed further funding applications to MBIE to ensure financial support for those areas which anticipate funding shortfalls outside of the Future of Severely Affected Land (FOSAL) contracted amounts.

Internal Council operating environment

Risk Management and strategic risk themes

15. HBRC continues to adopt a top down approach to strategic risk management, that considers 'risk' in terms of major areas of 'uncertainty' presenting both threat and opportunity to HBRC, related to the HBRC's purpose, groups of activities and priorities.
16. The ELT continues to provide a monthly assessment on each of these areas of strategic risk which enables the collective views of ELT to be considered in conjunction with the specific risk assessments of staff with business area accountabilities for these areas. This enables a focus on areas of shared concern or where there are divergent viewpoints on specific matters.
17. In January 2025, Councillors were invited to provide their assessment on each of these areas. Of the 11 Councillors, 6 responses were received (compared to 5 from the September 2024 survey). The usefulness of this overall assessment is directly related to the completeness of responses received.
18. This strategic risk profile is shown in the attached HBRC Enterprise Dashboard (**Attachment 1**)
19. Key themes emerging from the latest assessments are:
 - 19.1. While there is a relatively high degree of alignment in sentiment across the ELT, there is a

- relatively low degree of alignment in sentiment across councillors.
- 19.2. In several areas there are very different levels of perceived risk on specific topics between councillors, ELT and Business Owners with specific accountabilities for these topics/areas of risk. These are highlighted in **Attachment 1**.
 - 19.3. *Effectiveness of Emergency Management, and Connectedness of decision-making* remain primary areas of uncertainty for Council staff. It is anticipated that the recently approved CDEM transformation strategy will ensure that appropriate controls, processes and mitigations are proactively and progressively put in place to manage this risk. In addition, steps have been taken internally to update HBRC Business Continuance Plan (BCP) documentation and ensure appropriate scenario-based training is completed.
 - 19.4. *Effectiveness of decision-making* reflects the current uncertainties as we head into the Annual Plan. Budget cuts and staffing holds are leading to uncertainty of programmes and how to ensure levels of service are achieved when facing internal constraints and rising public perception of minimum expectations.

Risk-pool

20. In December 2024 the Risk-pool Board advised of a likely further call on members in 2025. Risk-pool is engaged in significant domestic litigation (having been sued by several members) and is busy attempting to secure confirmation of reinsurance cover in London, which is consuming considerable in-house and external resources.
21. A call is likely to be made in March 2025. This call, which we expect to be in the region of \$2.5 million (across the membership, not per individual member), will be to cover ongoing operational expenses. This compares to a total call of \$12.88 million in November 2023. Based on the number of members, this is likely to be circa \$100k cost for HBRC. It is unclear when litigation may be settled, or close which adds uncertainty for HBRC in budgeting future costs.

Closing down of the Silt Taskforce and Commercial Funds

22. The Silt and Debris Taskforce, including the Commercial Silt Programme, is winding down, having 31 December 2024 spend dates. Across the Local Authority Fund to date, 4.6 million tonnes have been managed. With all collections now complete the Taskforce is working to complete the remaining site remediation by the end of March 2025 (~2 sites to close).
23. In December, Wairoa District Council received an extension to the use of funding for silt and debris to June 2025. This allowed them to continue efforts to remove silt and debris, but also to assist with establishing a further waste site due to full capacity of Wairoa waste sites being experienced. The risk around unused money for WDC rests with Wairoa. Unspent monies will be returned to DIA in due course should this not occur. HBRC continues to assist with funding/grant money and to reimburse WDC based on a cost incurred basis.
24. The Commercial Funding (individual recipients received up to \$400k on a 50/50 cost share basis) had a spend completion date (for applicants) of 31 December. HBRC has been proactively undertaking an audit of applications on a sample of ~150 basis since June 2025. The audit programme verifies that actual spend aligned with the eligible expenses within the programme. To date, 14 applicants have returned a total of \$935k, as monies were not able to be utilised.
25. The audit programme is expected to be completed by end of February 2025. This programme of work has been supervised by the Group Manager Corporate Services.
26. Across the programmes there have been several challenges over 24 months as to the effectiveness of spend. To remind the Committee, in 2024 HBRC commissioned a review with PWC on silt payments made to specific contractors to check these key factors (among others):
 - 26.1. Tickets were reviewed and assigned (through Silt Taskforce)

- 26.2. truck loading information was agreed to and captured at point of pick up, and
- 26.3. rates charged agreed to the average rate card utilised and adopted by the Taskforce in 2023.
- 27. In addition, in 2024 the DIA requested that MBIE review the procurement process for the onboarding of contractors. Recommendations were raised to improve controls at the time that were adopted, however, this review did not result in any changes to contracts already in place.

