



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL



Risk and Audit Committee Meeting Agenda

Thursday, 3 September 2020

9:00am

Council Chamber,

28-32 Ruataniwha Street, Waipawa

Together we Thrive! E ora ngātahi ana!

Order Of Business

1	Apologies	3
2	Declarations of Conflicts of Interest.....	3
3	Standing Orders.....	3
4	Confirmation of Minutes.....	3
5	Report Section	10
5.1	Insurance Update and Visit from AON New Zealand	10
5.2	Adoption of Risk and Assurance Work Programme	27
5.3	Health and Safety Update Report #3.....	32
5.4	Risk Status Update Report.....	43
5.5	Governance Policies - Risk and Assurance Update	48
5.6	Treasury Management Policy.....	54
6	Date of Next Meeting	86
7	Time of Closure.....	86

- 1 **APOLOGIES**
- 2 **DECLARATIONS OF CONFLICTS OF INTEREST**
- 3 **STANDING ORDERS**

RECOMMENDATION

THAT the following standing orders are suspended for the duration of the meeting:

- 20.2 Time limits on speakers
- 20.5 Members may speak only once
- 20.6 Limits on number of speakers

And that Option C under section 21 General procedures for speaking and moving motions be used for the meeting.

Standing orders are recommended to be suspended to enable members to engage in discussion in a free and frank manner.

- 4 **CONFIRMATION OF MINUTES**

Risk and Audit Committee Meeting - 21 July 2020

RECOMMENDATION

That the minutes of the Risk and Assurance Committee Meeting held 21 July 2020 and as circulated be confirmed as true and correct.

**MINUTES OF CENTRAL HAWKES BAY DISTRICT COUNCIL
RISK AND AUDIT COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBER, 28-32 RUATANIWHA STREET, WAIPAWA
ON TUESDAY, 21 JULY 2020 AT 9:00AM**

PRESENT: Mr Neil Bain (Chair)
Cr Tim Aitken
Cr Gerard Minehan
Cr Brent Muggeridge
Cr Jerry Greer

IN ATTENDANCE: Monique Davidson (Chief Executive)
Joshua Lloyd (Group Manager, Community Infrastructure and Development)
Brent Chamberlain (Chief Financial Officer)
Bridget Gibson (Governance Support Officer)

Streamed live to the public via Zoom and Facebook.

1 APOLOGIES

APOLOGY

COMMITTEE RESOLUTION

Moved: Cr Tim Aitken

Seconded: Cr Brent Muggeridge

That the apologies for absence from Mayor Walker be accepted.

CARRIED

2 DECLARATIONS OF CONFLICTS OF INTEREST

Nil.

3 STANDING ORDERS

COMMITTEE RESOLUTION

Moved: Cr Gerard Minehan

Seconded: Cr Jerry Greer

THAT the following standing orders are suspended for the duration of the meeting:

- 20.2 Time limits on speakers
- 20.5 Members may speak only once
- 20.6 Limits on number of speakers

And that Option C under section 21 General procedures for speaking and moving motions be used for the meeting.

Standing orders are recommended to be suspended to enable members to engage in discussion in a free and frank manner.

CARRIED

4 CONFIRMATION OF MINUTES**COMMITTEE RESOLUTION**

Moved: Cr Tim Aitken

Seconded: Cr Brent Muggeridge

That the minutes of the Risk and Audit Committee Meeting held on 14 May 2020 as circulated, be confirmed as true and correct.

CARRIED

5 REPORT SECTION**5.1 RESOLUTION MONITORING REPORT****PURPOSE**

The purpose of this report is to present to the Committee the Risk and Assurance Committee Resolution Monitoring Report. This report seeks to ensure the Committee has visibility over work that is progressing, following resolutions from Council.

COMMITTEE RESOLUTION

Moved: Cr Gerard Minehan

Seconded: Cr Brent Muggeridge

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

CARRIED

5.2 RISK STATUS REPORT**PURPOSE**

The purpose of this paper is to report to the Risk and Assurance Committee (the Committee) on Councils risk landscape, risk management work in progress and to continue a discussion with the Committee about risk.

COMMITTEE RESOLUTION

Moved: Cr Gerard Minehan

Seconded: Cr Tim Aitken

That, having considered all matters raised in the report, the report be noted.

CARRIED

5.3 FORECAST OF THE IMPACT OF COVID ON THE 2020/21 FINANCIAL YEAR

PURPOSE

The purpose of this report is to provide Councillors with a forecast of the expected impact of Covid-19 and Drought on the 2020/21 financial year.

COMMITTEE RESOLUTION

Moved: Cr Gerard Minehan
Seconded: Cr Brent Muggeridge

That, having considered all matters raised in the report, the report be noted.

CARRIED

Mr Chamberlain presented the report.

That updates on the financial impact of Covid-19 and the drought on the 2020/21 financial year be a standing item on the Risk and Assurance Committee agenda.

Noted that at the beginning of lockdown the Council delegated authority to CE up to \$200,000 to manage the response to Covid-19/drought response. This money has been allocated. Due to uncertainty of a second wave or further lockdowns, the possible financial impacts need to be considered and planned for.

5.4 HEALTH AND SAFETY STATUS REPORT

PURPOSE

To provide the Committee with health, safety and wellbeing information and insight up to the end of June 2020 and to update the Committee on key health and safety risks and initiatives.

COMMITTEE RESOLUTION

Moved: Cr Brent Muggeridge
Seconded: Cr Tim Aitken

That, having considered all matters raised in the report, the report be noted.

CARRIED

Mr de Klerk presented the report. Report serves as an internal assurance metric.

The Committee continue to work with management to tailor the health and safety report to the Council's needs.

5.5 HEALTH, SAFETY AND WELLBEING POLICY STATEMENT

PURPOSE

To update the Risk and Assurance Committee on the progress of a key policy document in relation to health, safety and wellbeing leadership and commitment at a management level and seek endorsement in conjunction with the governance charter presented for adoption.

COMMITTEE RESOLUTION

Moved: Cr Tim Aitken

Seconded: Cr Jerry Greer

That, having considered all matters raised in the report, the report be noted and the committee endorse the Health, Safety and Wellbeing Policy Statement.

CARRIED

Mr De Klerk presented the report.

The Chair state that Committee and Management constantly need to ensure they are focused on critical risk, and that staff are educated on those risks in regards to their safety and the Health and Safety Committee are engaged here.

5.6 HEALTH, SAFETY AND WELLBEING GOVERNANCE CHARTER

PURPOSE

To update the Risk and Assurance Committee on the progress of a key policy document in relation to health and safety governance and seek adoption in conjunction with the policy statement presented for endorsement.

COMMITTEE RESOLUTION

Moved: Cr Brent Muggeridge

Seconded: Cr Tim Aitken

That having considered all matters raised in the report:

- a) The Committee adopt the Health, Safety and Wellbeing Governance Charter.
- b) That Councillor Aitken sign the Charter on behalf of the Council/Committee.

CARRIED

Mr De Klerk presented the report.

Meeting adjourned for morning break at 10:05am

Meeting resumed at 10.20am

5.7 INSURANCE RENEWALS

PURPOSE

The purpose of this report is to provide Councillors with an update on Councils insurance renewal process.

COMMITTEE RESOLUTION

Moved: Cr Tim Aitken

Seconded: Cr Gerard Minehan

That, having considered all matters raised in the report, the report be noted.

CARRIED

Mr Chamberlain presented the report taking it as read.

Officers to provide a summary matrix of policies in place and costs of insurance renewals and assess that the level of cover is adequate for risks going forward.

Premiums outside of liability insurance have been maintained on above ground assets despite premium increases as a result of Covid-19.

Council is in the process of updating Asset Management Plans in line with insurance renewals dates.

RESOLUTION TO EXCLUDE THE PUBLIC

1. COMMITTEE RESOLUTION

2. Moved: Cr Brent Muggeridge

3. Seconded: Cr Gerard Minehan

4. That the public be excluded from the following parts of the proceedings of this meeting.

5. The general subject matter of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
6.1 - Procurement Activity and Structure, and Procurement Policy Refresh	s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7

6.

7. CARRIED

6 DATE OF NEXT MEETING

THE next meeting of the Central Hawke's Bay District Council be held on 3 September 2020.

7 TIME OF CLOSURE

The Meeting closed at 11.11am.

The minutes of this meeting were confirmed at the Risk and Audit Committee Meeting held on 3 September 2020.

.....

CHAIRPERSON

5 REPORT SECTION

5.1 INSURANCE UPDATE AND VISIT FROM AON NEW ZEALAND

File Number:

Author: Brent Chamberlain, Chief Financial Officer

Authoriser: Monique Davidson, Chief Executive

Attachments: 1. AON Presentation [↓](#)

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

PURPOSE

The purpose of this paper is to provide an update on Council's Insurance Policies, and to receive an update from Councils insurance broker.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

At the July Risk and Assurance Committee meeting, the Committee was informed that Central Hawkes Bay District Council has joined with the other Hawkes Bay Councils and Manawatu/Wanganui LASS and BOP/Waikato LASS to run a procurement process for a new insurance broker and that AON New Zealand was the successful tenderer.

This has also meant that the 5 Hawkes Bay Councils will need to change their renewal dates for Above Ground Material Damage and Liability insurances going forward to align with the other LASS's (1st November renewal dates – historically 1st July). Central Hawkes Bay District Council has recently renewed its above ground material damage policies for a four-month period covering July-October 2020.

DISCUSSION

Following the recent renewal below is a table of Councils current cover:

Insurance Type	Cover	Value of Cover	Excess	Period of Cover
Travel		Various	\$100 for Medical, Loss of deposits & Baggage \$250 for Electronic Equipment	01/07/20 – 01/11/20
Business Interruption		Additional Expenses (Shared Limit) - \$ 20,000,000 Claims Preparation costs (Shared Limit) – \$ 100,000	Following damage under the Material Damage policy – Combined MD/BI excess	01/07/20 – 01/11/20
Crime		Any one claim and in the aggregate \$1,000,000	\$25,000	01/07/20 – 01/11/20
Employers, Statutory, and Hall Hirers		Employers Liability - \$1,000,000 Statutory Liability - \$4,000,000 Hall Hirers - \$ 5,000,000	Employers Liability - \$10,000 Statutory Liability - \$5,000 Hall Hirers - \$ 500	01/07/20 – 01/11/20

Insurance Cover Type	Value of Cover	Excess	Period of Cover
Material Damage - Residential	\$6,992,000	\$10,000	01/07/20 – 01/11/20
Material Damage – Non Residential Buildings	\$73,728,979	\$5,000	01/07/20 – 01/11/20
Material Damage – Underground Assets	\$167,474,315 Total declared value \$300,000,000 Programme Limit of liability (in 100% Terms) \$30,000,000 Loss limit for CHBDC (In 100% Terms)	\$250,000 (100% Terms)	01/11/19 - 01/11/20
Motor Vehicle	Market Value	\$10,000	01/07/20 – 01/11/20
Public Liability & Professional Indemnity	Per occurrence and in the aggregate for Products \$300,000,000 AUD	\$5,000	01/07/20 – 30/06/2021
Environmental Liability (gradual release of pollutants)	\$1,000,000	\$25k excess increasing to \$100k in respect of sewerage/wastewater treatment plant	01/07/20 – 30/06/2021

Attending the meeting will be Matthew Wilson, National Client Relationship Manager – Aon Local Government Risk Practice; Deanna Macdonald, Operations Manager – Aon Local Government Risk Practice; Richard Harrison, Account Manager – Aon Local Government Risk will be presenting to the Committee covering the following topics (powerpoint attached):

- Who is Aon
- Global Market Conditions
- Overview of Insurance Market and Trends
- Local Market Conditions
- Cost of Natural Disasters
- Shared Procurement - Benefits of Learnings from 2019
- Insurance Strategy
- Current programme
- Emerging Risks
- Questions

Following the presentation, Council Officers will take advice from the Risk and Assurance Committee on additional work or expectations related to the upcoming Insurance Renewals.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;

- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.



Audit and Risk Committee Meeting

3 September 2020

Matthew Wilson, National Client Relationship Manager – Aon Local Government Risk Practice
Deanna Macdonald, Operations Manager – Aon Local Government Risk Practice
Richard Harrison, Account Manager – Aon Local Government Risk Practice

Copyright Aon New Zealand 2020. Private and confidential. All rights reserved.



Agenda

- Welcome
- Who is Aon
- Global Market Conditions
- Overview of Insurance Market and Trends
- Local Market Conditions
- Cost of Natural Disasters
- Hawke's Bay Councils – Shared Procurement
- Insurable Risk Profiling Workshop
- Insurance Strategy
- Current Issues
- Emerging Risks
- Questions

Copyright Aon New Zealand 2020. Private and confidential. All rights reserved



Who Is Aon?

- Broker to 70 councils in varying capacity
- Aon Local Government Risk Practice Group act as an independent advocate with insurers, negotiating on council behalf
- Over 15 years experience in Local Government sector
- Place cover for over NZD40bn worth of assets nationally
- Range of policies for council's including aviation, marine, cyber, environmental, material damage, commercial motor, travel, liabilities and other bespoke policies
- Provide independent advice, tailoring insurance programme requirements to council's needs
- Risk profiling and management services
- Insurance and reinsurance brokerage
- Loss modelling, valuations and claims management



Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Aon Local Government Risk Practice Leadership Team



Stephen Kane
Head of Local Government Risk Practice



Paul McKay
New Business / Placement



Matthew Wilson
Client Relationship Manager



Deanna Macdonald
Operations Manager



Shane Twemlow
Programme Design & Placement



Sam Ketley
Innovation & Client Solutions



Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Global Market Conditions

2019: Major humanitarian impacts; manageable financial costs

Economic losses
USD232 billion
3% below average (21st Century)

Insured losses
USD71 billion
6% above average (21st Century)

 **Two costliest insurance events** occurred in Japan

 **409**
total natural disaster events

51%
of global insured losses were recorded in the United States

41
billion-dollar economic loss events

12
billion-dollar insured loss events

10+ million hectares
Area burned by wildfires in Russia

69%
global protection gap

18.6+ million hectares
Area burned by wildfires in Australia

1,750
fatalities from the Indian monsoon floods – the deadliest disaster of 2019

2 million people
displaced in Africa following Cyclones Idai & Kenneth

185 mph
(295 kph)
Hurricane Dorian landfall in The Bahamas; tied with the 1935 Labor Day Hurricane as the strongest landfalling storm on record in the Atlantic Ocean

+0.95°C (1.71°F)
Above the 20th Century Average
Second warmest year on record for land & ocean temperatures since 1851

 **New all-time temperature record set**
46.0°C (114.8°F) in France
42.6°C (108.7°F) in Germany

15.71 inches
(399 millimeters)
Wettest January to May U.S. rainfall average on record since 1895

