



**CENTRAL  
HAWKE'S BAY**  
DISTRICT COUNCIL



## Risk and Assurance Committee Meeting Agenda

Thursday, 11 November 2021

9.00am

Council Chamber, 28-32 Ruataniwha  
Street, Waipawa

*Together we Thrive! E ora ngātahi ana!*

## Order Of Business

<b>1</b>	<b>Karakia.....</b>	<b>3</b>
<b>2</b>	<b>Apologies .....</b>	<b>3</b>
<b>3</b>	<b>Declarations of Conflicts of Interest .....</b>	<b>3</b>
<b>4</b>	<b>Standing Orders.....</b>	<b>3</b>
<b>5</b>	<b>Confirmation of Minutes .....</b>	<b>3</b>
<b>6</b>	<b>Report Section .....</b>	<b>11</b>
6.1	Resolution Monitoring Report .....	11
6.2	Risk and Assurance Committee Priority Report .....	13
6.3	Treasury Management Monitoring Report .....	19
6.4	Review of Treasury Management Policy .....	24
6.5	Risk Status Report .....	57
6.6	Health & Safety Report .....	61
6.7	Audit Findings Monitoring Report .....	69
<b>7</b>	<b>Public Excluded .....</b>	<b>78</b>
7.1	Public Excluded Resolution Monitoring Report.....	78
<b>8</b>	<b>Date of Next Meeting .....</b>	<b>78</b>
<b>9</b>	<b>Time of Closure.....</b>	<b>78</b>

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

**RECOMMENDATION**

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

- 21.2 Time limits on speakers
- 21.5 Members may speak only once
- 21.6 Limits on number of speakers

And that Option C under section 22 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.

**5 CONFIRMATION OF MINUTES**

Risk and Assurance Committee Meeting - 16 September 2021

**RECOMMENDATION**

That the minutes of the Risk and Assurance Committee Meeting held on 16 September 2021 as circulated, be confirmed as true and correct.

**MINUTES OF CENTRAL HAWKES BAY DISTRICT COUNCIL  
RISK AND ASSURANCE COMMITTEE MEETING  
HELD AT THE COUNCIL CHAMBER, 28-32 RUATANIWHA STREET, WAIPAWA  
ON THURSDAY, 16 SEPTEMBER 2021 AT 9.00AM**

**PRESENT:** Chairperson 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)  
Doug Tate (Group Manager, Customer and Community Partnerships)  
Brent Chamberlain (Chief Financial Officer)  
Nicola Bousfield (Group Manager, People and Business Enablement)  
Darren De Klerk (Director Projects & Programmes)  
Bridget Gibson (Governance and Support Lead)  
Bevan Johnstone (Health & Safety Advisor)

**EXTERNAL PRESENTERS**

Matt Bilbeck - AON Insurance  
Richard Harrison - AON Insurance

The Risk and Assurance Committee Meeting opened at 9:06am. Technical issues meant no live stream was available and the meeting was recorded for later public access. The live streaming issue was rectified at 9:30am and the meeting streamed live to the public via Zoom and Facebook.

**1 APOLOGIES**

The apologies from Mayor Walker for absence from the meeting were accepted by the Chair and noted by the Committee.

**2 DECLARATIONS OF CONFLICTS OF INTEREST**

Nil.

**3 STANDING ORDERS**

**COMMITTEE RESOLUTION**

Moved: Cr Brent Muggeridge  
Seconded: Cr Gerard Minehan

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

- 21.2 Time limits on speakers
- 21.5 Members may speak only once
- 21.6 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.



<b>CARRIED</b>
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#### **4 CONFIRMATION OF MINUTES**

<b>COMMITTEE RESOLUTION</b>
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Moved: Cr Jerry Greer

Seconded: Cr Gerard Minehan

**That the minutes of the Risk and Assurance Committee Meeting held on 27 May 2021 as circulated, be confirmed as true and correct.**

**CARRIED**

#### **5 REPORT SECTION**

<b>6.1 INSURANCE RISK PROFILE REPORT</b>
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<b>PURPOSE</b>
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The purpose of this report is to provide the Risk and Assurance Committee with feedback on AON's insurable risk profile meeting held on the 30 March 2021.

<b>COMMITTEE RESOLUTION</b>
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Moved: Cr Gerard Minehan

Seconded: Cr Brent Muggeridge

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

**CARRIED**

Matt Bilbeck and Richard Harrison of AON Insurance joined the meeting and presented the report.

The Chair requested that a summary on recommendations of new cover and premiums and how they differ from current be reported to the Committee.

**6.2 RESOLUTION MONITORING REPORT****PURPOSE**

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

At this time there are no outstanding resolutions monitored on which to report, therefore no report was tabled. The status of the report was noted by the Chair and Committee.

**6.3 RISK AND ASSURANCE WORK PROGRAMME MONITORING REPORT****PURPOSE**

The purpose of this report is for the Risk and Assurance Committee to receive a progress update on the Risk & Assurance Committee Work Programme.

**COMMITTEE RESOLUTION**

Moved: Cr Tim Aitken

Seconded: Cr Jerry Greer

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

**CARRIED**

CEO Davidson presented the report, taken as read.