Progress on independent reviews

- 28. In December 2024 and January 2025, Council received updates on the progress of work to respond to the recommendations from the Hawke’s Bay Independent Flood Review. HBRC is progressing with the one-page action plans to accompany the 56 recommendations made.
- 29. Council staff are currently progressing with identifying a third party to scope and provide ongoing assurance to Council (and our community) that the design of actions being taken aligns with the intent of the reported recommendations and, when complete, evidence is sufficient to provide comfort that these have been addressed to a satisfactory level. The full Council continues to provide oversight of these recommendations.

Key internal controls and assurance

Conflicts of Interest control testing

- 30. At the October 2024 Risk and Audit Committee meeting, an update was provided on work underway to provide a consistent and structured approach to define, document and assess key aspects of HBRC’s internal control environment. From this, a programme of internal testing has been established assessing the effectiveness of these critical controls.
- 31. During this period, testing was performed on the mechanisms in place to identify, assess, report and manage the risk of real or perceived conflicts of interest within HBRC.
- 32. Effective management of real or perceived conflicts of interest is an important factor in maintaining trust, confidence, and ensuring the integrity of decision-making and service delivery.
- 33. As part of a wider programme of control testing, a review was undertaken by HBRC’s Quality and Assurance Advisor on key internal controls within HBRC that manage real or perceived conflicts of interest.
- 34. The scope of this review included HBRC staff, Councillors and contractors, and focused on the following aspects of management.

Scope	Focus
Policy framework	Identification and assessment of controls that ensure: <ul style="list-style-type: none"> • there is a clear definition of what is meant by ‘conflicts of interest’ • rules are requirements with respect to the identification, management and reporting of conflict of interests are defined • procedures associated with the management of conflicts of interest are defined • accountabilities associated with independence matters and conflicts of interest are defined.
Training and awareness	Identification and assessment of controls that ensure: <ul style="list-style-type: none"> • the people that these expectations apply to (e.g. staff, contractors, councillors and others) understand the expectations of them and how to meet these expectations.

Scope	Focus
Declaration and documentation	Identification and assessment of controls that ensure: <ul style="list-style-type: none"> • situations where a real or perceived conflict of interest might exist are identified • real or perceived conflicts are documented in a central place • confirmation that all staff, Councillors and contractors are aware of and have complied with relevant policies and expectations.
Mitigation of potential conflicts	Identification and assessment of controls that ensure: <ul style="list-style-type: none"> • real or perceived conflicts of interest are notified to relevant decision makers • appropriate safeguards are put in place.
Monitoring and reporting	Identification and assessment of controls that ensure: <ul style="list-style-type: none"> • there is appropriate oversight of management of conflicts of interest • controls, safeguards and management processes are effective.

35. Several policies are in place that provide guidance to staff including a Conflict of Interests Policy and a Gifts, Hospitality and Winnings Policy.
36. Interests and gifts are required to be declared within the Conflicts of Interest or Gifts Register (staff) or Pecuniary Interests form (councillors).
37. While there is some initial training for new staff and councillors on policies, this is typically a one-off, with variable levels of understanding and awareness from people interviewed. Onboarding of contractors is limited and does not extend to HBRC policies or wider expectations, including those relating to the management of real or perceived conflicts of interest.
38. In practice, limited use is made of the Conflicts of Interest Registers, with 13 entries over the past two years. Such declarations are made on a point in time basis, and declarations made are not revisited or updated. The Conflict of Interest Register is actively monitored by one staff member. There is no record or confirmation that actions agreed to manage potential conflicts were done with some 'pending' from May 2024.
39. One conflict of interest situation came to light that was not declared or addressed through the policies or controls expected to be in place. This related to a procurement situation where a staff member, as part of their normal duties, approved an invoice for payment to a related family member.
40. While it is difficult to determine the counter-factual (i.e. how many potential conflict situations existed that were not registered), the low volume of activity, together with limited training and awareness activities, suggests that factors that might compromise the independence of staff or contractors are not top of mind for all.