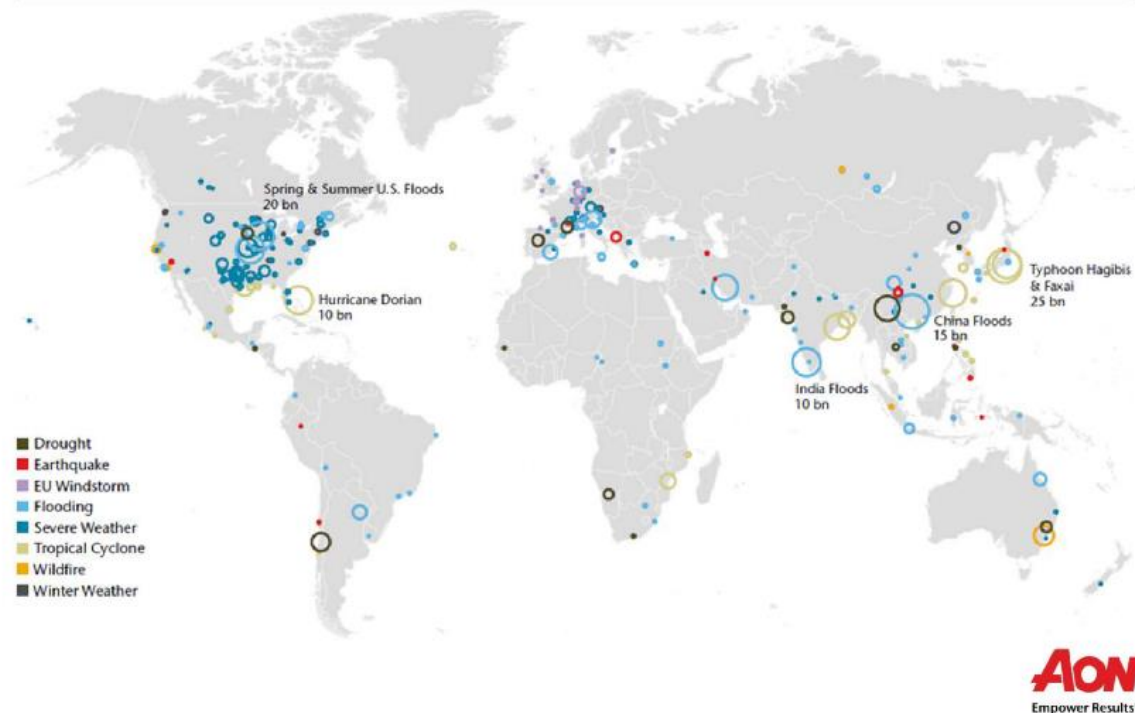
Aon
Empower Results®

Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Overview of Insurance Market and Trends

- Overseas insurers/reinsurers continue to be impacted by major catastrophic events
- Economic losses from natural disasters topped USD232billion in 2019 – bringing to a close the costliest decade for natural disasters
- 2019 saw 41 events that caused upwards of USD1billion in economic losses and 12 events that led to USD1billion of insured losses

Exhibit 2: Significant 2019 Economic Loss Events¹



Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Local Market Conditions

- NZ insurance market continues to harden
- Premium increases across all classes
- Property increases generally driven by weather/natural disaster exposures
- Pressure on reinsurance markets and capital available globally flowing through to NZ markets
- Liability markets are facing increased pressure globally and nationally, especially in Professional Risks.
- Class Action suits are increasing are affecting these markets



Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Cost of Natural Disasters

2020	Southland Flooding	03 - 08	February	Flood	29.64
2019	Nationwide Storm & Southern Lakes Floods	03 - 12	December		15.29
2019	Timaru Hail Storm	20	November		130.7
2019	Christchurch Tornado	18	November		4.04
2019	Taranaki and Auckland Storms	10 - 13	August		7.9
2019	West Coast Wind and Flooding	26 - 27	March		4.09
2019	Tasman District fires	05 - 23	February		3.98
2018	New Plymouth-Whakatāne tornadoes	20	August		2.9
2018	Northland-Bay of Plenty flooding	14 - 15	July		3.7
2018	Gisborne-Hawke's Bay flooding	11 - 12	June		4
2018	Upper North Island-Hawke's Bay flooding	03 - 04	June		4.3
2018	Nationwide severe weather including flooding in Rotorua	27 - 29	April		21.3
2018	Severe weather including tornadoes	10 - 11	April		74.4
2018	Ex-Tropical Cyclone Gita	20	February		35.6
2018	Cyclone Fehi	01	February		45.9
2018	Nationwide severe weather	04 - 07	January		34.2

Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Shared Procurement

- Benefits from Economies of Scale
- Collective appointment of broker
- Changes to the structure of insurance
- Access to additional markets both domestically and offshore
- Greater ability to negotiate specialist covers/policy enhancements
- Mitigation of claims impacts on pricing
- Collective approach to loss modelling
- Sharing of information and learnings
- Improvement of valuation data
- Communicating the proactive management of assets and risks
- Understanding underwriters / their requirements / ensuring they have the right data



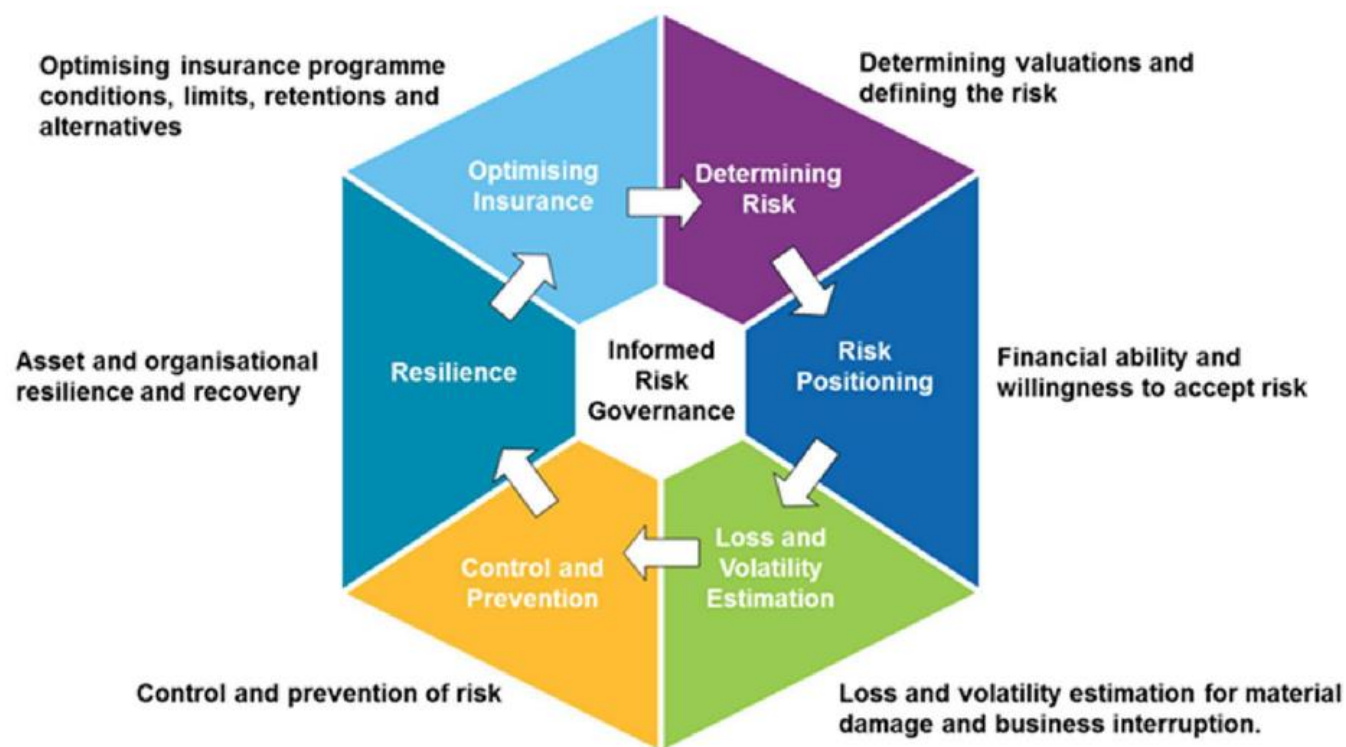
Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Insurable Risk Profiling

- Part of Tender Response
- Scope includes aspects of Risk Management
- Individual Council basis – workshop
- “Gold Standard” comparison



Insurance Strategy



Emerging Risks

- Drones, robotics and artificial intelligence
- Cyber terrorism
- Non-damage business interruption
- Climate change
- Foodborne illnesses
- Catastrophic animal diseases

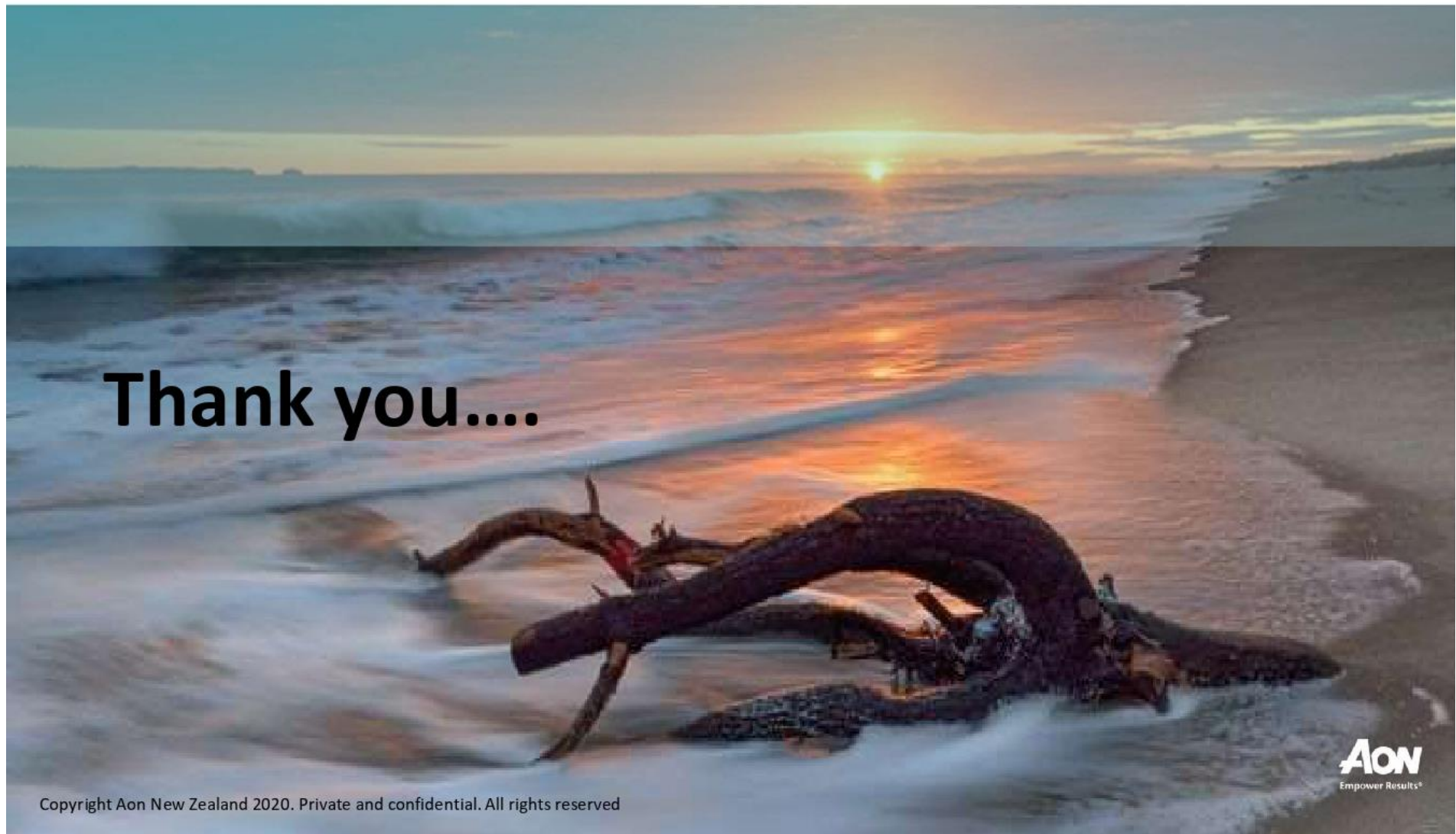


Copyright Aon New Zealand 2020. Private and confidential. All rights reserved

Questions



Copyright Aon New Zealand 2020. Private and confidential. All rights reserved



5.2 ADOPTION OF RISK AND ASSURANCE WORK PROGRAMME

File Number: COU1- 1408
Author: Monique Davidson, Chief Executive
Authoriser: Monique Davidson, Chief Executive
Attachments: Nil

PURPOSE

The purpose of this report is for the Risk and Assurance Committee to consider the adoption of a work programme for the next 12 months.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.
That the Risk and Assurance Committee endorse the presented work programme.

SIGNIFICANCE AND ENGAGEMENT

While this report is provided for information, it also seeks a decision from the Committee that the work programme be endorsed. This decision does not trigger significance therefore engagement on the matter is not required.

BACKGROUND

In 2019 following the Triennial Election, Council established a Risk and Assurance Committee, which included the appointment of an Independent Chair.

At the time that Council agreed on Council and Committee priorities, the Risk and Assurance Committee had not been fully established, therefore a formal work programme was not determined.

At the Risk and Assurance Committee meeting in late June 2020, the Chief Executive following guidance from the Independent Chair, presented a Draft Risk and Assurance Work Programme for feedback.

Following feedback from the committee, this report now presents a work programme for endorsement.

DISCUSSION

The purpose of the Risk and Assurance Committee is to contribute to improving the governance, performance and accountability of the Central Hawke's Bay District Council by:

- Ensuring that the Council has appropriate financial, health and safety, risk management and internal control systems in place.
- Seeking reasonable assurance as to the integrity and reliability of the Council's financial and non-financial reporting.
- Providing a communications link between management, the Council and the external and internal auditors and ensuring their independence and adequacy.
- Promoting a culture of openness and continuous improvement.

The Council delegates to the Risk and Assurance Committee the following responsibilities:

- To monitor the Council's treasury activities to ensure that it remains within policy limits.
Where there are good reasons to exceed policy, that this be recommended to Council.
- To review the Council's insurance policies on an annual basis.
- To review, in depth, the Council's annual report and if satisfied, recommend the adoption of the annual report to Council.
- To work in conjunction with Management in order to be satisfied with the existence and quality of cost-effective health and safety management systems and the proper application of health and safety management policy and processes.
- To work in conjunction with the Chief Executive in order to be satisfied with the existence and quality of cost-effective risk management systems and the proper application of risk management policy and processes, including that they align with commitments to the public and Council strategies and plans.
- To provide a communications link between management, the Council and the external and internal auditors.
- To engage with Council's external auditors and approve the terms and arrangements for the external audit programme.
- To engage with Council's internal auditors and approve the terms and arrangements for the internal audit programme.
- To monitor the organisation's response to the external and internal audit reports and the extent to which recommendations are implemented.
- To engage with the external and internal auditors on any one off assignments.
- To work in conjunction with management to ensure compliance with applicable laws, regulations standards and best practice guidelines.
- To provide a communications link between management, the Council and the external and internal auditors.
- To engage with Council's external auditors and approve the terms and arrangements for the external audit programme.
- To engage with Council's internal auditors and approve the terms and arrangements for the internal audit programme.
- To monitor the organisation's response to the external and internal audit reports and the extent to which recommendations are implemented.
- To engage with the external and internal auditors on any one off assignments.
- To work in conjunction with management to ensure compliance with applicable laws, regulations standards and best practice guidelines.