An update was given by Officer Bousfield on the Contractor Management Framework. The Chair requested that the status of the Contract Management Framework be reported on regularly as part of the Risk and Assurance Work Programme.

The Chair requested that a report be prepared for a future meeting outlining the Council's obligations under the Health and Safety at Work Act in relation to contractor management.

<b>6.4 TREASURY MANAGEMENT MONITORING REPORT</b>
<b>PURPOSE</b> The purpose of this report is to provide an update on Treasury Management and Policy Compliance.
<b>COMMITTEE RESOLUTION</b> Moved: Cr Gerard Minehan Seconded: Cr Tim Aitken <b>That, having considered all matters raised in the report, the report be noted.</b> <b>CARRIED</b>

Presented by Officer Chamberlain, the report was taken as read.

<b>6.5 AUDIT FINDINGS MONITORING REPORT</b>
<b>PURPOSE</b> The purpose of this report is to track and update the committee on audit recommendations from recent audits.
<b>COMMITTEE RESOLUTION</b> Moved: Cr Gerard Minehan Seconded: Cr Tim Aitken <b>That, having considered all matters raised in the report, the report be noted.</b> <b>CARRIED</b>

Officer Chamberlain presented the report, and the report was taken as read.

Conflicts of interest register is to be updated. It was outlined that at each procurement a conflicts of interest disclosure form is filled out by contractors and the register updated.

**6.6 RISK STATUS REPORT****PURPOSE**

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

**COMMITTEE RESOLUTION**

Moved: Cr Brent Muggeridge

Seconded: Cr Jerry Greer

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

**CARRIED**

Presented by Officer Bousfield, the report taken as read.

Potential extended Covid-19 Lockdown at Alert Level 4 risk and risk mitigation was discussed.

There was further discussion and update was provided on supply chain matters for works in progress and future works, in mitigating risk to supply chains if Alert Level 4 Lockdown were to be engaged.

**6.7 HEALTH & SAFETY REPORT****PURPOSE**

To provide the Risk & Assurance Committee with health, safety and wellbeing information and insight and to update the Committee on key health and safety critical risks and initiatives.

**COMMITTEE RESOLUTION**

Moved: Cr Gerard Minehan

Seconded: Cr Brent Muggeridge

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

**CARRIED**

Officer Bousfield presented the report, taking the report as read.

Update given on vaccination education and recording within the organisation. Vaccination is voluntary, not mandatory. A Vaccination Policy has been put in place. The purpose of the Policy is to outline process, management, and collection of vaccination information as a matter of private record. Noted that the vaccination policy is related to all vaccination recording, and that vaccination records are kept to mitigate risk in employee safety while carrying out their duties.

An incident was highlighted for amendment in categorisation of incident, and the action referred to Officer Johnstone.

Noted that "overspeed" reporting has been removed from this report, and it is being reported on at an operational level.

It was noted that the Health and Safety Dashboard presented to the Committee was a report for operational management purposes and it was suggested that a revised dashboard be developed



for the Committee which was more directly focused on summary governance-related Health and Safety information.

<b>6.8 HEALTH, SAFETY AND WELLBEING GOVERNANCE CHARTER - REVIEW AND AMENDMENTS</b>
<p><b>PURPOSE</b></p> <p>The matter for consideration by the Risk &amp; Assurance Committee is the adoption of minor changes to the Health Safety &amp; Wellbeing Governance Charter following a scheduled review.</p>
<p><b>COMMITTEE RESOLUTION</b></p> <p>Moved: Cr Tim Aitken Seconded: Cr Brent Muggeridge</p> <p><b>That having considered all matters raised in the report:</b></p> <p><b>That the Risk and Assurance Committee adopt the recommended changes to the Health Safety &amp; Wellbeing Governance Charter.</b></p> <p style="text-align: right;"><b>CARRIED</b></p>

Presented by Officer Bousfield. The report taken as read.

The Chair directed that the Safety & Wellbeing Governance Charter be reviewed and reported back to the Committee on a 2 yearly, rather than 3 yearly basis.

### RESOLUTION TO EXCLUDE THE PUBLIC

<p><b>RECOMMENDATION</b></p> <p>That the public be excluded from the following parts of the proceedings of this meeting.</p> <p>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:</p>		
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
<b>7.1 - Ernst Young Management Report - Audit Findings</b>	<p>s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(f)(i) - free and frank expression of opinions by or between or to members or officers or employees of any local authority</p>	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
<b>7.2 - Central Hawkes Bay District Councils Investment Strategy</b>	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the	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

	information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information  s7(2)(f)(i) - free and frank expression of opinions by or between or to members or officers or employees of any local authority	of information for which good reason for withholding would exist under section 6 or section 7
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The meeting entered closed meeting forum at 10:30am.

The meeting adjourned for refreshment break at 10:32am.

The meeting readjourned at 10:50am in the forum of Closed Council.

12.11pm moved to open Council in the public forum, the meeting livestreamed via Zoom and Facebook.