Business and ICT continuity management

41. The refreshed business continuity plan (BCP) (including merging the Emergency Procedures) was distributed to all staff in December 2024 and hard copies are distributed across HBRC buildings and locations. HBRC's primary response centre is 159 Dalton Street.
42. During February, scenarios testing, and role play will be undertaken with both ELT and managers to ensure appropriate awareness and knowledge of actions and operations required

is sufficient.

Data analytics review of transactions

43. Each year the Regional Council, as part of the internal audit work programme, engages Crowe to conduct a review of our Data Analytics. This review is used primarily for identification of fraud or suspicious transactions across our business. Although historical, it provides management with assurances on processes followed throughout the reporting period.
44. The agreed scope and purpose of the audit was to review payables and payroll transactional data for the financial year ended 30 June 2024 and master data extracted as at 9 September 2024. This data was analysed independently by Crowe for any potential anomalies or suspicious transactions. The report was then provided to staff, along with separate spreadsheets listing the transactions that required review, with final oversight from the Chief Financial Officer .
45. It is important to note that, when a transaction is identified, it does not necessarily indicate that there is anything suspicious. There are often legitimate business reasons for a transaction being identified, such as different types of payments from a Council (rates credits versus payment for services). These types of transactions may display in areas such as 'duplicate address', 'GST/non-GST transactions', or 'duplicate IRD number'.
46. In addition, some transactions are listed purely for review purposes due to their deemed higher risk nature, such as 'top 50 vendors by amount'. This allows staff to easily assess whether vendors are in line with expectations and would highlight any vendors that may appear erroneous.
47. Given the small size of Hawke's Bay, there are times when an employee may share the same address as a vendor, usually a spouse. Transactional processing staff ensure that employee approvals are not allowed where any known conflicts exist between an employee and a vendor.

Audit findings

48. The report includes five high risk results pertaining to:
 - 48.1. purchase orders created after invoice date
 - 48.2. purchase order approvals
 - 48.3. payments to vendors approved by a related employee
 - 48.4. employees paid prior to start date
 - 48.5. employees paid after termination date.
49. The early raising of purchase orders continues to be an area needing improvement in the organisation. We continue to provide training on this and are now developing reports to identify on a timely basis where purchase orders are regularly not being raised until after the invoice has been received so that focused additional training can be given or different processes can be put in place where needed.
50. The results relating to delegated approvals of purchase orders were all a result of the TechOne financial system recording higher level approvals against the original requisition rather than the final purchase order. All of the results identified were reviewed to ensure that the appropriate level of delegated approval was given at the requisition stage. We will work with Crowe to ensure that these approvals are included in their data extract next year.
51. The payments to a vendor that were authorised by an employee with the same address were all legitimate work. The employee has been reminded to ensure that requisitions for this supplier are reassigned to ensure that there is no perceived conflict of interest. Finance staff will also keep a watch on this particular vendor.
52. The payments to employees before start date or after termination date all relate to instances where an employee changed between a permanent contract and a fixed term contract. All payments made were appropriate.

- 53. All other findings have been reviewed in detail, and no unusual or unexpected transactions were identified.
- 54. While reviewing the findings of the audit, corrective action has been taken where needed to remove unnecessary duplicates and complete any missing details.
- 55. Finance continues to train users on processes with the financial system, especially the raising of requisitions and purchase orders before goods and services are received.

Outstanding audit issues and recommendations

- 56. All recommendations from prior audit and assurance reviews undertaken are formally captured and progress to address these recommendations monitored. The following table provides an update on progress in this area.

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.
ISO45001 - ECAAS Certification's Gap Analysis	Review	30 November 2023	19	6	13	All actions on track
Organisational Change Consolidation and Prioritisation	Internal Audit	July 2025	5	0	5	Priority had not been given currently to addressing issues within this report, however dedicated resource has now been assigned to complete within the next 6 months.

Significant events

- 57. This quarter, notable events are outlined below.