Subject to any expenditure having been approved in the Long Term Plan or Annual Plan the Risk and Assurance Committee shall have delegated authority to approve:

- Risk management and internal audit programmes.
- Terms of the appointment and engagement of the audit with the external auditor.
- Additional services provided by the external auditor.
- The proposal and scope of the internal audit.

In addition, the Council delegates to the Risk and Assurance Committee the following powers and duties:

- The Risk and Assurance Committee can conduct and monitor special investigations in accordance with Council policy, including engaging expert assistance, legal advisors or external auditors, and, where appropriate, recommend action(s) to Council.

The Risk and Assurance Committee can recommend to Council:

- Adoption or non-adoption of completed financial and non-financial performance statements.
- Governance policies associated with Council's financial, accounting, risk management, compliance and ethics programmes, and internal control functions, including the: Liability Management Policy, Treasury Policy, Sensitive Expenditure Policy, Fraud Policy, and Risk Management Policy.
- Accounting treatments, changes in generally accepted accounting practice (GAAP).
- New accounting and reporting requirements.

The Risk and Assurance Committee may not delegate any of its responsibilities, duties or powers.

The Risk and Assurance Committee is still developing, as is the maturity of the organisation in the way it manages risk and assurance matters. It is for these reasons that a 12-month work programme is presented, with the intention in early 2021 to develop a 2-year work programme that will take Council through until the end of 2022, which also aligns with the triennial election.

The work programme is presented as follows, and aims to ensure that the committee are meeting its terms of reference and responsibilities:

Standing Items	<ul style="list-style-type: none"> • Committee Priorities Monitoring Report • Committee Resolution Monitoring Report • Internal and External Audit Monitoring Report • Health and Safety Monitoring Report • Treasury Management Monitoring Report • Risk Status Report 			
	Q3 2020 * Adoption of Q3 2020 – Q2 2021 work programme.	Q4 2020	Q1 2021 * Deep dive 2-year work programme.	Q2 2021
Annual Report and External Audit	Review Annual Report and recommend adoption to Council *Audit only time	Debrief Annual Report and monitor audit actions	Monitor audit actions	Engagement letter and statement of intent for Annual Report 2020/2021
Insurance	Deep dive Insurance – set work programme for insurance.			
Treasury Management	Review Treasury Management Policy	Monitor Treasury Management	Monitor Treasury Management	Monitor Treasury Management
Risk Management			Review Risk Appetite Statement, Risk Management Policy and Governance Risk Register.	
Internal Audit	Monitor audit actions	Review Annual Internal Audit Work Programme	Monitor audit actions	Monitor audit actions
Legal		Deep dive Legal – Overview of open Council files and legal risk for Council		
Policy	Deep dive Policy – overview of current policies and review programme – set work programme for committee. Review any bundled policies required for Long Term Plan 2021-2031.	Review Sensitive Expenditure Policy	Review Fraud and Whistle Blowing Policy.	Review Procurement Policy
Health and Safety		Deep Dive into Critical Risks	Deep Dive Key Contractor Performance	Review Health, Safety and Wellbeing Governance Charter

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

NEXT STEPS

Should the Committee endorse the work programme, a monitoring report will be developed and reported to the committee at each meeting. The work programme will also form a basis for expectations on what is developed for each agenda.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

That the Risk and Assurance Committee endorse the presented work programme.

5.3 HEALTH AND SAFETY UPDATE REPORT #3

File Number: COU1- 1408

Author: Darren de Klerk, 3 Waters Programme Manager

Authoriser: Monique Davidson, Chief Executive

Attachments: 1. Health and Safety Update Report 3 [↓](#)

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

PURPOSE

To provide the Committee with health, safety and wellbeing information and insight up to the end of July 2020 and to update the Committee on key health and safety risks and initiatives.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

Elected members, as 'Officers' under the Health and Safety at Work Act 2015 (HSWA), are expected to undertake due diligence on health and safety matters.

The Health and Safety at Work Act 2015 came into law on 4th April 2016. It requires those in governance roles and senior management to have a greater understanding of their organisation's health and safety activities.

Under the Health and Safety at Work Act 2015, all elected members are deemed 'officers' and must exercise a duty of due diligence in relation to health and safety. These quarterly reports provide information to assist elected members to carry out that role and provides the health and safety information it needs to be aware of to meet its responsibilities under the Act.

DISCUSSION

The attached Health and Safety Status Report is a shortened version of the report delivered in late July 2020, this is due to the shortened timeframe between committee meetings, and the reporting and insights scheduled to be provided at the end of each quarter.

Officers are currently focussed on developing the critical risks identified in relation to the activities Council undertakes and these are a top priority in the immediate health and safety work programme in conjunction with implementing new safety software to provide greater insight and enable the maturity and progression of our health and safety culture.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;

- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

NEXT STEPS

To continue to develop the programme of improvements across the safety sphere and develop the critical risk into an action plan.

The other major piece of work in the programme is the implementation and roll out of our new safety system - RiskManager

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.



Risk and Assurance Committee

Health and Safety Report Interim Update 03 Sep 2020



Central Hawke's Bay District Council – Health and Safety Report #3

1

Author: Darren de Klerk

Date: September 2020



Contents

OVERVIEW	3
HEALTH AND SAFETY - CRITICAL RISKS	4
HEALTH AND SAFETY INITIATIVES	5
GAP ANALYSIS PROJECT	7
HEALTH AND WELLBEING	8
APPENDICES	9
None	9



OVERVIEW

This is a shortened update as they Q2 update was delivered at the end of July 2020, and covered the period from April to June 2020. The Q3 instalment will be delivered at the meeting following the end of September 2020 when the Quarter has finished.

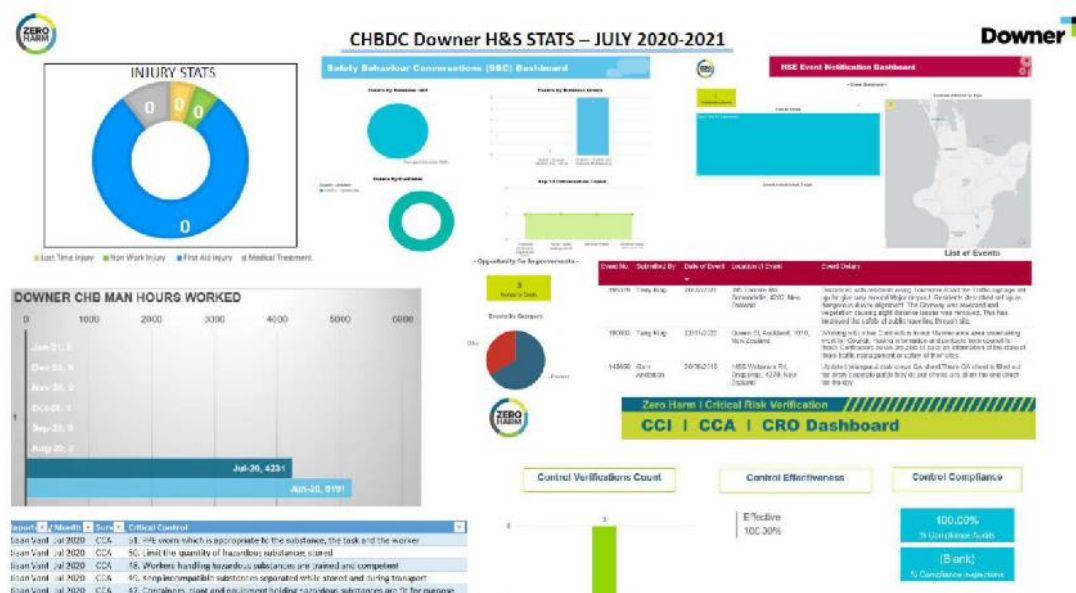
That being said, this update will focus on a brief update on the improvements the team is working on.

The safety team is currently working on a raft of improvements including the development of critical risk within the organisation – during the month of August the team has rolled out and undertaken 'bow-tie' workshops with approx 60 staff, contractors and key partners to better understand our greatest risks and how we currently and could better control these risks.

Further to these improvements, we are in the midst of rolling out our new safety system 'RiskManager' – this is on track to be rolled out by mid September, and will replace the two systems we currently use in PeopleSafe and Safe 365.

We are also currently trialling vehicle GPS in our vehicles to improve our ability to have oversight and control the risk associated with driving, and also as a control in our working alone risk space – this is envisaged to be rolled out wider and be used in conjunction with lone worker devices and radio transmittal units

Lastly, we are working with our operational and project contractors to improve the type of reporting we receive to focus on leading indicators as much as possible.



All in all, a busy area for improvements – where we expect to see these improvements come through to completion later in 2020.

The addition of a new Health and Safety Advisor in early August also helps support the improvements we are making and allows council to sustainably continue our improvement journey.



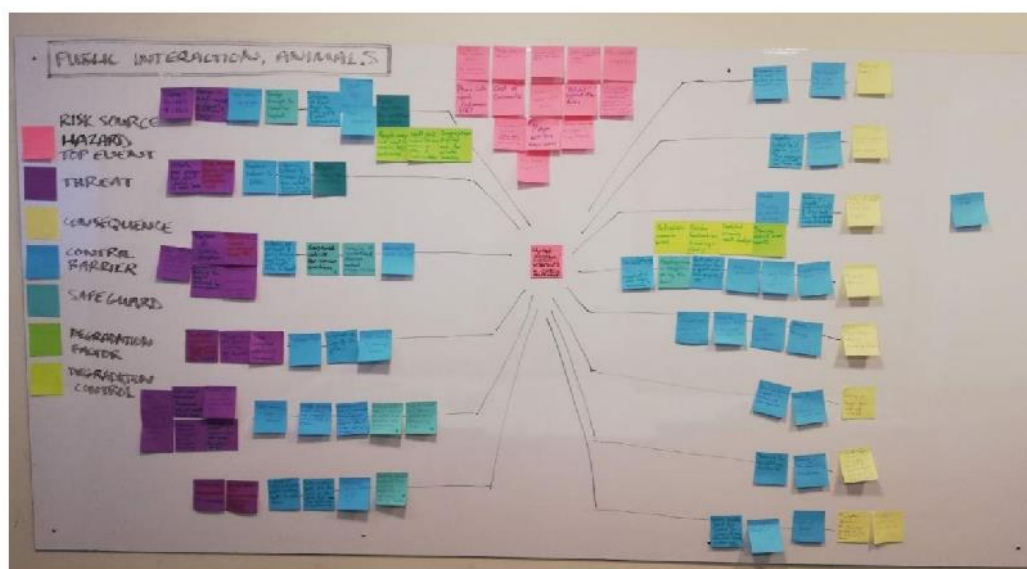
HEALTH AND SAFETY - CRITICAL RISKS

Critical Risks were identified as one of our most important recommendations following the gap analysis – work has commenced in identifying our critical risks – these are outlined below.

Our next step will be to workshop each of these critical risks with a key working party to understand the risk in greater detail, understand the controls in place, and the controls we need to implement to bridge any gaps – from there we will regularly audit and review each Critical Risk.

A Critical Risk is described as: *Any hazard or risk where if control is lost the consequence has the potential to be one or more fatalities, critical risks can include those with the potential to cause death in the future (i.e. health risks), not just immediately (i.e. safety risks).*

The gap analysis identified the following Critical Risks for Council, where following a workshop in December 2019, Council officers identified the following critical risks, work is now required to refine the list and develop each risk accordingly. Workshops are scheduled for August 2020 to undertake bow-tie assessments of each critical risk.

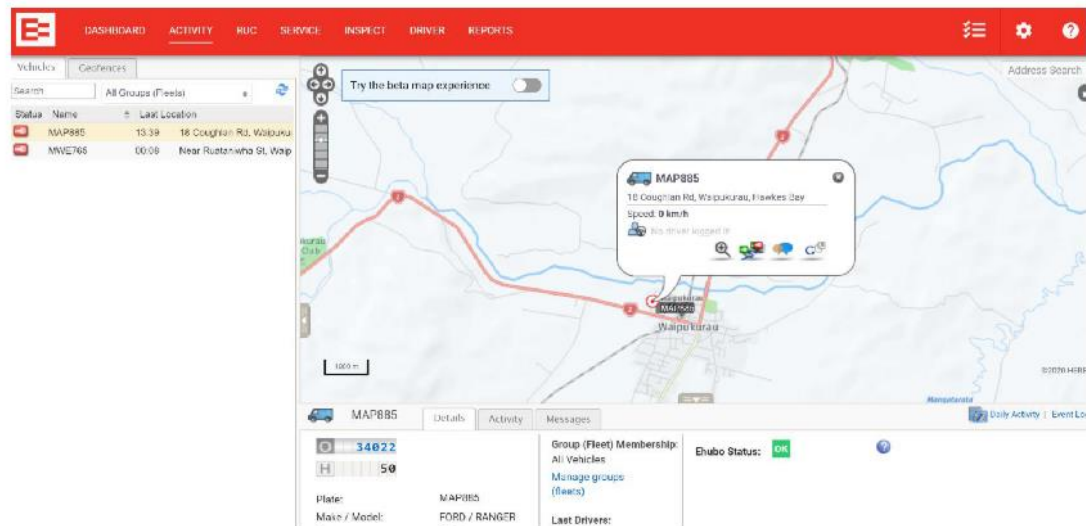




HEALTH AND SAFETY INITIATIVES

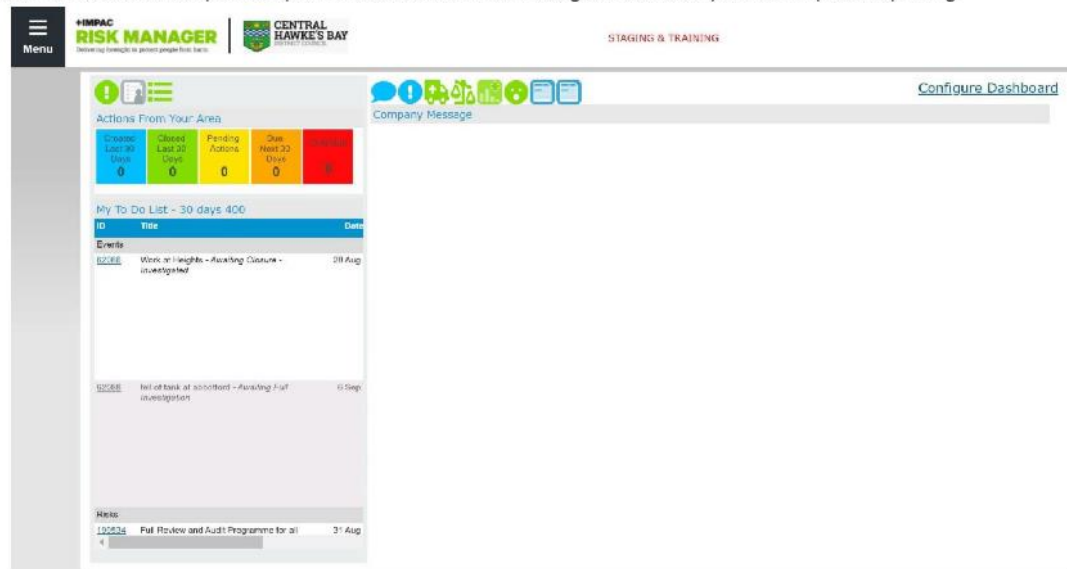
In addition to the work underway through the gap analysis project, the health and safety team are working on the following projects to improve our safety systems, and to improve the safety culture at CHBDC.