<b>6.9 DRAFT ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2021</b>
<p><b>PURPOSE</b></p> <p>The matter for consideration by the Council is to receive the Draft Annual Report for the Year Ended 30 June 2021.</p>
<p><b>COMMITTEE RESOLUTION</b></p> <p>Moved: Cr Brent Muggeridge Seconded: Cr Tim Aitken</p> <p><b>That having considered all matters raised in the report:</b></p> <p>a) That the Risk and Assurance Committee receive the report titled “Draft Annual Report for the Year Ended 30 June 2021”.</p> <p>b) That after receiving the Draft Annual Report, and hearing assurances from Ernst Young, that the Committee endorse the Draft Annual Report, and recommend it to Council for adoption once the audit has been completed.</p> <p style="text-align: right;"><b>CARRIED</b></p>

## 7 TIME OF CLOSURE

The Meeting closed at 12:24pm.

The minutes of this meeting were confirmed at the Risk and Assurance Committee Meeting held on 11<sup>th</sup> November 2021.

.....  
**CHAIRPERSON**

## 6 REPORT SECTION

### 6.1 RESOLUTION MONITORING REPORT

**File Number:** COU1-1408

**Author:** Monique Davidson, Chief Executive

**Authoriser:** Monique Davidson, Chief Executive

**Attachments:** 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 made by the Committee.

#### 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.

#### DISCUSSION

The Committee Resolution Monitoring Report is attached.

#### 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.**



## Risk and Assurance Committee - Resolution Monitoring Report November 2021

Key					
Completed					
On Track					
Off Track					
Item Number	Item	Council Resolution	Resolution Date	Responsible Officer	Progress Report
6.8	Health, Safety and Wellbeing Governance Charter - Review and Amendments	That the Risk and Assurance Committee adopt the recommended changes to the Health Safety & Wellbeing Governance Charter.	16/09/2021	Nic Bousfield	The reviewed and updated Health, Safety and Wellbeing Governance Charter was adopted in the September Risk & Assurance Committee meeting
6.9	Draft Annual Report for the Year Ended 30 June 2021	a) That the Risk and Assurance Committee receive the report titled "Draft Annual Report for the Year Ended 30 June 2021"  b) That after receiving the Draft Annual Report, and hearing assurances from Ernst Young, that the committee endorse the Draft Annual Report, and recommend it to Council for adoption once the audit has been completed.	16/09/2021	Brent Chamberlain	The Annual Report was adopted by Council on the 23rd September 2021, and signed audit reports were provided and auditor approval for final public release was given on the 24th September 2021.



**6.2 RISK AND ASSURANCE COMMITTEE PRIORITY REPORT**

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

**RECOMMENDATION**

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

**PURPOSE**

The purpose of this report is for the Risk and Assurance Committee to receive a progress update on the Risk & Assurance Committee Work Programme.

**SIGNIFICANCE AND ENGAGEMENT**

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

**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. Subsequently, The Risk and Assurance Committee Work Programme was adopted by the Committee at meeting held 3 September 2020.

**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 was adopted, 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 Risk and Assurance Committee will receive the following standing reports:

- **Committee Priorities Monitoring Report**
- **Committee Resolution Monitoring Report**
- **Internal and External Audit Monitoring Report**
- **Risk Status Monitoring Report**
- **Health and Safety Monitoring Report**
- **Treasury Management Monitoring Report**

The monitoring report which provides an update on the key priorities of the Committee is below:

Key Priority	Responsible Officer	Progress Update
Review Internal Audit Work Programme	Brent Chamberlain	<p>Council has sufficient funding for generally two internal audits during each financial year.</p> <p>Council has recently undertaken a Cyber Security audit and a Fraud Health Check audit.</p> <p>Crowe has recently provided some templates to allow Council to build its Business Continuity Plans, which are an area of focus ahead of any further internal audits.</p>
Review Governance Policy Framework and determine role for Risk and Assurance Committee	Brent Chamberlain	<p>The Risk and Assurance Committee participated in a workshop on the 27 May 2021 on this item. The Committee clarified its role, in recognising that policy sits with Council however agreed that Risk and Assurance Committee will play a role in developing the following policy:</p> <ul style="list-style-type: none"> <li>• Procurement Policy</li> <li>• Fraud and Corruption Prevention Policy (Operational)</li> <li>• Sensitive Expenditure Policy</li> <li>• Treasury Management Policy</li> <li>• Protected Disclosures Policy (Operational)</li> </ul>
Review Risk Management Policy	Nicola Bousfield	In the November 2020 report, revisions to the Risk Framework were completed and Officers advised they considered a separate Policy was not needed. The Framework has been amended to provide clear principles and intent for risk management and it is not considered that a separate Policy would add any value.
Review Risk Appetite Statement and Governance Risk Register.	Nicola Bousfield & Brent Chamberlain	Risk Appetite workshop to be held with Elected Members following the November Risk & Assurance meeting, the Risk Appetite Statement will then be updated in the Risk Management Framework as part of the Risk Management work.
Review Fraud	Brent Chamberlain	The newly developed policy has been adopted, and socialised with staff.
Whistle Blowing Policy	Nicola Bousfield	The People and Capability team has = updated this policy in line with best practice and is taking this revised policy to staff for consultation before the end of the year.
Review Health, Safety and	Nicola Bousfield	This review was completed and minor changes is presented to the Committee in the September Risk & Assurance



Key Priority	Responsible Officer	Progress Update
Wellbeing Governance Charter		meeting to adopt.
Review Insurances and Risk Appetite	Brent Chamberlain	Officers, the CEO, the Chair and Deputy Chair of Risk and Assurance, and the Chair of Finance and Infrastructure, and the Mayor attended an AON Insurance to workshop on the 30 <sup>th</sup> March 2021. AON are presenting the follow up report at this meeting.