Type	Number of Medium / High-Risk Events
Non-financial Risk Incidents	2 High
Health and Safety	3 Medium

Non-financial incidents

- 58. High Risk Event: In November 2024 two Microsoft Office accounts at Hawke’s Bay Regional Council were identified as having been signed into by an unauthorised malicious user. Refer to the Account Security Breach Incident Report in **(Confidential Attachment 3)** for information.
 - 58.1. Given the extent of information shared, this is a notifiable event to the Office of the Privacy Commissioner (OPC). Immediately, Council staff called those high-risk individuals where bank information was shared informing them recommendations to change bank passwords. A formal letter was subsequently sent to all other impacted individuals on 2 and 3 December.

Health and Safety incidents

59. Three medium Health and Safety incidents were noted as outlined below:
- 59.1. A number of staff complained or felt nauseous or unwell during some paint work on exterior walls when refurbishments at the Dalton Street main building were undertaken. Staff were advised to move to another office or work from home. The HBRC Facilities team was alerted and raised the issues immediately with Wallace Developments. A face-to-face meeting was held with the developer to discuss corrective actions and on improving communication for future work that may impact HBRC staff. The developer spoke to contractor involved and the paint product used will be avoided in the future. They did adhere to the manufacturer application methodology (being used in a ventilated space) however in future, tenants will be advised in advance, painting will be completed out of office hours, or alternatively all venting will be wrapped.
 - 59.2. An HBRC staff member observed a heavy tool being thrown upwards from the floor below to the second story by an external contractor who was at Dalton Street undertaking refurbishment works. The thrown tool missed the intended catch, landing in front of the staff member as they entered the building. This was reported as a near miss but could have had serious consequences if it had hit the person. The contractor advised that the area was cordoned off with spotters to keep the public away however a firmer requirement regarding the movement of tools, and any movement around scaffolding and the interaction with the public were strengthened. Assurance from the developer that health and safety is taken seriously and feedback for continuous improvement was welcomed by HBRC.
 - 59.3. An HBRC mowing tractor slipped into the drain on Halpin Road while navigating at low-speed between the drain and apple trees. Conditions at the time were very dry, with longish grass leading to slippery conditions. The driver endeavoured to avoid damaging the apple trees, but unfortunately slipped into the open drain onto the right-hand side. The driver turned the machine off and climbed out. The driver had no physical injuries and was immediately drug tested, returning a negative result. The tractor was retrieved with a small dent to the front fender. HSW assisted with the investigation and discussed the need for the orchardist to prune back tree growth prior to mowing and that staff ensure they undertake the "5 min" risk assessment in challenging conditions.

Decision-making considerations

60. 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:
- 60.1. 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:
 - 60.1.1. The robustness of Council's risk management systems, policies, practice and assurance processes. (1.1)
 - 60.1.2. 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)
 - 60.1.3. Undertake periodic monitoring of corporate risk assessment, and the internal controls instituted in response to such risks. (2.2)
 - 60.2. 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:

David Nalder
Acting Risk Manager

Pip O'connor
Chief Information Officer

Jess Bennett
Programme Finance & Controls Manager

Olivia Giraud-Burrell
Quality & Assurance Advisor

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

- | | | |
|---|---|--|
| 1 | HBRC Enterprise Risk Dashboard - January 2025 | Under Separate Cover
– <i>online only</i> |
|---|---|--|

Confidential Attachments

- | | | |
|---|---|--|
| 2 | 2024 Crowe HBRC Data Analytics Internal Audit Report | Under Separate Cover
– <i>online only</i> |
| 3 | Incident Report - Email Spoofing and OPC notification | Under Separate Cover
– <i>online only</i> |

Subject: External Audit Report - Control Findings for the year ended 30 June 2024

Reason for report

1. This item presents the Audit and Risk Committee with the Ernst & Young (EY) Control Findings report for the year ended 30 June 2024.
2. EY will not be in attendance as they were at the meeting on 23 October 2024 when they answered questions about the draft of their control findings report.

Executive summary

3. The EY Control Findings report (**Attachment 1**) highlights 7 control observations identified.
4. Corrective actions have been assigned an owner by HBRC and timeline as appropriate.