Lone Worker/ Driver Behaviour – a project is underway with budget from July 2020 to improve our lone worker safety system to ensure our staff working alone are adequately supported. This includes provision to investigate driver behaviour and vehicle monitoring to complement staff travelling and to ensure we adequately manage this critical risk. A trial is set to commence on two animal control vehicles in the next 4 weeks, before the approval for full scale implementation.



Health and Safety System Review – the safety system council currently uses is no longer fit for purpose, and we are currently investigating replacing our system with one that can support our improvement journey and the need to report better and in a more user friendly, as well as capture the data to provide greater oversight to governance.

Reporting System – we acknowledge our reporting culture is low, and this is a large and important part of our safety improvement journey, which needs to be supported by a system that allows our staff to report easily, and our support team to feedback. We plan to upskill and educate our staff alongside the new system to improve reporting.



Safety Alerts – we propose to implement the sharing of good and bad stories via alerts, these could be from internal events, accidents or near misses or from our contracting partners.

**Date:**

21 May 2020

Hazard Title:

Risk of Slip entering Staffroom

What Happened:

A slippery surface on the stairs entering the Central Hawkes Bay District Council staffroom has been identified as a risk to all staff entering the staffroom.

The slippery surface poses the potential to cause harm if a person were to slip or fall, and could result in an injury.

Actions to be taken:

The stairs will require a water blast, moss n mold treatment and need new grip applied. Including new stair edging to prevent further trip hazards from mesh or carpet curling

Interim measures:

In the interim until the permanent fix is applied, please take extra care when entering and exiting the staffroom.



Please continue to report Safety Observations, Near Misses, Risks, Hazards, Incidents or Injuries.

Safety Observations, Near Misses, Risks or Hazards serve as lessons for us all and prevent a potential injury or incident to your workmate, one of our partners, or a member of the community.

Reporting can be done through the PeopleSafe App, Safe 365 App, to an H&S Committee member or directly to the H&S team.

For any further information please contact;

Ben Hunt: ben.hunt@chbdc.govt.nz or Darren de Klerk: darren.deklerk@chbdc.govt.nz

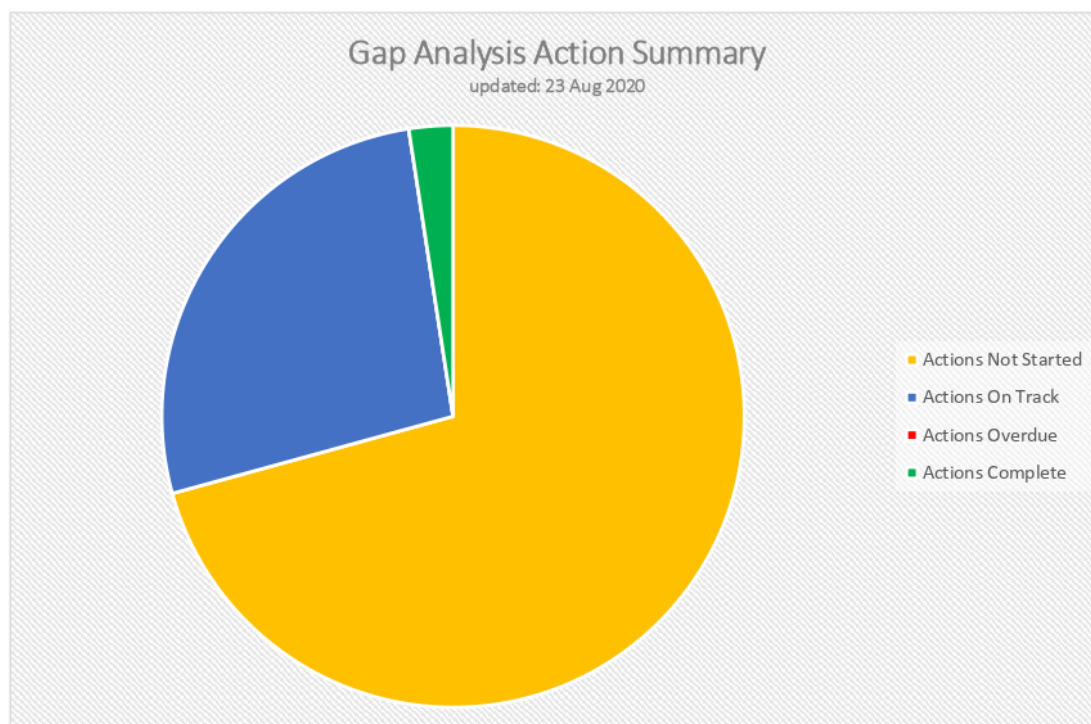


GAP ANALYSIS PROJECT

The gap analysis project identified 11 key areas for improvement and a total of 82 recommendations to implement to improve our health and safety system and maturity. A project has been implemented to deliver on these recommendations.

We propose to report the progress on these deliverables to this committee.

	Recommendations by Group	No. Of Actions	Actions Not Started	Actions On Track	Actions Overdue	Actions Complete
1	Policy, Planning, Resources and Responsibilities	6	3	1	0	2
2	Leadership and Worker Engagement	3	0	3	0	0
3	Governance Reporting and Activity	4	2	2	0	0
4	Hazard and Risk Management	6	1	5	0	0
5	Information, Training and Supervision	3	2	1	0	0
6	Managing Contractors, and Visitors	5	3	2	0	0
7	Incident Management	3	2	1	0	0
8	Health and Wellness	4	3	1	0	0
9	Emergency Management	2	1	1	0	0
10	Audit and Review	4	1	3	0	0
11	Critical Risk Management	42	40	2	0	0
	TOTAL	82	58	22	0	2

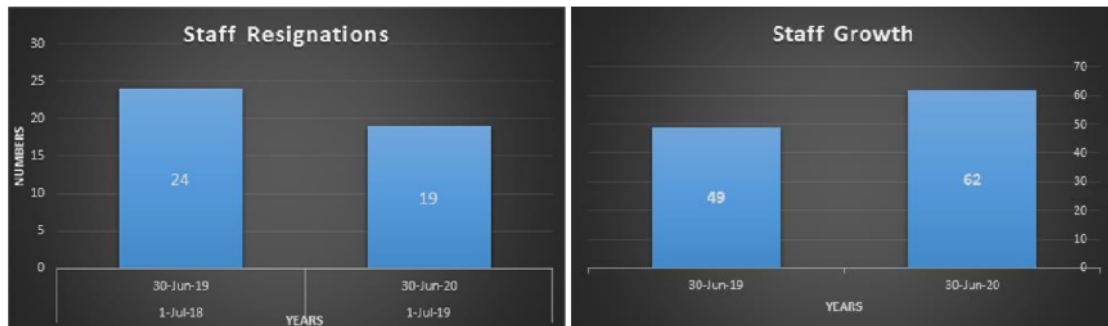




HEALTH AND WELLBEING

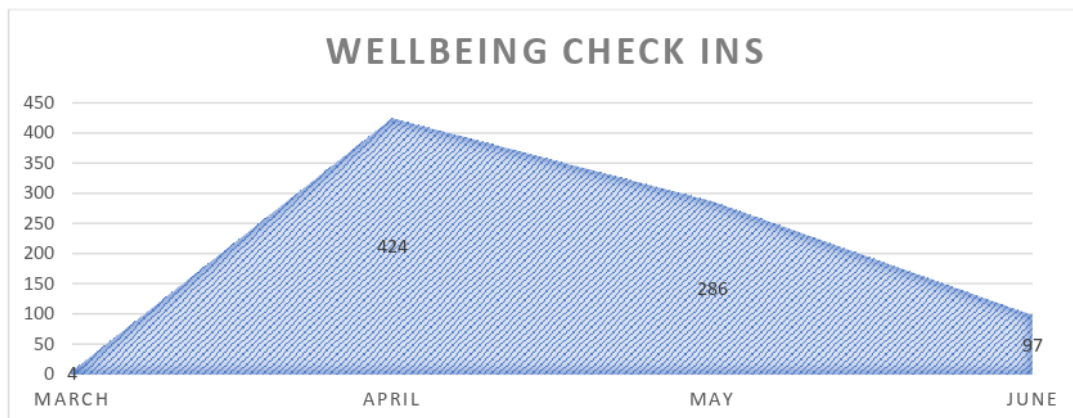
The Health and Safety team is supported in the wellbeing space by the People and Capability team.

Staff movements



We currently have the following health and wellbeing initiatives underway;

Safe 365 Wellbeing Check-In – We introduced a daily wellbeing check in as part of our response to COVID-19 and more staff working from home.



Wellbeing Warriors – An additional perk run out of the Safe 365 system is the ability to log your movement, be it steps, exercise, cycling, running or anything else movement related, our P&C advisor is leading this small competition to entice our staff to remain active in

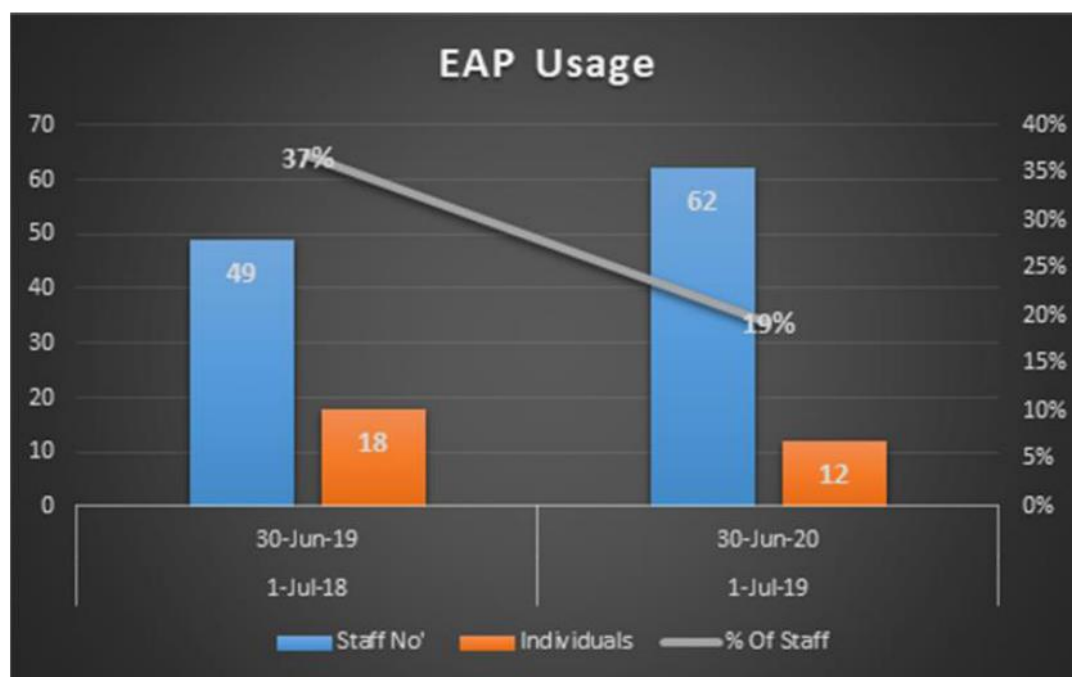
Flu Vaccine – we offer flu vaccines to staff leading into flu season, we have offered 42 flu vaccines this flu season.

Webinars – we have run two webinars in the last couple of months for staff on resilience and a wellbeing and nutrition coach.

Wellbeing Calendar – A wellbeing calendar was setup to outline when events were on and would take place, to ensure we dedicate the time required across our teams to this. This has largely been initiated and run by our H&S committee. A pink ribbon breakfast is planned for later in July 2020.

Leave – we offer leave to staff for community events, birthday and whanau days to support wellbeing and promote us a workplace of choice.

EAP – we offer EAP to all staff at any time of the year. A reduction of 6 people or (18%) in usage of EAP usage between the periods.



APPENDICES

None

5.4 RISK STATUS UPDATE REPORT

File Number: COU1- 1408

Author: Josh Lloyd, Group Manager - Community Infrastructure and Development

Authoriser: Monique Davidson, Chief Executive

Attachments: Nil

PURPOSE

The purpose of this paper is to report to the Risk and Assurance Committee (the Committee) on Councils risk landscape, risk management work in progress and to continue a discussion with the Committee about risk.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

This is the third risk status report to come to the Committee and is part of regular and routine reporting designed to provide governance with oversight and input into the way that identified risks are being managed with Council.

Further to the obvious benefits of 'reporting up' risk, Officers consider that these reports should be the basis of discussion that covers and adds value to all elements of the risk management spectrum (Identify, Analyse, Evaluate, Treat, Monitor/Report). That is, Officers hope that these reports facilitate discussion that identifies new risk as well as simply focussing on existing listed and managed risks.

Feedback from the previous Committee meeting has shaped the structure and content of this report with a specific focus of this report and future reports shifting to a clearer summary and assessment of risks that are considered 'active' at the time of reporting.

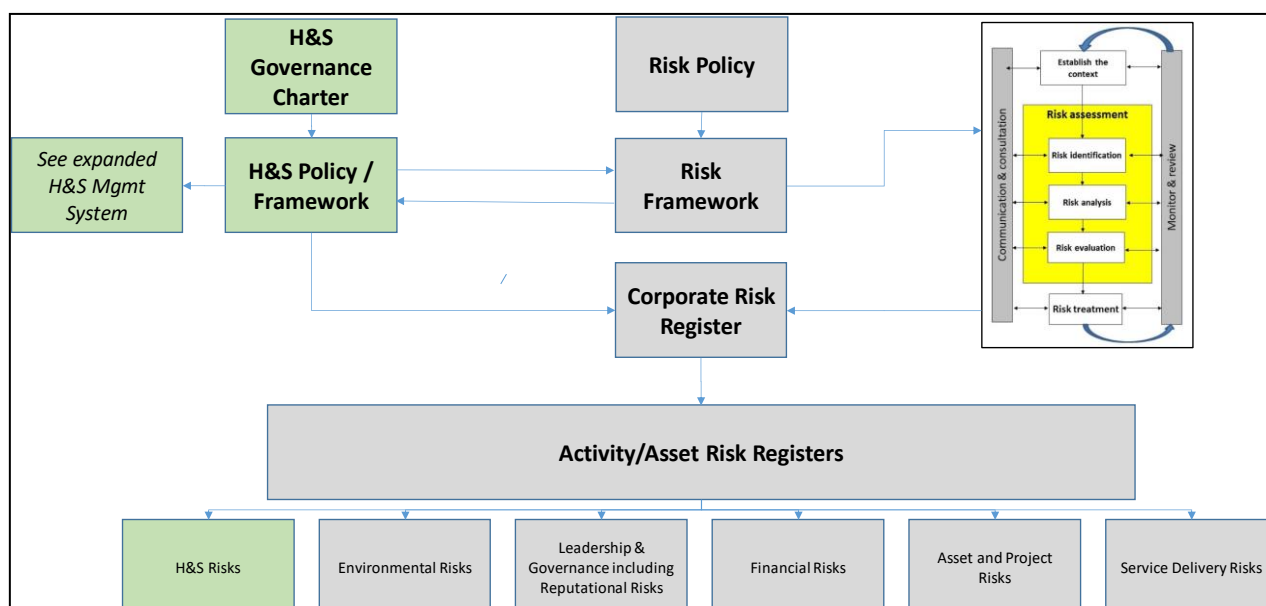
DISCUSSION

Sections below provide detail across and into Councils risk-landscape.