As part of the Risk and Assurance's role in ensuring assurance on things that matter the most, regular deep dives on key issues are agreed to:

Topic	Responsible Officer	Progress Update
Critical Risks	Nicola Bousfield	Critical Risks "in focus" are reported to the Risk & assurance Committee regularly through the Health & Safety Report, providing Governors line of site into Council's critical risks and the controls taken to manage these.
Contractor Performance	Brent Chamberlain	As reported in the May 2021 Health and Safety Report to this Committee, the H&S contractor management guidance has been completed, but the project has been re-scoped to take a wider 'all of Council' approach for contract management and embed the H&S aspects into the existing Contract Management Framework. This work requires a full review of the existing framework by the Chief Financial Officer, progress will be reported to the Committee.
Legal Challenges / Files	Monique Davidson	The Risk and Assurance Committee will be updated on this in a workshop following the next meeting in November. This information does not exist in the public domain given the need for Council to protect legal privilege.

## 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**

A further update will be provided at the next committee meeting in 2022.

**RECOMMENDATION**

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

### 6.3 TREASURY MANAGEMENT MONITORING REPORT

**File Number:** COU1-1408

**Author:** Brent Chamberlain, Chief Financial Officer

**Authoriser:** Monique Davidson, Chief Executive

**Attachments:** Nil

#### RECOMMENDATION

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

#### PURPOSE

The purpose of this report is to provide an update on Treasury Management and Policy Compliance.

#### SIGNIFICANCE AND ENGAGEMENT

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

#### BACKGROUND

Council is required under the Local Government Act 2002 to have 3 policies:

- Treasury Management Policy
- Liability Management Policy, and
- Investment Policy

The rationale for the policies is to ensure prudent use of public funds, manage investment returns, borrowing costs, and to minimise the risk of loss of public funds.

In practice Central Hawkes Bay District Council has combined them into a single policy covering all 3 topics.

This current policy was adopted on the 13<sup>th</sup> May 2021 leading up to the Long Term Plan, but Bancorp Treasury has been recently engaged to provide specialist treasury advice and they are presenting a proposed Treasury Policy update later this meeting.

#### DISCUSSION

##### Investments

At the 30<sup>th</sup> September 2021, Council was holding \$8.5m in funds on call (up \$5.9m from 30 June 2021). Much of this is due to instalment of one of rates, the next \$1.6m of tranche 1 water reform monies being received, and a \$3m term deposit maturing on this day.

In addition Council was holding \$7.0m in term deposits (\$13m as at 30 June 2021) spread across 2 maturities, \$320k in capital notes (\$320k as at 30 June 2021), and \$955k (\$955k as at 30 June 2021) in bank bonds.

These investments are listed below:

**Cash and Investment Position**

		Int Rate	Int Rate	Amount		
	Maturity Date	(Face)	(Actual)	30/06/2021	Amount Now	Movement
<u>ANZ Cheque and Call Accounts</u>				2,622,814	8,533,715	5,910,902
LGFA Notes	25/08/2025	3.54%	3.54%	32,000	32,000	0
LGFA Notes	15/04/2024	1.79%	1.79%	160,000	160,000	0
LGFA Notes	15/04/2023	1.56%	1.56%	64,000	64,000	0
LGFA Notes	15/04/2027	1.63%	1.63%	64,000	64,000	0
ANZ Bond	1/09/2023	3.71%	3.71%	355,000	355,000	0
ASB Bond	7/09/2023	3.33%	3.33%	600,000	600,000	0
Westpac Term Deposit	31/12/2021	0.94%	0.94%	4,500,000	4,500,000	0
Westpac Term Deposit	30/09/2021	0.83%	0.83%	2,500,000	2,500,000	0
Westpac Term Deposit	29/10/2021	0.88%	0.88%	3,000,000	-	(3,000,000)
BNZ Term Deposit	19/07/2021	0.55%	0.55%	3,000,000	-	(3,000,000)
Total Investments				14,275,000	8,275,000	(6,000,000)

Term Deposit Rates have been at an all time low with returns for periods of 3-6 months length returning less than 1% pa. However with the recent lift in the OCR (Official Cash Rate) from 0.25% pa to 0.50% pa these are starting to trend back upwards (as are lending rates).

Council currently has a maximum exposure with a single bank of \$7m which is under Councils policy limit of \$10m.

**Borrowing**

At the 30<sup>th</sup> September 2021 Council had \$22m of external debt drawn (\$20m 30 June 2021).

Council borrowed an additional \$2m on the 19<sup>th</sup> July 2021 in order to settle supplier invoices on the 20<sup>th</sup>. This was borrowed short term (364 days) at a rate of 1.25% bringing Councils average weighted average cost of debt down to 2.19% pa.