Background

5. Each year, following the completion of the audit of HBRC's Annual Report, the auditor's report back to the governing body on any findings from the audit. The report provides commentary on areas where the auditors identified control matters during their audit procedures, their recommendations for improvement, and HBRC management's response to these findings.
6. The preliminary EY Audit Close Report was presented to the committee on 23 October 2024 and there has been no changes to the findings since that date.
7. Six low-rated and one medium-rated audit observations were raised for the June 2024 external audit.
8. One of the observations has been deemed as Medium-risk needing significant improvement, ideally within the next 6 months; this relates to the reconciliation of community loans – an ongoing issue that management is aware of. Due to system limitations, HBRC is currently unable to extract a report that details all outstanding loans to support the *total community loans balance* shown in the financial statements. HBRC has historically calculated a manual estimate using various data extracted from our systems; however, due to the level of estimation involved and the significance of the community loans balance, there is a greater risk that inaccuracies may not be identified.
9. The reconciliation process at 30 June 2024 showed a variance of \$34k over a total balance of \$19.5m.
10. Staff plan to manually calculate some, if not all, of these balances. Targeting the highest loans by value would involve manually reconciling 1700 individual loans (40%) which represent 80% of the value.
11. The remaining 6 observations have been deemed as low risk and needing some improvement ideally within the next 6-12 months. Management has no significant concerns about these observations and is comfortable that processes are underway to resolve them. The sensitive expenditure changes have already been implemented and the team is continuing to work on ensuring this risk is eliminated and / or minimised.

Financial and resource implications

12. None of the recommendations raised by EY have financial or resource implications.

Decision-making considerations

13. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
 - 13.1. 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:
 - 13.1.1. (2.8) 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).
 - 13.1.2. (3.5) Ensure that recommendations in audit management reports are considered and, if appropriate, actioned by management.

Recommendations

That the Risk and Audit Committee:

1. Receives and considers the *External Audit Report - Control Findings for the year ended 30 June 2024* from Ernst and Young and the staff report.
2. Agrees that the actions to be taken to address the *Control Findings for the year ended 30 June 2024* from Ernst and Young are adequate in the circumstances explained.

Authored by:

Pam Bicknell
Senior Group Accountant

Chris Comber
Chief Financial Officer

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

- 1 EY Report on Control Findings for the year ended 30 June 2024 Under Separate Cover
– *online only*

Subject: Treasury Compliance Report for the period 1 October - 31 December 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 31 December 2024.

Overview of the quarter ending 30 September 2024

2. On 31 December 2024 and during the preceding quarter, HBRC was compliant with all measures in its Treasury Policy.
3. 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 initially forecast.
4. HBRC completed a tender process prior to Christmas and appointed ANZ as their new transactional bank. It is expected HBRC will commence operating ANZ bank accounts from the beginning of April and will hold BNZ accounts open through the next financial year.

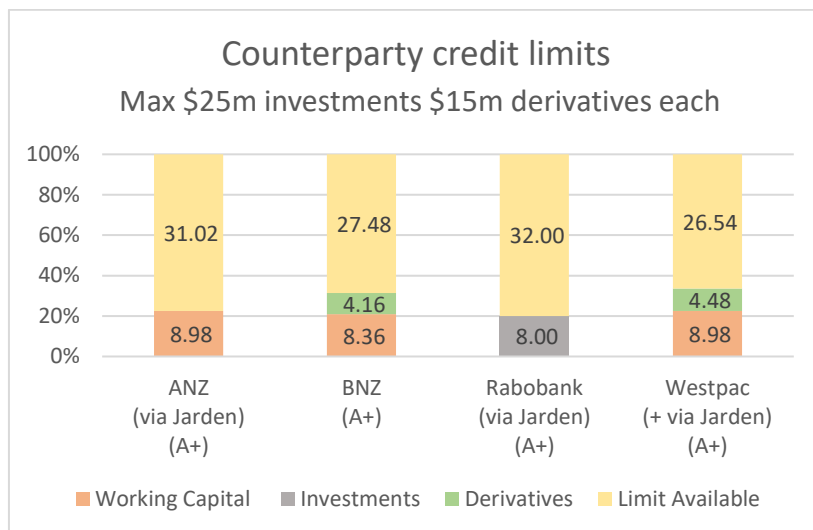
Background

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.

- 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

- HBRC was compliant with the counterparty risk policy with all banks during the quarter to 31 December 2024.



- 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.
- Funds held on behalf of the Silt & Debris programme are nearing exhaustion and should be either fully utilised or returned to DIA by the end of March. There will continue to be funds held on behalf of the HB Recovery Agency to 30 June 2025, or until they too are spent.