Risk Context and Management Approach

Council's approach to managing risk continues to mature at an accelerated pace. Especially important are the linkages between Council's approach to managing risk and Council's approach to managing health, safety and wellbeing. The two areas are inextricably linked so much so that it can sometimes be difficult to see where one approach finishes and the other begins. Rather than invest effort beyond what is necessary to separate and differentiate the two activities, Council has taken an approach of ensuring that the two activities are complementary of one another and that while in some cases there may be overlap, that in no cases are there gaps or holes in either approach. Recent work by Officers has reinforced this with critical organisational risk workshops covering enterprise and health and safety risk aspects and a new system being implemented to cover all risk (this referred to later in report).

The diagram below illustrates how risk and health, safety and wellbeing integrate and overlap.



The management approach for both risk and health, safety and wellbeing are guided by strategic frameworks and policy and are influenced by National best-practice guidance material (specifically ISO-31000 and ISO-45000 series of standards).

Active Risks

The following risks are considered to be 'active' or 'live' at the time of this report, as determined by Officers.

Risk	Strategic Risk Register Linkage	Update
Capital programme delivery (excl additional funding)	Failure to effectively deliver services and projects	The capital works programme, headlined by the big water story, big waste water story and land transport works, is at risk of non-delivery in terms of timeliness (opposed to quality or cost) due to the volume of work and limited capacity of staff and contractors. This is being actively managed by enhanced project and programme mgmt., the establishment of streamlined procurement processes and a refocussing of Council resources. Recently Council have established a dedicated PMO to support the delivery. This risk is considered to be at an acceptable level now due to the ongoing implementation of the above-mentioned measures.
Additionally funded programmes delivery	Failure to effectively deliver services and projects	New funding has enabled Council to lead and support new programmes of work. This work is at risk of non-delivery in terms of timeliness and quality (costs are primarily fixed to pre-set budgets) due to challenges of Council and contractors resourcing the work. Officers are working through establishing processes and systems to manage the new funding and new programmes of work. Allocations for resource and project delivery support are being built into all funding requests/applications. This risk is considered to be at an acceptable level now due to the ongoing implementation of the above-mentioned measures.
Wastewater Compliance	Wastewater treatment system failure	Annual wastewater compliance reports have recently been submitted to HBRC to monitor performance against Resource Consent parameters. Officers note continued challenges in meeting compliance targets for most plants

		due to design limitations. There is risk that HBRCs current 'understanding' of Councils non-compliance in some areas will cease and that HBRC could take more severe action. Officers continue to manage and maintain effective working relationships at a technical level with HBRC staff. A comprehensive minor improvement programme has also been created to demonstrate continued improvement of the plants. This programme has been repeatedly presented to and accepted by HBRC staff. HBRC are also involved in the longer term work to significantly improve our 6 plants. This risk is considered to be at an acceptable level now due to the ongoing implementation of the above-mentioned measures.
Condition-related asset failure	Failure of critical assets	Asset managers have been making progress through the asset management planning process which involves, among other things, a renewed assessment of asset condition or compiling of available asset condition data. This process has further illuminated known issues with asset condition across 3-waters infrastructure. It is considered by officers that the current asset management planning approach is more rigorous than previous approaches and will yield a more comprehensive assessment of asset condition and risk and in turn a better work programme to address those risks.
Staff retention	Not able to retain or secure key staff	Highlighted regularly as a key risk for Council, Officers and the Executive Team highlight this risk now as of a greater likelihood of occurrence due to external pressures placed on the organisation further stretching capacity. The Executive Team are regularly monitoring staff workload and staff wellbeing and will keep this as a priority. Efforts to update business plans, roadmaps and other internal planning collateral are being prioritised to provide focus and clear priorities to all staff to manage capacity.
COVID response – civil defence and business continuity	Inadequate Civil Defence response	Council's Civil Defence response has been tested through the first and second waves of COVID restrictions and will continue to be for the foreseeable future. Officers consider that providing an appropriate and valuable Civil Defence response is well within the organisations capability but highlight a risk to other work and priorities. A trade-off is needed to balance business as usual and Civil Defence responsibilities and Officers will continue to manage this balance and inform Council and Committees.
Health and Safety management	Health & Safety - Workers	As Council matures rapidly in its management and coordinated approach to health and safety, Officers are aware of the risk that change brings in terms of stability and disruption. New staff, new systems, new processes and approaches are all being implemented at the same time which in turn is creating risk of gaps. Continued executive-level oversight is considered to still be necessary to ensure the coordination of work in this space and this is considered to be sufficient in managing this risk for now.

Systems Development

After evaluating several products, Impac Risk Manager has been chosen and will be implemented as Councils digital platform for managing risk across the organisation. Chosen in a large part due to its ability to manage detailed health and safety related risks, the platform is also able to capture corporate/strategic level risks and provide both operational and governance reporting. The system is currently being configured to meet Councils needs and will soon be populated with existing known risks and controls.

Once populated and fully implemented the system will allow effective tracking of risks and controls, provide timeline management on actions, prompt risk managers to complete listed tasks and will provide both generic and customisable reporting.

Risk Framework Review

Necessitated in timing by the above-mentioned systems implementation, Officers are prioritising a review of Councils adopted risk framework to ensure alignment with modern best practice, alignment and fit with current organisational priorities and practices and alignment with the Risk Manager system. Any proposed changes will be brought before this committee and are not expected to be fundamental changes but rather terminology and design and in some cases adding simplicity or removing complexity. An example of a proposed future change that Officers may wish to make is the colour and grading scheme in Councils risk framework matrix. Shown below, the current matrix is considered ambiguous in that the risk scale does not align well with the traffic light colour scale. The green colour has both low and moderate risks in it, yellow/orange has moderate, low and significant etc.

Traffic Light System

Table1

Likelihood	Consequence				
	1 - Insignificant	2 - Minor	3 - Significant	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 -Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate
1 - Rare	Low	Low	Low	Low	Low

Risk Policy

At the time of updating the Risk Framework, Officers aim to create and bring for adoption a risk Policy. Considered good practice in all leading risk management approaches, the Policy will be brief (1-3 pages) and contain risk management principles that the organisation aligns itself too. The Policy will be able to be read alongside the Health and Safety Policy and other key related policies such as the Asset Management Policy.

Asset / Activity Management Plans

Asset and activity management plans are in the final stages of first population at present and will soon be brought before Council as a lead in to the 2021 LTP. Importantly, these plans are being populated with an activity-level risk stocktake showing current risks to each activity and management/mitigation measures in place. These stocktakes will be compiled into a single updated organisational risk register and captured within Councils new risk management system.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

NEXT STEPS

Officers will continue to manage risk in the organisation in accordance with signalled practice within this report and as per Councils risk framework and greater risk management approach. Officers continue to be pleased to receive feedback and guidance from this committee on areas of interest for future reports.

RECOMMENDATION

That having considered all matters raised in the report, that the report be noted.

5.5 GOVERNANCE POLICIES - RISK AND ASSURANCE UPDATE

File Number: COU1- 1408

Author: Monique Davidson, Chief Executive

Authoriser: Monique Davidson, Chief Executive

Attachments: 1. Governance Policies Overview - Monitoring Masterlist [↓](#)

PURPOSE

The purpose of this report is to update the Risk and Assurance Committee on governance policies with a specific application of its implications for Risk and Assurance.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

On 3 June 2020, Council adopted its first Governance Policy Framework. The Local Government Act 2002 specifies that one of Council's key responsibilities is to develop and adopt policies. Policies must be developed for the purpose of local governance and must be adopted by the whole of Council. Central Hawke's Bay District Council has a wide range of Governance Policies.

The LGNZ Elected Members' Governance Handbook outlines that governance is primarily about setting the future direction of organisations and communities and ensuring assets and resources are suitable for achieving that direction. Good governance has in place a framework with core elements that:

- promote accountability,
- encourage strategic thinking; and
- facilitate meaningful policy development.

DISCUSSION

Central Hawke's Bay District Council has a wide range of policies that provide guidelines for all types of decision making. We have specific policies that guide how we manage and control dogs to policies that guide Council in making significant financial investments on behalf of the whole community. Policies exist to guide Councillors and staff in their decision-making processes.

Governance policies are the responsibility of Elected Members. These policies can only be amended, deleted or adopted by resolution in Council or Council Committee. They exist to set the parameters of operational decision-making and activities. Local Government New Zealand refers to this as 'the steering of the ship' in its Elected Members' Handbook.

Organisational policies are the responsibility of the Chief Executive and Executive Leadership Team. They can only be amended, deleted or adopted by these parties. These policies are mainly focussed on internal activities and guide operational decision-making. Local Government New Zealand calls this 'rowing of the ship'; that is, ensuring the ship is moving to reach the destination set by Elected Members.

In smaller Councils like ours, it can sometimes be challenging to define the line between governance and management precisely. The Auditor General notes that documents such as this Governance Policy Framework 'provide a vital framework for clarifying and delegating respective

roles and responsibilities', helping to introduce clearer definition between the responsibilities of governance and management.

How does Risk and Assurance fit in?

In this Governance Policy Framework policies have been collated into the following four groups with the Committee that is primarily responsible for them:

- Governance Leadership and Strategy (*Strategy and Wellbeing Committee*)
- Financial Decision Making and Transparency (*Finance and Infrastructure Committee*)
- Service Delivery and Asset Management, and (*Finance and Infrastructure Committee*)
- Community Engagement and Development. (*Strategy and Wellbeing Committee*)

The Risk and Assurance Committee, CE Employment and Performance Committee, and Council, provide additional oversight over these policies. Ultimate approval and adoption sits with Council. The Risk and Assurance Committee, as part of their remit, have a role in monitoring risk associated with non-compliance of governance and operational policies. This also allows some flexibility for those core committees to define for themselves the policies that they may want to prioritise as a focus for their work programme.

A useful diagram of how the framework fits together is below.



Reviewing our policies

Reviewing our policies will be a significant piece of work. While we have managed to identify and action many quick wins, i.e. deletion of policies or bundling of policies, there are some areas that will require substantial work. In time, a work programme will need to be established that aligns review of governance and organisational policies, as well as ensuring that any change is linked in with any potential changes to bylaws.

To date, our finance policies and community and leadership policies have been our focus for review. This is because we are in the first year of the triennium, and are developing our 2021-2031 Long Term Plan. Many of the policies that have been reviewed have come up as part of those processes.

Organisational policies have been updated, however, given current priorities and capability, we are instead focussing on governance policies.

This is particularly the case with policies that fall under the service delivery and asset management category. There are a number of policies in this area that:

- are out of date
- are not required or should form part of a larger policy
- do not align with current strategic intent, risk framework, and asset management plans
- do not line up with their associated bylaws
- prioritised governance ones – will be putting in same process for organisational policies, but still some work to be done here and the effort placed into governance for now, given competing work priorities and current capability.

Process

A standardised register has been set up in our Sharepoint. This allows for automation of reminders for policies to be reviewed, and also when they become overdue. Our centralised governance email also receives these reminders to ensure that there is some centralised oversight.

We have developed a monitoring dashboard, that has a traffic light system to indicate whether a policy is up-to-date, due to be reviewed within the next 12 months, is overdue to be reviewed by 12 months or less, or is overdue by more than 12 months.

Attached to this report is a copy of the monitoring dashboard, which provides an overview of the monitoring provisions in place related to policy.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

NEXT STEPS

It is intended to provide an annual update to the Risk and Assurance Committee on the checks and balances in place to ensure the correct monitoring and review of governance policies.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.