The table below shows the details of Council's current debt portfolio:

<u>Debt Position</u>	Draw Date	Maturity Date	Interest Rate	Amount		Movement
				30/06/2021	Amount Now	
LGFA - Fixed Rate	28/08/2017	25/08/2025	3.85%	2,000,000	2,000,000	-
LGFA - Fixed Rate	22/07/2019	15/04/2024	2.19%	10,000,000	10,000,000	-
LGFA - Fixed Rate	16/12/2019	15/04/2023	1.96%	4,000,000	4,000,000	-
LGFA - Fixed Rate	16/03/2020	15/04/2027	2.03%	4,000,000	4,000,000	-
LGFA - Fixed Rate	19/07/2021	18/07/2022	1.25%		2,000,000	
ANZ Seasonal Facility (\$1,500,000)				-	-	-
Total Debt			2.19%	20,000,000	22,000,000	-

On the following page are a list of Council's debt ratios as per the existing policy and the proposed policy:



**Treasury Compliance with Policy**Liquidity (Liquid Assets + Debt / Debt)

✓	<b>Policy Limit</b> >115%	<b>Actual</b> 146%
---	------------------------------	-----------------------

Finance Costs / Total Revenue

✓	<b>Policy Limit</b> <20%	<b>Actual</b> 0.8%
---	-----------------------------	-----------------------

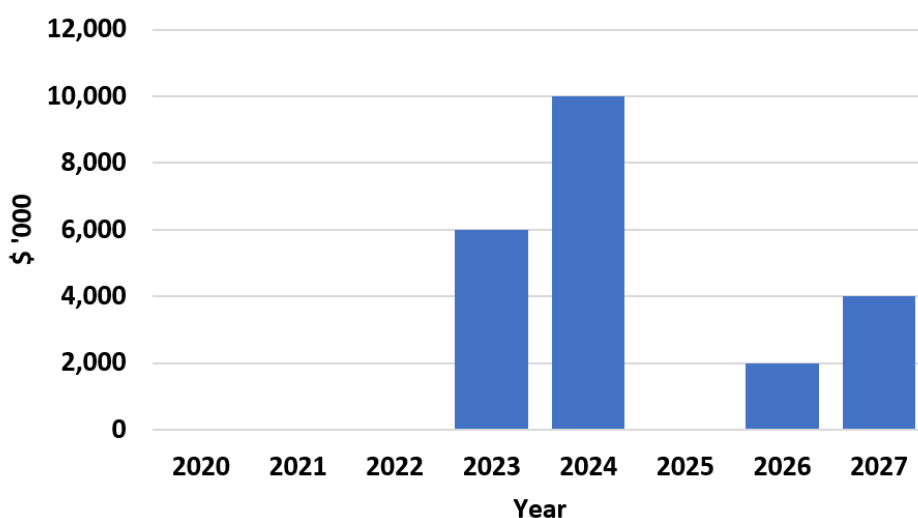
Finance Costs / Total Rates Revenue

✓	<b>Policy Limit</b> <25%	<b>Actual</b> 2.1%
---	-----------------------------	-----------------------

Debt to Operating Revenue

✓	<b>Policy Limit</b> <150%	<b>Actual</b> 36.0%
---	------------------------------	------------------------

As at 30<sup>th</sup> September 2021, Council is holding sufficient funds to meet its financial obligations (liquidity ratio), it is within its debt ceiling (debt per head of population and debt to operating revenue ratios), and it is within its financial costs ratios.

**Maturity of Debt**

<b>Actual</b>	0%	0%	0%	20%	50%	0%	10%	20%
<b>Policy</b>	35%	35%	35%	35%	35%	35%	35%	35%
<b>Met</b>	Y	Y	Y	Y	N	Y	Y	Y

Council's policy states that "no more than the greater of \$10m, or 35% of Council's total debt can mature in any 12 month rolling period". As at 30<sup>th</sup> September 2021 the only 12 month period that exceeds 35% of all debt maturing in a 12 month period is 2024 where \$10m matures, which is still inside the proposed policy.

Expected Funding / Refinancing Requirements

Over the next six months, Council has will have a further rates instalment due in August, the remaining 3 Waters reform monies due (further \$3.9m) due, and \$7m of term deposits maturing.

On the flip side the first LGFA debt maturity doesn't occur until July 2022.

Treasury/Investment Advisor

At the end of July Council signed up to an initial 12 month contract with Bancorp Treasury for treasury advice. They will be attending this meeting to introduce themselves and present the proposed changes to the Treasury Management Policy.

OCR Rate forecasts

On the 6<sup>th</sup> October 2021 the Reserve Bank of NZ raised its OCR (Official Cash Rate) from 0.25% pa to 0.50% pa. This is the first change in OCR for 18 months when it was lowered to a record low in reaction to Covid and a possible recession.

The Reserve Bank uses the OCR to stimulate or cool the economy with the objective of keeping New Zealand's inflation between 1-3%. Any changes in the OCR have an impact on the banks costs of funds and typically flow through to term deposit rates and mortgage rates. Council borrows through the LGFA which is funded through the wholesale markets so is less impacted by OCR changes, but is impacted by general directions of interest rates.