Funding and liquidity

- 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 36.65% and therefore meets policy.
- The following table reports the cash and cash equivalents on 31 December 2024.

31 Dec 2024	\$000
Cash on Call	26,319
Short-term bank deposits	8,000
Total Cash & Deposits	34,319

- 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. This facility is due to mature in May and in the interim, while we transition our transactional banking to ANZ, we will look to establish a facility before the expiry of the existing agreement.
- Due to the additional cashflow required to fund the Crown's portion of the NIWE project we are looking to increase the council's Standby Facility value in the near future.
- The OCR reduced in both October and November 2024 to sit currently at 4.25%. The next OCR review is 19 February 2025, with markets anticipating at 0.50% decrease. Current returns for on-call funds with Jarden are 4.25% and BNZ 4.20%. These on-call rates are now returning

higher rates than short term deposits.

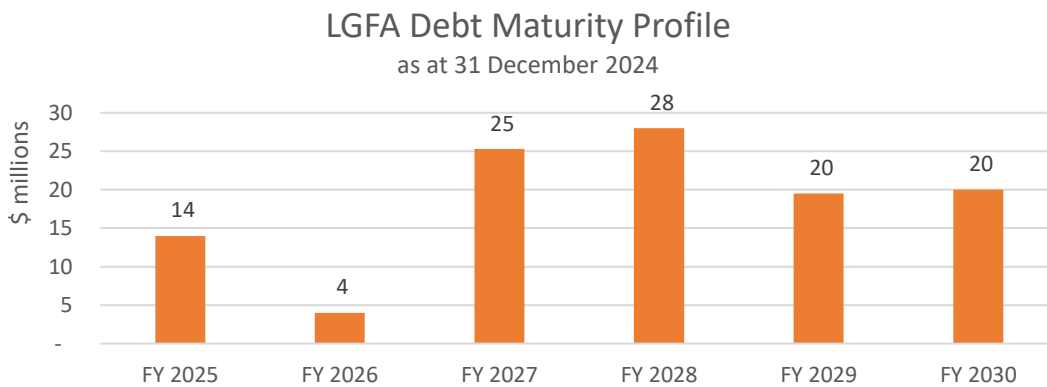
- For loan repayment purposes, we also hold a term deposit of \$8m with Rabo, maturing March 2025, returning 5.90%.

Debt management

- On 31 December 2024 the current external debt for the Council group was \$114m of which \$8m is due to mature in April 2025. This has been pre-funded from the 2024 rates intake. (external debt is \$130.7m including loan from HBRIC).
- Since Q1 of FY25 Council has borrowed \$6m from LGFA as a short-term commercial note to assist in funding the cashflow of the Crown portion of the NIWE project while HBRC negotiates with the Crown on repayment terms.
- 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	(5,450)	(5,450)
Closing Debt 31 December 2024 (excluding HBRIC loan)	114,050	114,050
Plus loan from HBRIC	16,663	-
Total Borrowing as at 31 December 2024	130,713	114,050



- Council’s debt maturity profile remains compliant. The table below includes our current \$10m BNZ overdraft facility in total debt and the planned \$8m repayment utilising term deposit. The internal (HBRIC) debt is excluded. The short-term borrowing mentioned above will put pressure on our 0-3 year funding policy and we may need to consider amending this while we hold additional borrowing for the NIWE project.

Funding summary

Bucket (years)	Maturing in period (\$)	Policy	Actual
0 - 3	\$55,583,362	15% - 60%	51%
3 - 7	\$53,500,000	25% - 85%	49%
7 - 15	\$0	0% - 60%	0%
Total	\$109,083,362		100%

Funding summary

22. HBRC borrowing in Q2 was to fund the cashflow of the NIWE project. It is anticipated HBRC will be required to hold an additional \$13m debt throughout the NIWE project to cover the timelapse between payment of creditors and Crown reimbursement. This will be on top of the debt required to fund the HBRC share of NIWE costs.
23. HBRC staff continue to work on firming up the challenging cashflow forecast for the capital projects and this will inform the timing of any future borrowings.
24. The LTP debt forecast anticipated debt levels rising to \$176m by the end of FY27. However, as the LTP is only for 3 years, management has updated their debt forecast for 10 years; with more information available, they now forecast debt to peak in FY27 at \$158m, then reducing to \$133m by 2034.