#	Policy	Area	Committee	Function	Group	Team	Lead	Adoption Date	Last Amended	Review date	Status	Comment	Suggested action
	Civic Awards	Community Engagement & Development	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	3-Jun-20	3-Jun-20	3-Jun-23		Strategy & Wellbeing Ctte approved new policy, still to be adopted by full Council	Keep
	Community Funding	Community Engagement & Development	Strategy & Wellbeing	Directional	CE	Community Development	Christine Renata	3-Jun-20	3-Jun-20	3-Jun-23		Strategy & Wellbeing Ctte approved new policy, still to be adopted by full Council	Keep
	Creative Communities Scheme Assessment Committee	Community Engagement & Development	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	27-Mar-14	27-Sep-01	27-Sep-04		Place into Ctte Structure or Delegations Manual	Relocate
	District Hall	Community Engagement & Development	Strategy & Wellbeing	Directional	CCP	Places & Open Spaces	Jennifer Leaf	14-Dec-17	14-Dec-17	14-Dec-20		Merge with District Hall Committee Policy when putting into Delegations Manual. Only points 1 & 2 are close to policy statements and these can be included in Delegations Manual when stating purpose of ToR of Committee.	Relocate
	District Hall Committees	Community Engagement & Development	Strategy & Wellbeing	Directional	CCP	Places & Open Spaces	Jennifer Leaf	14-Dec-17	14-Dec-17	14-Dec-20		Place into Ctte Structure or Delegations Manual	Relocate
	Housing Strategy Framework	Community Engagement & Development	Strategy & Wellbeing	Strategic	CCP	Community Development	Christine Renata	10-Apr-19	10-Apr-19	10-Apr-22			Keep
	Libraries Strategic Framework 2019-2024	Community Engagement & Development	Strategy & Wellbeing	Strategic	CCP	Library	Sue Fargher	29-Aug-19	29-Aug-19	29-Aug-22		Unclear if this replaces Library policy - assume it does	Keep
	Retirement Housing	Community Engagement & Development	Strategy & Wellbeing	Directional	CCP	Places & Open Spaces	Jennifer Leaf	14-Dec-17	14-Dec-17	14-Dec-20		Check re link to Strategy when updating	Keep
	Voluntary Organisations and Incorporated Societies	Community Engagement & Development	Strategy & Wellbeing	Directional	CCP	Community Development	Christine Renata	18-May-17	25-May-95	25-May-98		Include as part of fees & charges or similar policy	Remove
	Waipawa Building Society Trust Fund	Community Engagement & Development	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	18-May-17	26-Sep-02	26-Sep-05		Place into Ctte Structure or Delegations Manual	Bundle
	Non-Rateable Income Funding Strategic Framework	Financial Decision-Making & Transparency	Finance & Infrastructure	Strategic	Finance	Finance	Brent Chamberlain		10-Apr-19	10-Apr-22			Keep
	Procurement and Contract Management	Financial Decision-Making & Transparency	Finance & Infrastructure	Strategic	Finance	Finance	Brent Chamberlain	31-Oct-18	31-Oct-18	31-Oct-21			Keep
	Revenue and Financing Policy	Financial Decision-Making & Transparency	Finance & Infrastructure	Strategic	Finance	Finance	Brent Chamberlain		23-May-19	23-May-22		Updated at last Annual Plan	Keep
	Rates Remission, Postponement, Discounts and Collection Policy	Financial Decision-Making & Transparency	Finance & Infrastructure	Strategic	Finance	Finance	Brent Chamberlain	18-Jun-20	18-Jun-20	18-Jun-23		18 June updated	Keep
	Liability Management	Financial Decision-Making & Transparency	Finance & Infrastructure	Directional	Finance	Finance	Brent Chamberlain	19-Jun-14	25-Oct-12	25-Oct-15		Bundle as part of Finance and/or Treasury policies	Bundle
	Postponement of Rates for Natural Calamities	Financial Decision-Making & Transparency	Finance & Infrastructure	Directional	Finance	Finance	Brent Chamberlain	20-Mar-20	20-Mar-20	20-Mar-23		Replaced Remission of Rates for Natural Calamities policy at 20 March 2020 Council meeting	Bundle
	Treasury Management Policy (including LMP and IP)	Financial Decision-Making & Transparency	Finance & Infrastructure	Directional	Finance	Finance	Brent Chamberlain	5-May-16	5-May-16	5-May-19			Keep
	Work Carried Out Under Budget	Financial Decision-Making & Transparency	Finance & Infrastructure	Directional	Finance	Finance	Brent Chamberlain	4-Apr-13	20-Aug-98	20-Aug-01		Bundle as part of Finance and/or Treasury policies	Bundle
	Indoor Heated Swimming Pool	Financial Decision-Making & Transparency	Finance & Infrastructure	Directional	OD	Finance	Brent Chamberlain	8-May-14	8-May-14	8-May-17		Half is about Council appointees to Community Trust that should be dealt with in Delegations Manual. Rest is contractual and grants so not a policy-level statement - capture at service level or contract-level.	Bundle
	Adoption of Standing Orders	Governance Leadership & Strategy	Strategy & Wellbeing	Strategic	CE	Governance	Bridget Gibson	31-Oct-13	20-Oct-04	20-Oct-07			Keep
	Appointment of Council Representatives	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	26-Jul-18	26-Jul-18	26-Jul-21			Keep
	Attendance at Seminars and Conferences Policy	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	6-Apr-17	6-Apr-17	6-Apr-20			Keep
	Chief Executive Remuneration and Review Policy	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Monique Davidson			31-Dec-02		Reviewed and approved 19 September 2019 with 12 month review passed	Keep
	Council Committee and Community Representation	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	15-Dec-16	15-Dec-16	15-Dec-19		Place into Ctte Structure or Delegations Manual	Relocate
	Cultural	Governance Leadership & Strategy	Strategy & Wellbeing	Strategic	CE	CE	Monique Davidson	7-May-15	4-Apr-13	4-Apr-16		Not a policy - looks like content is missing	Remove
	Elected Member Expenses and Allowances	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	1-Dec-16	15-Jun-16	15-Jun-19			Keep
	Elected Member Remuneration	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	14-Nov-19	14-Nov-19	14-Nov-22		Reviewed and approved 14 November 2019 - to be reviewed prior to next triennium	Keep
	Maori Contribution to Decision Making	Governance Leadership & Strategy	Strategy & Wellbeing	Strategic	CE	Governance	Monique Davidson	3-Jun-20	3-Jun-20	3-Jun-23		New policy adopted 3 June, this policy has now been updated in 2020	Keep
	Partnerships with the Private Sector	Governance Leadership & Strategy	Strategy & Wellbeing	Directional	CE	Governance	Bridget Gibson	21-Sep-17	24-Aug-17	24-Aug-20			Keep
	Significance and Engagement Policy	Governance Leadership & Strategy	Strategy & Wellbeing	Strategic	CE	Governance	Monique Davidson	31-May-18	31-May-18	31-May-21			Keep
	Acquisition of Esplanade Reserves	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Places & Open Spaces	Jennifer Leaf	18-May-17	5-Aug-04	5-Aug-07			Keep
	Ad Hoc Road Signs	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OD	Land Transport	Shawn McKinley	18-May-17	5-Aug-04	5-Aug-07		Suits operational - only two lines and not necessary for Council to decide. Other option is to bundle into land transport policy or similar.	Bundle
	Allocation of Property Numbers	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OD	Customer & Consents	Robyn Burns	18-May-17	4-May-17	4-May-20		Operational in nature	Bundle
	Asset Management Policy	Service Delivery & Asset Management	Finance & Infrastructure	Strategic	OD	Asset Management	Josh Lloyd	23-Apr-20	23-Apr-20	23-Apr-23			Keep
	Camping	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCD	Customer Experience	Lisa Harrison	18-May-17	4-May-17	4-May-20			Keep
	Cemeteries	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Places & Open Spaces	Jennifer Leaf	18-May-17	7-May-15	7-May-18			Keep
	Class 4 Gambling and Board Venue	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	23-Feb-18	22-Feb-18	22-Feb-21			Keep
	Dangerous and Insanitary Buildings	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OD	Customer & Consents	Robyn Burns	14-Dec-17	14-Dec-17	14-Dec-20			Keep
	Development Contributions	Service Delivery & Asset Management	Finance & Infrastructure	Strategic	Finance	Finance	Brent Chamberlain	13-Dec-18	18-Jun-15	18-Jun-18			Keep
	District Licensing Committee Appointment of Members	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	18-Jun-15	19-Jun-15	19-Jun-18		Place into Ctte Structure or Delegations Manual	Relocate
	Dog Control	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	29-Jun-17	14-Jun-17	14-Jun-20			Keep

Dust Suppression	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Land Transport	Shawn McKinley	27-Mar-14	10-Apr-19	10-Apr-22	Operational in nature, no Council-level policy statements	Bundle
Enclosure of Road Reserve	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Places & Open Spaces	Jennifer Leaf	29-Jun-17	25-Oct-12	25-Oct-15	Suits operational, though does contain some policy-like statements – shift to AMP	Bundle
Environmental and Sustainability Strategy	Service Delivery & Asset Management	Finance & Infrastructure	Strategic	CCP	Places & Open Spaces	Jennifer Leaf	23-May-19	23-May-19	23-May-22	Adopted 23 May 2019 as part of Annual Plan	Keep
Footpath Construction Policy	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Land Transport	Shawn McKinley	28-Feb-19	28-Feb-19	28-Feb-22	More a service-level statement rather than a Council policy – shift to AMP	Bundle
Formation Subdivision and Maintenance of No Exit Roads	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Land Transport	Shawn McKinley	29-Jun-17	5-May-11	5-May-14	More a service-level statement rather than a Council policy – shift to AMP	Bundle
Geotechnical Site Investigation for Building and Resource Consents	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Customer & Consents	Robyn Burns	15-Aug-19	15-Aug-19	15-Aug-22		Keep
Level of Asset Management Plan Preparation	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Asset Management	Josh Lloyd	18-May-17	4-May-17	4-May-20	Policy-level statement about level that plans should be prepared to. Could be contained in an Infrastructure Strategy if want to remove.	Keep
Local Alcohol Policy 2018	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	20-Sep-18	20-Sep-18	20-Sep-21		Keep
Local Approved Products	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	12-Nov-15	12-Nov-15	12-Nov-18		Keep
Naming of Streets and Roads	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Land Transport	Shawn McKinley	29-Jun-17	14-Jun-17	14-Jun-20	Operational in nature, no Council-level policy statements	Bundle
Parks and Reserves	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Places & Open Spaces	Jennifer Leaf	8-May-14	26-May-11	26-May-14	More a service-level statement rather than a Council policy – shift to AMP	Bundle
Roadside Planting	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Places & Open Spaces	Jennifer Leaf	8-May-14	5-May-11	5-May-14		Bundle
Roadside Stabilization and Tree Management	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Places & Open Spaces	Jennifer Leaf	8-May-14	30-Apr-92	30-Apr-95		Bundle
Roadside Weed Control	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Places & Open Spaces	Jennifer Leaf	8-May-14	16-Dec-93	16-Dec-96		Bundle
Smoke Free	Service Delivery & Asset Management	Finance & Infrastructure	Directional	CCP	Customer Experience	Lisa Harrison	6-Apr-17	6-Apr-17	6-Apr-20		Keep
Solid Waste	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Solid Waste	Harry Robinson	8-May-14	8-May-14	8-May-17		Bundle
Stock Underpass	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Land Transport	Shawn McKinley	21-Sep-17	24-Aug-17	24-Aug-20		Bundle
Stormwater Drainage	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	3 Waters	Ian Cover	8-May-14	3-Dec-09	3-Dec-12		Bundle
Stormwater laterals and Sewer Repair	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	3 Waters	Ian Cover	8-May-14	3-Dec-09	3-Dec-12		Bundle
Swimming Pools	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Customer & Consents	Robyn Burns	1-Nov-17	1-Nov-17	1-Nov-20		Bundle
Use of Road Reserve for Permanent Commercial Display	Service Delivery & Asset Management	Finance & Infrastructure	Directional	OID	Customer & Consents	Robyn Burns	21-Sep-17	30-Apr-92	30-Apr-95		Bundle

5.6 TREASURY MANAGEMENT POLICY

File Number: COU1- 1408

Author: Brent Chamberlain, Chief Financial Officer

Authoriser: Monique Davidson, Chief Executive

Attachments: 1. Treasury Management Policy [↓](#)

PURPOSE

The matter for consideration by the Council is the three-yearly review of the Treasury Management Policy.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) That the report entitled “Treasury Management Policy” be received
- b) That the proposed changes to the policy be endorsed and be recommended to Council for future adoption.

EXECUTIVE SUMMARY

Officers are recommending the 2016 Treasury Management Policy (drafted by PriceWaterhouse Coopers) be reviewed and updated.

The main change recommended is a change in the external debt levels allowable, and that these be aligned with the Local Government Funding Agencies prudential debt benchmarks used by other New Zealand Councils.

BACKGROUND

Council last reviewed its Treasury Management Policy in May 2016, and it is due to be reviewed as part of the Long Term Plan preparation.

The original Policy was drafted by PriceWaterhouse Coopers.

Since 2016 the world economy has significantly changed, and we now find ourselves in a period of sustained low to negative interest rates, looming recessions, impacts of Covid-19, and high levels of central government stimulus in the job creation/infrastructure areas.

Central Hawkes Bay District Council also is in a different place to that of 2016, with significantly more external debt and large capital programs on the horizon.

DISCUSSION

The existing Treasury Management Policy is largely still fit for purpose; however it is an extremely rigid, conservative policy.

The policy also has a couple of contradictory ratios and concepts such as the liquidity ratio being 130% on page 9 and 110% on page 18, and the concept of holding special funds in liquid investments on page 14, and yet on page 11 being available to fund internal debt.

Attached is a copy of the current Treasury Management Policy (all be it reformatted in our current template) with marked up proposed changes and comments why the changes are being proposed.

The main changes are:

Page 8 – The debt limit ratios are currently very conservative and include a cap of \$2,000 per head of population. It is proposed to align these debt ratios to those used by the LGFA (Local Government Funding Agency) for lending to a non-credit rated Council (i.e. how much the LGFA is

willing to lend to Central Hawkes Bay District Council before they consider Council's debt levels are becoming unaffordable), and remove the cap per head of population. Assuming this change is adopted, Council would be able to borrow up to \$61.8m based on its draft 2019/20 annual report. Council currently has external debt of \$20m, so this would give Council \$41.8m of headroom to complete its proposed infrastructure program in the 2021-2031 Long Term Plan.

Page 15 – The levels of fixed versus floating debt allowed is proposed to change slightly (from 50-95% to 50-100%), and the further break down of these limits into maturity bands is removed. This will allow Council more flexibility when borrowing to choose fixed rates, without exposing Council to increased interest rate variability. This will allow Council to lock in more of the current low interest rates, thus protecting Council from possible future interest rate rises.

Page 17 – The bands of when debt matures is proposed to be expanded slightly in the 0-3 year band. This will allow Council to have 70% of its debt maturing within 3 years, which does expose Council to a small increase in risk that it cannot repay/refinance its loans as they fall due. For this risk to eventuate, the LGFA would have to be unable to access funds to on lend which is highly unlikely as they have almost the same credit rating as the New Zealand Central Government. The benefit of increasing this short-term debt limit is that Council can take more advantage of shorter dated debt which is typically cheaper than long dated debt.

Page 18 – Officers have proposed the levels of Counter Party Risk has been increased from A+ to AA- which will preclude Council from transacting with Building Societies and smaller tier two banks, but on the flip side it is proposed that the limits per bank is lifted from \$8m to \$10m.

RISK ASSESSMENT AND MITIGATION

The proposed changes in levels of debt limits will significantly increase Councils ability to borrow further funds (and obviously come with a repayment/servicing risk), while the other proposed changes are minor in nature.

However the proposed debt levels are aligned with the LGFA prudential benchmarks, and what other New Zealand Councils are doing.

FOUR WELLBEINGS

The policy changes will have an impact on Councils finances, and what levels of service it can deliver.

A policy that is too restrictive will see Council not being able to maintain existing levels of services as major infrastructure (such as wastewater treatment plants) are due for renewal and/or consents expire.

However on the other hand, a policy that is too loose could see Council living beyond its means and getting into financial hardship and not being able to service its debt.

DELEGATIONS OR AUTHORITY

This policy will need to go to Council for adoption, this sub-committee is being asked to consider it from a risk point of view and recommend its adoption to Council.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of minor significance.

The proposed policy change will allow Officers to enter into increased levels of external debt, however they can only enter into these arrangements if they fall within Long Term Plan budgets which are publicly consulted and agreed on.

OPTIONS ANALYSIS

Risk and Assurance Committee has the ability to:

1. Endorse the recommended changes to Council for adoption;
2. Suggest further changes; or
3. Reject the proposed changes.

Recommended Option

This report recommends option number one, endorse the recommended changes, for addressing the matter.

NEXT STEPS

Officers will take on board any recommendations from the sub-committee and incorporate these into the proposed policy that will go to full Council for adoption.