Interest rate swaps (a financial instrument used for fixing debt positions) is normally a good indicator of what the market is predicting the future direction of interest rates will be – see the table below:

NZ Interest Rates - Forward Swap Rates										
Term	Period ahead									
	Now	3m	6m	9m	1yr	2 yr	3 yr	5yr	7yr	10yr
1Y	1.11	1.37	1.55	1.68	1.81	1.90	1.98	2.10	2.22	2.37
2Y	1.46	1.63	1.75	1.84	2.00	2.07	2.12	2.24	2.35	2.47
3Y	1.64	1.77	1.86	1.93	2.14	2.19	2.24	2.36	2.46	2.55
4Y	1.76	1.86	1.94	2.00	2.23	2.29	2.35	2.47	2.56	2.61
5Y	1.85	1.94	2.01	2.06	2.36	2.41	2.48	2.58	2.64	2.67
7Y	2.00	2.08	2.13	2.18	2.61	2.65	2.70	2.74	2.74	2.78
10Y	2.20	2.25	2.30	2.34	2.79	2.79	2.78	2.76	2.82	2.86

Source: Bloomberg

The table above shows the current wholesale interest rate swaps (Council pays the LGFA somewhere close to these rates plus a 0.35% pa margin).

Assuming most Council debt is fixed for a 5 year period, today Council could roughly borrow this at 2.2% pa (being 1.85% above + 0.35% margin).

However if the markets have priced it correctly, the same loan in 5 years time would cost 2.93% (being 2.58% above + 0.35% margin).

This means the banks are only currently factoring in a further 0.75% interest rate rise over the next 5 years.

**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;

- 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;
- 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 provide quarterly updates on Treasury Management.

**RECOMMENDATION**

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

## 6.4 REVIEW OF TREASURY MANAGEMENT POLICY

**File Number:** COU1-1408

**Author:** Brent Chamberlain, Chief Financial Officer

**Authoriser:** Monique Davidson, Chief Executive

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

### PURPOSE

The matter for consideration by the Risk and Assurance is to consider the attached draft Treasury Policy (incorporating Investment and Liability policies) for recommendation to Council for adoption.

### RECOMMENDATION FOR CONSIDERATION

**That having considered all matters raised in the report:**

- a) **That Risk and Assurance recommend to Council the revised Treasury Policy (incorporating Investment and Liability policies) be recommended to Council for adoption.**

### EXECUTIVE SUMMARY

Council's Treasury Management Policy was originally written by PriceWaterhouse Coopers in 2016. In the lead up to the Long Term Plan the policy was reviewed by officers, and the amendments were adopted by Council on the 24 September 2020.

Council has now employed Bancorp Treasury as its Treasury Advisors, and the first task assigned to them is to undertake a review of Council's existing Treasury Policies.

This task has now been completed with the resultant draft treasury policy attached. The main changes include an alteration to fixed/floating debt control limits, and the introduction of an investment matrix.

### BACKGROUND

Council's Treasury Management Policy was originally written by PriceWaterhouse Coopers in 2016. In the lead up to the Long Term Plan the policy was reviewed by officers, and the amendments were adopted by Council on the 24 September 2020.

Council has now employed Bancorp Treasury as its Treasury Advisors, and the first task assigned to them is to undertake a review of Council's existing Treasury Policies.

In particular, Bancorp Treasury were asked to consider:

- Council's desired to review its Investment Strategy with the view of maximising non-rate payer income streams
- Council's debt strategy in light of expected rising interest rates, and the debt profile outlined in Council's Long Term Plan
- The possible impact that Central Governments 3 Waters Reform proposal would have on Council's debt if the proposal was to proceed

### DISCUSSION

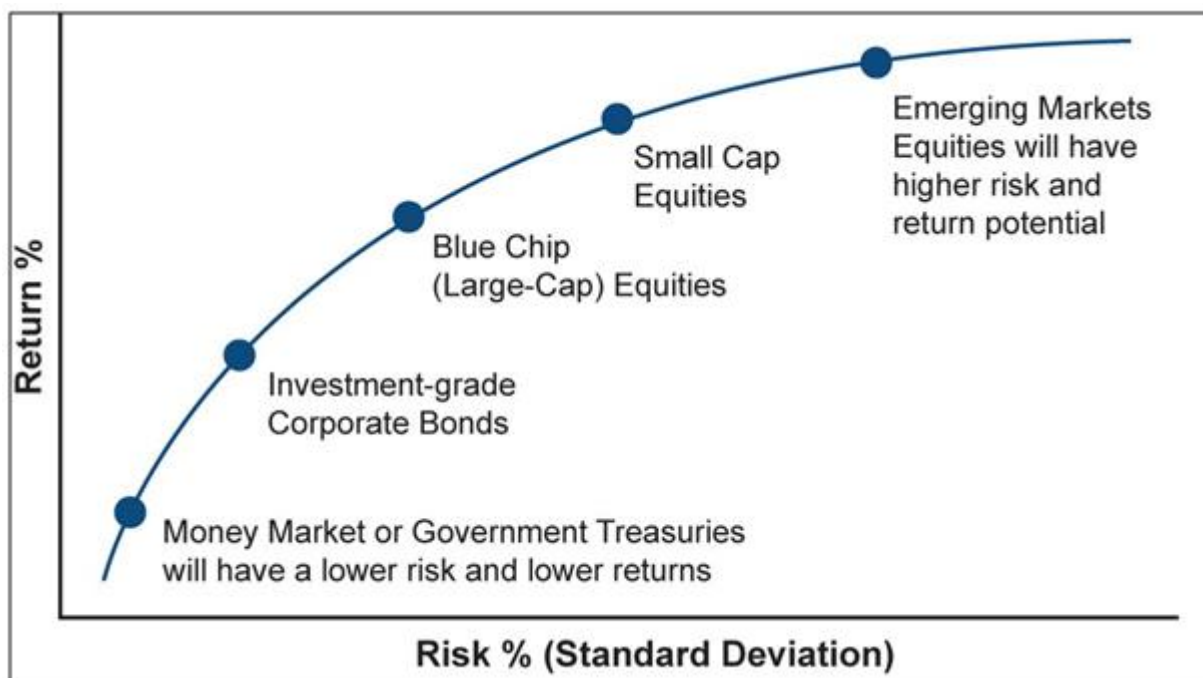
Due to the expected Debt profile contained in the Long Term Plan, Council has requested Officers engage professional treasury advice in order to minimise treasury risk.