Borrowing limits

25. Council continues to monitor and work within the agreed borrowing limits set by both Council and the LGFA.
26. 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 December 2024
Net external debt as a percentage of revenue	<250%	<285%	31.0%
Net interest on external debt as a percentage of total revenue	<20%	<20%	1.9%
Net interest on external debt as a percentage of annual rates income	<30%	<25%	6.9%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>110%	>110%	131.7%

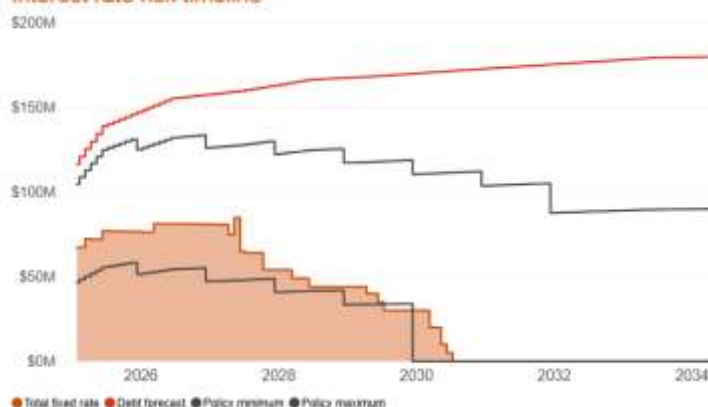
Interest rate risk

27. Council currently holds \$67m in fixed rate instruments, hedging 60% of current external debt, and remains compliant to policy. This is based on the FY2025-2027 LTP plan.

Interest rate summary

#	Bucket	Min	Max	Actual
1	0 - 12	40%	90%	55%
2	12 - 24	35%	85%	52%
3	24 - 36	30%	80%	44%
4	36 - 48	25%	75%	29%
5	48 - 60	20%	70%	22%
6	60 - 72	0%	65%	7%
7	72 - 84	0%	60%	0%
8	84 - 96	0%	50%	0%
9	96 - 108	0%	50%	0%
10	108 - 120	0%	50%	0%