RECOMMENDATION

That having considered all matters raised in the report:

- a) That the report entitled “Treasury Management Policy” be received**
- b) That the proposed changes to the policy be endorsed, and be recommended to Council for future adoption.**



Central Hawke's Bay District Council

Treasury Management Policy

Contents

PURPOSE OF THIS POLICY	33
SCOPE AND OBJECTIVES OF THIS POLICY	44
Scope	44
Treasury Management Objectives	44
GOVERNANCE AND MANAGEMENT RESPONSIBILITIES	66
Overview of Management Structure.....	66
Council	66
Finance and Infrastructure Committee	66
Risk and Assurance Committee	66
Chief Executive Officer (CE)	77
Chief Financial Officer (CFO) and Finance Team.....	77
Delegation of authority and authority limits	77
LIABILITY MANAGEMENT POLICY.....	88
Introduction	88
Borrowing limits	88
Asset management plans.....	88
Borrowing mechanisms	99
Security	99
Debt repayment	99
Guarantees/contingent liabilities and other financial arrangements	1010
Internal borrowing of special funds	1010
New Zealand Local Government Funding Agency (LGFA) Limited	1010
INVESTMENT POLICY	1111
Introduction	1111
Policy.....	1111
Mix of investments.....	1111
Equity investments	1111
New Zealand Local Government Funding Agency Limited	1212
Property investments	1212
Financial investments	1312

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana! ¹

Central Hawke's Bay District Council

Investment management and reporting procedures.....	<u>1313</u>
RISK RECOGNITION / IDENTIFICATION MANAGEMENT.....	<u>1514</u>
Interest rate risk on external borrowing.....	<u>1514</u>
Approved financial instruments.....	<u>1615</u>
Liquidity risk/funding risk.....	<u>1716</u>
Counterparty credit risk.....	<u>1817</u>
Foreign currency.....	<u>1817</u>
Emissions Trading Scheme (ETS).....	<u>1918</u>
Operational risk.....	<u>1918</u>
Legal risk.....	<u>1918</u>
MEASURING TREASURY PERFORMANCE.....	<u>2019</u>
CASH MANAGEMENT.....	<u>2120</u>
REPORTING.....	<u>2221</u>
Treasury reporting.....	<u>2221</u>
Accounting treatment of financial instruments.....	<u>2221</u>
POLICY REVIEW.....	<u>2322</u>
APPENDIX 1: Glossary of Terms.....	<u>2423</u>

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana! ²

Central Hawke's Bay District Council

PURPOSE OF THIS POLICY

The purpose of the Treasury Management Policy ("Policy") is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Central Hawke's Bay District Council ("Council"). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Council continue to be well managed.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council's financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

3

Central Hawke's Bay District Council

SCOPE AND OBJECTIVES OF THIS POLICY

Scope

- This document identifies the Policy of Council in respect of treasury management activities, incorporating both borrowing and investment activity.
- The Policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Council cover these matters.

Treasury Management Objectives

The objective of this Policy is to control and manage costs, investment returns and risks associated with treasury management activities, incorporating both borrowing and investment activity.

Statutory objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- Council is governed by the following relevant legislation:
- Local Government Act 2002, in particular Part 6 including sections 101, 102, 104, 105 and 113.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself, without charging any rate or rates revenue as security.
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
The period of indebtedness is less than 91 days (including rollovers); or
The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, 5.0% of the Council's consolidated annual operating budget for the year (as determined by Council's Significance and Engagement Policy).

General objectives

- Ensure that all statutory requirements of a financial nature are adhered to.
- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Manage investments to optimise returns in the long term whilst balancing risk and return considerations.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

4

Central Hawke's Bay District Council

- Develop and maintain relationships with financial institutions, brokers and LGFA.
- Comply, monitor and report on borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Borrow funds, invest and transact risk management instruments within an environment of control and compliance.
- Monitor, evaluate and report on treasury performance.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.

In meeting the above objectives Council is, above all, a risk averse entity and does not seek risk in its treasury activities. Interest rate risk, liquidity risk, funding risk, investment risk or credit risk, and operational risks are all risks which Council seeks to manage, not capitalise on. Accordingly activity which may be construed as speculative in nature is expressly forbidden.

Policy setting and management

Council approves Policy parameters in relation to its treasury activities. The CE has overall financial management responsibility for the Council's borrowing and investments, and related activities.

The Council exercises ongoing governance over its subsidiary companies (CCO/CCTO), through the process of approving the Constitutions, Statements of Intent, and the appointment of Directors/Trustees of these organisations.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

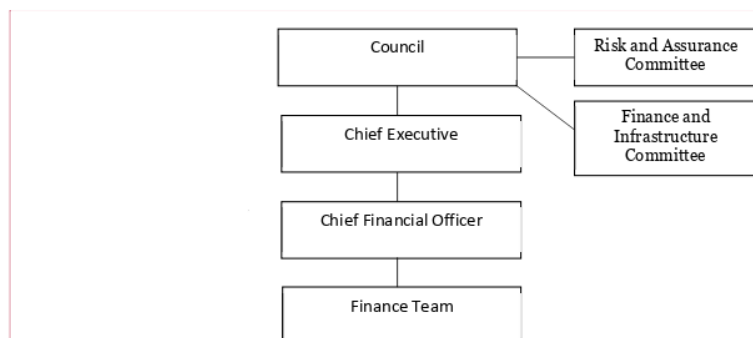
5

Central Hawke's Bay District Council

GOVERNANCE AND MANAGEMENT RESPONSIBILITIES

Overview of Management Structure

The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in the following section:



Commented [BC1]: Updated Names of Sub Committees

Council

The Council has ultimate responsibility for ensuring that there is an effective Policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable, given Council's statutory objectives.

The Council is responsible for approving the Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of Council through the Long Term Plan (LTP) and Financial Strategy along with the adopted Annual Plan.
- Approve and adopt the Liability Management and Investment Policies (the Treasury Management Policy).
- Approval for one-off transactions falling outside Policy.

Finance and Infrastructure Committee

Under delegation from Council:

- Monitor and review treasury activity through at least six monthly reporting, supplemented by exception reporting.

Risk and Assurance Committee

Under delegation from Council:

- Review formally, on a three yearly basis, the Treasury Management Policy document.
- Evaluate and recommend amendments to the Treasury Management Policy to Council.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

6

Central Hawke's Bay District Council

Chief Executive Officer (CE)

While the Council has final responsibility for the Policy governing the management of treasury risks, it delegates overall responsibility for the day-to-day management of such risks to the CE. The CE has approval and monitoring responsibilities over the treasury function.

Chief Financial Officer (CFO) and Finance Team

The CFO along with the Finance Team share the treasury tasks and responsibilities of the treasury function ensuring an adequate segregation of treasury duties and cross-checking of treasury activity. Oversight is maintained by the CE through regular reporting and approval delegations.

Delegation of authority and authority limits

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, Council's Delegations Register must be complied with at all times.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

7

Central Hawke's Bay District Council

LIABILITY MANAGEMENT POLICY

Introduction

Council's liabilities comprise of borrowings and various other liabilities. Council maintains external borrowings in order to:

- Raise specific debt associated with projects and capital expenditures.
- Raise finance leases for fixed asset purchases.
- Fund the balance sheet as a whole, including working capital requirements.
- Fund assets whose useful lives extend over several generations of ratepayers.

Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the cost are met by those ratepayers benefiting from the investment.

Borrowing limits

Debt will be managed within the following limits:

Item	Council Limit
Net External Debt / Total Revenue	<95% 175%
Net Interest on External Debt / Total Revenue	<10% 20%
Net Interest on External Debt / Annual Rates Income	<20% 25%
External, term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>130% 110%
Total debt per head of population	<\$2,000

Commented [BC2]: Updated Debt Limit Ratios to match the LGFA requirements for a non-credit rated Council, and removed the debt limit per head of population

- Total Revenue is defined as cash earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less unencumbered cash/cash equivalents.
- The liquidity ratio is defined as external debt plus committed LGFA/bank facilities, plus unencumbered cash/cash equivalents divided by external debt.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).
- ~~Financial covenants are measured on Council only not consolidated group.~~
- Disaster recovery requirements, urgent financing of emergency-related works and services are to be met through the special funds and liquidity policy.

Commented [BC3]: Added LGFA has they now offer committed facilities to guarantor councils at favourable rates

Commented [BC4]: LGFA now have the ability to lend to Council Controlled Organisations and measure Financial Covenants on "Group" results

Asset management plans

In approving new debt Council considers the impact on its external borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP and Financial Strategy.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

8

Central Hawke's Bay District Council

Borrowing mechanisms

Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP), direct bank borrowing, accessing the short and long-term wholesale debt capital markets either directly or through the LGFA, or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- The size and the economic life of the project.
- Available terms from banks, the LGFA and debt capital markets.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for debt issuance, the LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants considerations.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with the LGFA, and financial institutions/brokers.

Security

Council's external borrowings and interest rate management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or *pari passu* with other lenders.

From time to time, and with Council approval (or through an approved person as per the delegations register), security may be offered by providing a charge over one or more of Council's assets, where it is beneficial and cost effective to do so.

- Any internal borrowing will be on an unsecured basis.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and policy limits, a loan may be rolled over or re-negotiated as and when appropriate.

Council will manage debt on a portfolio basis and will only externally borrow when it is commercially prudent to do so.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

9

Central Hawke's Bay District Council

Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, trusts, Council-controlled trading organisations or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

~~Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.~~

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council in aggregate. The Finance Team monitors guarantees and reports six-monthly to the CE.

Internal borrowing of special funds

Special Funds must generally be used for the purposes for which they have been set aside. ~~Council currently has a Capital Projects Fund, a Disaster Fund and an Adverse Event Fund, held for the benefit of all ratepayers.~~ Council may, however, modify such purposes from time to time. Funds held in excess of the special funds requirement are held as ratepayers equity reserves, and can be utilised as needed. Recorded special fund balances must be used for their intended purpose.

Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective. ~~Liquid assets are required to be held physically against Special Fund amounts.~~

Any internal borrowing of equity reserves must be reimbursed for interest revenue lost.

The cost of internal borrowing is set by the Finance Team from time to time.

For reasons of cost distribution, records on internal borrowings will be maintained to ensure Funds are not disadvantaged.

New Zealand Local Government Funding Agency (LGFA) Limited

Despite anything earlier in this Policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

Commented [BC5]: The Act was recently changed to allow the LGFA to lend to CCTO's where the parent Council acts as

Commented [BC6]: Council has more special funds than listed here, and they change over time so it'll be easier not to name them.

Commented [BC7]: Council can't use special funds to fund internal debt and at the same time have special funds represented by liquid investments.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

10

Central Hawke's Bay District Council

INVESTMENT POLICY

Introduction

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and reported at least six-monthly to the Finance and Services Committee. Specific purposes for maintaining investments include:

- For strategic and intergenerational purposes consistent with Council's LTP and AP.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding assets (such as property and land parcels) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to specific reserves.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.

Council recognises that as a responsible public authority all investments held, should be low risk, giving preference to conservative investment policies and avoiding speculative investments. Council also recognises that low risk investments generally mean lower returns.

To minimise raising external debt, Council can internally borrow from equity, reserves and investment funds, in the first instance to meet operational and capital spending requirements.

Policy

Council's general Policy on investments is that:

- Council may hold financial, property, and equity investments if there are strategic, commercial, and economic or other valid reasons.
- Council will keep under review its approach to all investments and the credit rating of approved creditworthy counterparties.

Mix of investments

Council maintains investments in the following assets:

- Equity investments
- Property investments
- Financial investments

Equity investments

It may be appropriate to have limited investment(s) in equity (shares) when Council wishes to invest for strategic, economic development or social reasons, ~~such as Local Government Insurance Corp.~~

Council will approve equity investments on a case-by-case basis, if and when they arise.

Generally such investments will be (but not limited to) Council Controlled Trading Organisations (CCTO) or Council Controlled Organisations (CCO) to further district or regional economic development. Council does not invest in offshore entities.

Commented [BC8]: Removed reference defunct entity. Now called Civic Financial Services Ltd.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

11

Central Hawke's Bay District Council

Council reviews performance of these investments as part of the annual planning process to ensure that stated objectives are being achieved.

Any disposition of these investments requires approval by Council. Acquisition of new equity investments requires Council approval. The proceeds from the disposition of equity investments will be taken to the Capital Projects Fund.

All income, including dividends, from Council's equity investments is included in general revenue.

Equity investment performance is reported to the Finance and Services Committee at least annually, along with the consideration of and approval of the Statement of Intent.

New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

As a borrower, Council's LGFA investment includes borrower notes.

Property investments

Council's ~~overall objective is to only primary reason to own property that is necessary to allow it to~~ achieve its strategic objectives as stated in the LTP or deemed to be a core Council function. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

Council may also hold investment properties that are not held for core function delivery purposes, where such a property is held for commercial returns (both rental returns and capital gains).

Council reviews the performance of its property investments at least annually and ensures that the benefits of continued ownership are consistent with its stated objectives. Council's policy is to dispose of any property that does not achieve a commercial return having regard to any restrictions on title or other requirements or needs to achieve Council objectives. All income, including rentals and ground rent from property investments is included in the consolidated revenue account. All rented or leased properties will be at an acceptable commercial rate of return so as to minimise the rating input, except where Council has identified a level of subsidy that is appropriate.

Proceeds from the disposition of property investments are used firstly in the retirement of related debt and then are credited to the Capital Projects Fund.

Council's investment in properties, other than reserves and those required for own occupation/core service delivery and infrastructural services, will not exceed 50% of total fixed assets in the land and building category.

Any purchased properties must be supported by a current registered valuation, substantiated by management including a fully worked capital expenditure analysis.

Commented [BC9]: Added in the flexibility that Council may invest in commercial buildings for its rental return/capital gain as a method of diversifying its revenue streams

Commented [BC10]: 50% of total assets (which includes land, buildings, roads, and 3 Waters) is a large number. Needs to be more restrictive.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

12

Central Hawke's Bay District Council

Financial investments

Objectives

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. ~~For financial investments (excluding equity and property investments) Council should only hold investments with a underlying credit rating of AA- or above. Creditworthy counterparties and investment restrictions are covered in section 5.4.~~ Credit ratings are monitored and reported at least six-monthly.

Commented [BC11]: Only the main high street banks hold credit ratings of AA- or above. This would preclude Council from investing in smaller banks and building societies.

~~Council may invest in approved financial instruments as set out in section 6.2. These investments are aligned with Council's objective of investing in high credit quality and liquid assets. The CE approves the investment strategy within the scope and parameters of this policy and does so with input from Council's investment advisors.~~

Commented [BC12]: Repeats earlier list

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and financial investments. Interest income relating to special reserves is allocated to those accounts annually based on the opening balance.
- Internal borrowing will be used wherever possible to minimise external borrowing.
- ~~Financial investments do not include shares/equities.~~
- ~~All unsecured financial investment must be senior in ranking. Subordinated and perpetual debt instruments are not permitted.~~

Commented [BC13]: Repeats earlier statement

Commented [BC14]: Dealt with through having a AA- minimum level of credit risk exposure above

Special funds

~~Liquid assets are required to be held against recorded Special Fund amounts.~~

Commented [BC15]: This can't be achieved if you are also going to allow internal borrowings against these funds to minimise external debt.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust Deed. If the Trust's Investment Policy is not specified then this Policy should apply.

Investment management and reporting procedures

Council's policy for the management and reporting of investments includes:

- The legislative necessity to maintain efficient financial systems for the recording and reporting (inter alia) of:
 - All revenues and expenditures;
 - All assets and liabilities; and
 - The treatment and application of special funds.
- Adherence to Council's financial processes and delegations to Council's staff to invest surplus short-term funds and negotiate reinvestments, subject to the provision of adequate cash resources to meet normal expected cash demands;

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

13

Central Hawke's Bay District Council

- Treasury reporting is completed on at least a six-monthly basis.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

14

Central Hawke's Bay District Council

RISK RECOGNITION / IDENTIFICATION MANAGEMENT

The definition and recognition of liquidity, funding, investment, interest rate, counterparty credit, operational and legal risk of Council is detailed below and applies to both the Liability Management Policy and Investment Policy.