Officers have also been asked to maximise non-rating revenue sources (including investment returns), in order to keep rate increases to a minimum.

Bancorp Treasury were engaged by Council to provide specialist treasury advice late July 2021.

Bancorp Treasury referred Officers to Eriksen Global for some specific investment advice. Eriksen Global provided Risk and Assurance a Strategic Investment Review paper on 16 September 2021 for consideration.

This paper prompted a debate about risk vs reward (see graph below).



The clear direction around the table was Council is investing public money and should be careful about chasing high rewards as they come with high risks.

That investing in equities was too far along the continuum, but greater use of corporate bonds should be considered.

Given much of Council's investments are already invested in internal debt, to move this investment to bonds Officers would need to replace the internal debt with external debt to recycle these funds. The benefit to the return would only be the margin between the internal debt rate of return and the bond rate of return, but Council would be inheriting 100% of the bond default risk. Therefore Councillors felt the additional return did not justify the additional risk at this time.

Based on this discussion, and other discussion held between Bancorp Treasury and Officers, Bancorp have provided a marked up copy of Council's existing Treasury Policy for consideration.

Most of the changes proposed are tidying up of wordings, the main substantive changes are:

1. Being more prescriptive about the use of fixed rate debt vs floating rate debt, with a maximum fixed rate duration added of 8 years. Currently a minimum of 50% of all debt must be fixed. Bancorp Treasury is proposing this be replaced with the following table:

Fixed/Floating Interest Rate Risk Control Limits		
	Minimum Fixed Rate	Maximum Fixed Rate
0 – 2 years	40%	100%
2 – 4 years	20%	80%
4 – 8 years	0%	60%

This change allows for greater flexibility than a single bucket approach, and will mean Council is better able to respond to future interest rate movements through the use of swaps (a financial instrument that allows the debt and interest rate fix mechanism to be

decoupled – ie the fixing agreement is separate from the loan agreement and could be between different financial institutions).

- Council's existing policy lists the types of investments Council can undertake, and in a separate table lists the 3<sup>rd</sup> party counter risk limits (the maximum amount Council can invest with any single institution).

It proposed that this is replaced with the following table which lists the investment category type, the limit of each category it is allowed to hold, the minimum credit worthiness of each investment.

Authorised Asset Classes	Maximum limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – S&P (or Moody's or Fitch equivalents)	Limit for each issuer subject to overall portfolio limit for issuer class
New Zealand Government or Government Guaranteed	100%	Government Bonds Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	50%	Commercial Paper	S&P ST rating of 'A-1' or LT 'A-' or A	\$2 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$4 million
Unrated local authorities where rates are used as security	25%	Bonds/MTNs/FRNs	Not applicable	\$2 million
New Zealand Registered Banks	100%	Call/Term Deposits	S&P ST rating of 'A-1' or LT 'A-' or 'A'	\$3 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$12 million
State Owned Enterprises	33%	Commercial Paper	S&P ST rating of 'A-1' or LT 'A-' or 'A'	\$2 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$4 million
Corporates	25%	Commercial Paper	S&P ST rating of 'A-1' or LT 'A-' or 'A'	\$1 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$2 million
Financials	25%	Commercial Paper	S&P ST rating of 'A-1' or LT 'A-' or 'A'	\$1 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$2 million

- Council's existing policy doesn't benchmark the effectiveness of Councils decision making (in relation to the average financing costs including hedging costs) against a predetermined marker.

It proposed to introduce the following benchmark so that Council can see the effectiveness of its policy settings and decision making:

Given the Fixed/Floating Interest Rate Risk Control Limits of this policy, the market benchmark (composite) indicator rate will be calculated as follows:

- 30% Average 90 day bill rate for reporting month.
- 10% 2 year swap rate at end of reporting month.
- 10% 2 year swap rate, 2 year ago.
- 10% 4 year swap rate at end of reporting month.
- 10% 4 year swap rate, 4 years ago.
- 15% 8 year swap rate at end of reporting month.
- 15% 8 year swap rate, 8 years ago.