Interest rate risk timeline

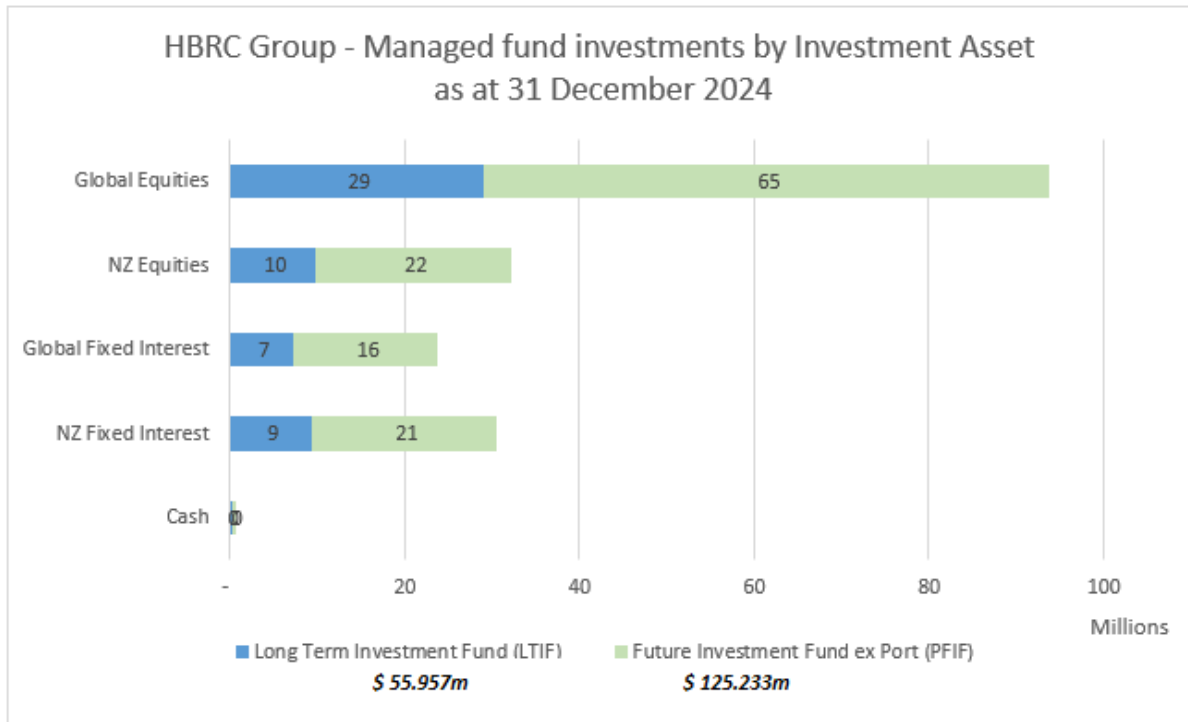


28. These hedging instruments are currently held with two banks, Westpac and BNZ. Staff are currently reviewing options with a view to further hedging.

Managed funds

29. Total Group Investment Fund portfolios capital at 31 December 2024 is \$181m. This is \$9.7m above the inflation-adjusted contribution target and the result of positive performance of global equities.
30. All Managed Fund portfolios now reside with Harbour Asset Management. Market returns to date, combined with capital gains on transfer have resulted in the portfolio's achieving the required rate of return for the financial year, as stipulated in the HBRC Group's SIPO, with 6 months potential income still to come.
31. No divestments have been made from managed funds this year, although they may be required to deliver the investment cash dividend requested. The strategy on divestments now sits within HBRICs mandate under the statement of expectations to manage the group's investments, while maintaining their inflation protected values.
32. Markets are expected to remain steady, although there may be some volatility as a result of the commencement of President Trump's second term. HBRC must be mindful their strategy on investments is a long-term one, therefore returns are assessed on a rolling 5-year average.
33. 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 December 2024.

	30 June 2023	30 June 2024	31 Dec 2024
Fund Balances HBRC	\$000	\$000	\$000
Fund Balance HBRC	110,828	118,722	128,093
Capital Protected Amount HBRC (2% compounded since inception, increasing to 2.5% from 1 July 2024)	115,895	118,890	120,376
Current HBRC value above/(below) capital protected amount	(5,067)	(168)	7,717
Funds Balances (HBRC + HBRIC)			
Long-Term Investment Fund (HBRC)	48,400	51,847	55,957
Future Investment Fund (HBRC)	62,428	66,875	72,136
Total HBRC	110,828	118,722	128,093
Plus HBRIC Managed Funds (FIF)	45,638	48,854	53,098
Total Group Managed Funds	156,466	167,576	181,191
Capital Protected Amount (2%/2.5% from 1 July 2024 compound inflation)	164,798	169,343	171,466
Current group value above/(below) protected amount	(8,332)	(1,768)	9,725



Cost of funds

34. Rolling 12 months to 31 December 2024, Gross Cost of Funds (COF), interest spend, was \$4.3m and 4.12% of the average debt in the last 12 months, while Net COF after offsetting interest received was \$4.0m equating to 3.88%.

HBRIC Ltd

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

Decision-making process

36. 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:
- 36.1. 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:
 - 36.1.1. Review the Council’s revenue and expenditure policies, amongst others, and the effectiveness of those policies in ensuring limited risk is generated. (1.3)
 - 36.2. 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 October – 31 December 2024*.

Authored by:

Tracey O’Shaughnessy
Treasury & Investments Accountant

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

12 February 2025

Item 7

Subject: Confirmation of Public Excluded Minutes

That the Risk and Audit Committee excludes the public from this section of the meeting being Confirmation of Public Excluded Minutes Agenda Item 7, 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	Grounds under section 48(1) for the passing of the resolution	Reason for passing this resolution
Legal update	s7(2)(g) Excluding the public is necessary to prevent disclosure of information that is legally privileged.	<p>The matters being discussed may potentially be the subject of litigation and the Council has engaged legal advisors to provide advice on associated issues.</p> <p>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.</p>

Authored by:

Leeanne Hooper
Team Leader Governance

Approved by:

Desiree Cull
Strategy & Governance Manager

Hawke's Bay Regional Council

Risk and Audit Committee

12 February 2025

Item 8

Subject: Legal update

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

General subject of the item to be considered	Grounds under section 48(1) for the passing of the resolution	Reason or rationale for passing this resolution, including how the public interest has been considered
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:

Matt McGrath
Chief Legal Advisor

Approved by:

Susie Young
Group Manager Corporate Services