Interest rate risk on external borrowing**Risk recognition**

Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the LTP or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs is to be achieved through the management of underlying interest rate exposures.

Interest rate risk control limits

Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's forecast core external debt should be within the following fixed/floating interest rate risk control limit, and will apply when forecast 12 month core debt exceeds \$10 million.

Core external debt is defined as gross external debt. When approved forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

Master Fixed / Floating Risk Control Limits	
Minimum Fixed Rate	Maximum Fixed Rate
50%	95% 100%

Commented [BC16]: This will allow more flexibility, and allow Council to lock in the lower than normal interest rates that are prevalent at present

"Fixed Rate" is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling 12 month projected core debt level calculated by management. ~~(signed off by the CE).~~

~~The fixed rate amount at any point in time should be within the following maturity bands:~~

Fixed Rate Maturity Limit

Fixed Rate Maturity Limit		
Period	Minimum Hedge %	Maximum Hedge %
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	0%	60%

Commented [BC17]: The table above already states that between 50% and 100% of debt must be fixed. CBDC's debt level is too small to then break it down into 3 segments.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

15

Central Hawke's Bay District Council

A fixed rate maturity position that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

- ~~Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.~~
- Any interest rate swaps with a maturity beyond 10 years must be approved by Council.
- Hedging outside the above risk parameters must be approved by Council.
- At all times these instruments must be used within the context of the prudent financial objectives of Council's treasury function.

Approved financial instruments

Approved financial instruments (which do not include shares or equities) are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank/LGFA accepted bill facilities Loan stock /bond issuance <ul style="list-style-type: none"> ▪ Floating Rate Note (FRN) ▪ Fixed Rate Note (Medium Term Note/Bond) ▪ Commercial paper (CP)/Promissory notes
Financial investments – no more than 12-month term (except for LGFA borrower notes, investments linked to debt pre-funding and bank bonds)	Bank call/term deposits Bank registered certificates of deposit (RCDs) Secured/unsecured senior bank bonds for terms up to 5-years LGFA borrower notes
Interest rate risk management	Forward rate agreements ("FRAs") on: <ul style="list-style-type: none"> ▪ Bank bills Interest rate swaps including: <ul style="list-style-type: none"> ▪ Forward start swaps. Start date <24 months, unless linked to existing maturing swaps ▪ Swap maturity extensions and shortenings Interest rate options on: <ul style="list-style-type: none"> ▪ Bank bills (purchased caps and one for one collars) ▪ Interest rate swaptions (purchased swaptions and one for one collars only)
Foreign exchange management	<ul style="list-style-type: none"> ▪ Spot foreign exchange ▪ Forward exchange contracts (including par forwards)
Carbon price risk management	<ul style="list-style-type: none"> ▪ New Zealand Units (NZUs) and Assigned Amount Units (NZAAUs) ▪ Emission Reduction Units (ERUs), Certified Emission Reduction Units (CERs), Removal Units (RMUs) –

Commented [BC18]: If it was advantageous to use bank debt of greater than 12 months then Council should be able to do so. Likewise, Council may choose to borrow at a floating rate for longer than 12months.

Commented [BC19]: LGFA now offers lines of credit stand by facilities

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

16

Central Hawke's Bay District Council

	until such time as inadmissible on the NZ Emission Trading Scheme (ETS)
--	---

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Liquidity risk/funding risk

Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to changing market conditions.

Liquidity/funding risk control limits

To ensure funds are available when needed Council ensures that:

- There is sufficient available operating cash flow, liquid investments (cash/cash equivalents) and unused committed bank facilities to meet cash flow requirements between rates instalments as determined by the Finance Team.
- For liquidity purposes Council maintains the following;
External term debt plus committed bank facilities, plus unencumbered cash/cash equivalents to existing external debt of at least ~~110%~~ **110%**.
Unencumbered liquid financial investments (cash/cash equivalents) used for liquidity management purposes are to not have a maturity term greater than 30-days.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- The CE has the discretionary authority to re-finance existing external debt.
- Council will only borrow from strongly rated banks with a minimum long-term credit rating of at least "A+" (S&P, or equivalent Fitch or Moody's rating).
- The maturity profile of the total committed funding in respect to all external term debt and committed bank facilities is to be controlled by the following system. The limits will apply when core debt exceeds \$10 million:

Period	Minimum %	Maximum %
0 to 3 years	15%	60% 70%
3 to 5 years	15%	60%
5 years plus	0%	60%

Commented [BC20]: This percentage currently is in conflict with earlier table. Matches the LGFA recommended ratio

Commented [BC21]: The shorter end of the interest rate yield curve is cheaper, so while Council doesn't want all its debt maturing at once, Council does want maximise the use of the cheaper end of the yield curve.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

17

Central Hawke's Bay District Council

A funding maturity profile that is outside the above limits, however self corrects within 90-days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Finance and Services Committee at least six-monthly. Treasury related transactions would only be entered into with approved counterparties.

Counterparties and limits are only approved on the basis of the following Standard & Poor's (S&P, or equivalent Fitch or Moody's rating) long and short-term credit ratings matrix. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Counterparty / Issuer	Minimum S&P long term / short term credit rating	Investments maximum per counterparty (\$m)	Risk management instruments maximum per counterparty (\$m)	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited	None	Unlimited
Local Government Funding Agency (LGFA)	AA-/A-1	10.0	None	10.0
NZ Registered Bank	AA+/A-1	108.0 (with the exception of Council's transactional bank which may exceed this for up to 5 working days)	5.0	154.0

Commented [BC22]: Increased the credit limit from A+ to AA- which reduces credit risk, but lifted transaction limit to give more flexibility

Credit ratings should be reviewed by the Finance Team on an ongoing basis and in the event of material credit downgrades should be immediately reported to the CE and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Risk management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. The approval process must take into account the liquidity of the market and prevailing market conditions the instrument is traded in and repriced from.

Foreign currency

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

18

Central Hawke's Bay District Council

All individual commitments over NZ\$100,000 equivalent are hedged using approved foreign exchange instruments, once expenditure is approved, legal commitment occurs and the purchase order is placed, exact timing, currency type and amount are known. Only approved foreign exchange instruments are used.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency. Council does not hold investments denominated in foreign currency.

Emissions Trading Scheme (ETS)

The objective of the ETS carbon credit policy is to minimise the financial impact of carbon price movements on Council's forward carbon liability. The objective requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise. ETS is risk managed on a case-by-case basis, with any strategy approved by the CE.

Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Detailed controls and procedures are agreed between the CE and CFO on an annual basis.

Legal risk

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation.

Council will seek to minimise this risk by adopting Policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.

The use of expert advice.

Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be signed under seal by Council.

Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. Council must comply with all obligations and reporting requirements under existing bank funding facilities, LGFA, Trustee and legislative requirements.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

19

Central Hawke's Bay District Council

MEASURING TREASURY PERFORMANCE

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff are to be reported to the Finance and Services Committee on, at least, -a six-monthly basis.

Management	Performance
Operational performance	<ul style="list-style-type: none"> All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits. All treasury deadlines are to be met, including reporting deadlines.
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none"> The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.
Treasury investment returns	<ul style="list-style-type: none"> The actual investment income should be above the budgeted YTD/annual interest income amount.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

20

Central Hawke's Bay District Council

CASH MANAGEMENT

The Finance Team has responsibility to manage the day-to-day cash and short-term cash management activities of Council. The Finance Team prepares rolling cash flow and debt forecasts to manage Council's cash management and borrowing requirements. The overdraft facility is utilised as little as practical with any operational surpluses prudently invested.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

21

Central Hawke's Bay District Council

REPORTING

When budgeting interest costs and investment returns, the actual physical position of existing loans, investments, and interest rate instruments must be taken into account.

Treasury reporting

Regular treasury reporting on at least a six monthly is provided to the Finance & Infrastructure Services Committee.

Accounting treatment of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Statement of Comprehensive Revenue and Expense unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's financial accounts.

The Finance Team is responsible for advising the CE of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of financial arrangements.

All derivative instruments must be revalued (marked-to-market) at least six-monthly for reporting purposes.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

22

Central Hawke's Bay District Council

POLICY REVIEW

The Policy is to be formally reviewed on a triennial basis in conjunction with the LTP.

The CFO has the responsibility to prepare the annual review report (following the preparation of annual financial statements) that is presented to the CE. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes. The Policy review should be completed and presented to the Council, through the Finance and Services Committee within five months of the financial year-end.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

23

Central Hawke's Bay District Council

APPENDIX 1: Glossary of Terms

BKBM—The bank bill mid-market settlement rate, as determined at 10.45 am each business day on Reuters page BKBM. This is the standard rate for the settlement of interest rate swaps, forward rate agreements and interest rate floors, caps and collars.

Bank Bill—A "bill of exchange" security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquify itself with cash. Normally for terms of 30, 60, 90 or 180 days.

Benchmark—An agreed market-related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.

Bond—The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond's interest rate is always fixed.

Borrower Notes—On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of "Borrower Notes". A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). An interest return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Cap—A series or string of interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the "capped rate." A cap is normally for more than one 90-day funding period. Also called a "ceiling".

Certificate of Deposit "CD"—A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.

Closing Out—The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.

Collar—Two option contracts linked together into the one transaction or contract. A borrower's collar is normally a "cap" above current market rates and a "floor" below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a "cylinder".

Commercial Paper—The debt security instrument issued by a prime (and normally credit rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called "one-name paper" and "promissory notes" issued by competitive public tender to investors, or by private treaty to one investor.

Counterparty—The contracting party to a financial transaction or financial instrument.

Covenants—Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.

Cover—A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.

Credit Rating—The credit rating of a Corporation/Council is a financial indicator to potential investors of debt securities such as bonds. These are assigned by credit rating agencies such as

Commented [BC23]: Delete Glossary of terms. Adds no value to policy

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

24

Central Hawke's Bay District Council

Standard & Poor's, Moody's or Fitch Ratings and have letter designations such as AAA, B, CC. A poor credit rating indicates a high risk of defaulting, therefore constitutes a higher level of interest rates.

Credit Risk—The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.

Credit Spread—The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.

Debenture—A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.

Derivative(s)—A "paper" contract whose value depends on the value of some "underlying" asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a "synthetic". The value of the assets will change as its market price changes, the derivative instrument will correspondingly change its value.

Exercise Date/Price—The day and fixed price that an option contract is enforced/actioned or "exercised" because it is in the interests of one of the parties to the contract to do so.

Fair Value—The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.

Fixed Rate—The interest rate on a debt of financial instrument is fixed and does not change from the commencement date to the maturity date.

Floating Rate—The interest rate on a loan or debt instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90 days).

Floor—The opposite of a "cap". An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards.

Forward Exchange Contract—A contract to buy and sell one currency against another at a fixed price for delivery at some specified future date.

Forward Rate Agreement—A contract ("FRA") whereby a borrower or investor in Bank Bills agrees to borrow or invest for an agreed term (normally 90 days) at a fixed rate at some specified future date. A FRA is an "over-the-counter" contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.

Forward Starting Swap—An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.

Funding Risk—The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due the company's own credit worthiness, industry trends or banking market conditions.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

25

Central Hawke's Bay District Council

Guaranteeing borrower LGFA—a Council borrower that guarantees the interest and loan principal obligations of other Councils borrowing from the LGFA and the LGFA itself.

Hedging—The action of reducing the likelihood of financial loss by entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.

ISDA—International Security Dealers Association; a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counterparties that covers all transactions.

Interest Rate Collar Strategy—The combined purchase (sale) of a floor or cap with the sale (purchase) of another floor or cap. This can be a zero premium cost strategy. See the interest rate option for further details. This product can be used by both an investor and a borrower. From a borrower's perspective, this product is transacted to provide a limited amount of participation in a downward movement in interest rates to an agreed strike rate. If the interest rate continues to move downwards, Council cannot participate in any movement beyond the strike rate. If interest rates move in an unfavourable direction (upwards) then the predetermined strike rate provides certainty through a known worst case rate. For an investor, the zero cost collar allows some participation in an increase in rates and provides a worst case rate if interest rates decline.

This product outperforms the forward rate agreement if rates fall but under-performs if rates rise. This product would be used by a borrower, for known exposures, where the interest rate is expected to decline moderately from current levels.

Interest Rate Options—The purchase of an interest rate option gives the holder (in return for the payment of a premium) the right, but not the obligation, to invest (described as a floor) or borrow (described as a cap) at a future date for a specified period. Council and the counterparty agree to a notional future principal amount, the future interest rate, the benchmark dates and the benchmark rate (usually BKBM). Interest rate option products include caps, floors, swaptions and bond options.

From a borrower's perspective, these products offer Council maximum flexibility, protecting Council from a rise in rates but allowing full participation in a fall in rates. When used by an investor, this product protects Council from a decline in rates and allows full participation in rising rates.

This product is used either where there is some uncertainty in the underlying debt exposure or the outlook for interest rates is favourable but the policy requires some form of protection.

Interest Rate Swaps—A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.

Liability Management—The policy, strategy and process of actively managing a portfolio of debt.

Limit(s)—The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".

Liquidity Risk—The risk that a company cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

26

Central Hawke's Bay District Council

LGFA Bonds—A medium term note (MTN) where a fixed coupon payment is made semi-annually to the LGFA by the Council borrower over the term of the bond, or a floating rate notes (FRN) where interest is paid quarterly at a margin over the bank bill bid rate over the term of the bond.

LGFA guarantee—Provided by a guaranteeing borrower, Council guarantees the interest and principal loan obligations of other Councils that are borrowing from the LGFA and the LGFA itself. The guaranteeing amount is to proportionate to Council's rate revenue relative to the rate revenue of all other LGFA borrowing guaranteeing Councils.

Marked-to-Market—Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.

Margin—The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.

Medium Term Notes (MTN)—A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.

Non-guaranteeing borrower LGFA—a Council borrower that does not guarantee the interest and loan principal obligations of other Councils borrowing from the LGFA or the LGFA itself. The Council borrower has no more than \$20 million of borrowing from the LGFA.

Revaluation—The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/bought back (closed-out) with the counterparty at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.

Roll over—The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.

Spot Rate—The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.

Subordinated debt—Upon liquidation of a company, subordinated debt holders rank behind other senior unsecured and secured creditors.

Strike Price—The rate or price that is selected and agreed as the rate at which an option is exercised.

Swaption—An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.

Swaption Collar—The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a 'collar' where from a borrower's perspective a top side position above current market rates and a bottom side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted.

Treasury—Generic term to describe the activities of the financial function within a company that is responsible for managing the cash resources, debt, foreign exchange risk, and sometimes the commodity price and energy price risk.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

27

Central Hawke's Bay District Council

Treasury Bill—A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.

Volatility—The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.

Yield—Interest rate, always expressed as a percentage.

Yield Curve—The plotting of market interest rate levels from short term (90 days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.

Procurement Policy
ADOPTED: TBC

E ora ngātahi ana!

28

6 DATE OF NEXT MEETING

RECOMMENDATION

THAT the next meeting of the Central Hawke's Bay District Council be held on 16 September 2020.

7 TIME OF CLOSURE