The actual reporting benchmark is the 12 month rolling average of the monthly calculated benchmarks using the above parameters. This is compared to actual cost of funds, excluding all credit margins and fees.

Representatives from Bancorp Treasury will be in attendance for the meeting to introduce themselves and their company, and to talk Councilors through these proposed changes.

## **RISK ASSESSMENT AND MITIGATION**

Risk mitigation is one of the main drivers for having a Treasury Management Policy. Two of the three material changes have a direct impact on Council's risk profile – interest rate risk, and investment failure risk. Both proposed changes are consistent with policies used by Bancorp Treasury's other Council clients.

## **FOUR WELLBEINGS**

The decision in this report doesn't immediately change any budgets, but potentially changes the settings used to make debt and investment decisions in the future which will have a flow on impact to future budgets and economic wellbeing.

## **DELEGATIONS OR AUTHORITY**

This policy will become a Council policy, and therefore requires adoption by either Council or a Committee with this delegation. The Risk and Assurance Committee does not hold delegations to approve Policy of Council, unlike the Strategy and Wellbeing, and Finance and Infrastructure Committees.

## **SIGNIFICANCE AND ENGAGEMENT**

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as significant given any changes potentially change the Council's financial strategy contained in the Long Term Plan.

However the proposed draft changes to the policy do not materially change any of the settings contained in the Financial Strategy, or have any budgetary impacts.

## **OPTIONS ANALYSIS**

Risk and Assurance has two options available to it:

1. That after receiving the proposed Treasury Management Policy, it can recommend to Council to adopt the Treasury Management Policy.
2. That after receiving the proposed Treasury Management Policy, it can choose not to recommend the Treasury Management Policy and request further work on it be undertaken on the policy.

## **Recommended Option**

This report recommends option number one, that Risk and Assurance recommends to Council that they adopt the draft Treasury Policy for addressing the matter.

## **NEXT STEPS**

Officers will take the recommendation from Risk and Assurance and continue to work with Bancorp Treasury and Council on this matter.


## **RECOMMENDATION**

- a) That Risk and Assurance recommend to Council the revised Treasury Policy (incorporating Investment and Liability policies) be recommended to Council for adoption.**

--





 **CENTRAL  
HAWKE'S BAY**  
DISTRICT COUNCIL

**Treasury Management  
Policy (including Investment  
and Liability Policies)**

Adopted: 13 May 2021

*Together we Thrive! E ora ngātahi ana!*

Central Hawke's Bay District Council

## Treasury Management Policy

### Contents

<b>PURPOSE OF THIS POLICY .....</b>	<b>33</b>
<b>SCOPE AND OBJECTIVES OF THIS POLICY .....</b>	<b>44</b>
Scope.....	44
Treasury Management Objectives.....	44
<b>GOVERNANCE AND MANAGEMENT RESPONSIBILITIES.....</b>	<b>66</b>
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
<b>LIABILITY MANAGEMENT POLICY .....</b>	<b>88</b>
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
<b>INVESTMENT POLICY.....</b>	<b>1111</b>
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: 13<sup>th</sup> May 2021

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Central Hawke's Bay District Council

Investment management and reporting procedures .....	<u>1313</u>
<b>RISK RECOGNITION / IDENTIFICATION MANAGEMENT .....</b>	<b><u>1414</u></b>
Interest rate risk on external borrowing.....	<u>1414</u>
Approved financial instruments.....	<u>1615</u>
Liquidity risk/funding risk.....	<u>1716</u>
Counterparty credit risk.....	<u>1817</u>
Foreign currency .....	<u>1917</u>
Emissions Trading Scheme (ETS).....	<u>1918</u>
Operational risk.....	<u>1918</u>
Legal risk.....	<u>1918</u>
<b>MEASURING TREASURY PERFORMANCE .....</b>	<b><u>2119</u></b>
<b>CASH MANAGEMENT .....</b>	<b><u>2220</u></b>
<b>REPORTING .....</b>	<b><u>2321</u></b>
Treasury reporting .....	<u>2321</u>
Accounting treatment of financial instruments.....	<u>2321</u>
<b>POLICY REVIEW.....</b>	<b><u>2522</u></b>
<b>APPENDIX 1: Glossary of Terms.....</b>	<b><u>Error! Bookmark not defined.23</u></b>

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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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.

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ADOPTED: 13<sup>th</sup> May 2021

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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 interest 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).

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### 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.

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4

Central Hawke's Bay District Council

- Manage investments to optimise returns ~~in the long term~~ whilst balancing risk and return considerations.
- Develop and maintain relationships with financial institutions, brokers and ~~the~~ 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 CFOE has overall financial management responsibility for the Council's borrowing and investments, and related activities, ~~with oversight from the CE.~~

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.

Commented [MO2]: The CE should have oversight and the CFO the responsibility for the management of the risks

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ADOPTED: 13<sup>th</sup> May 2021

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5

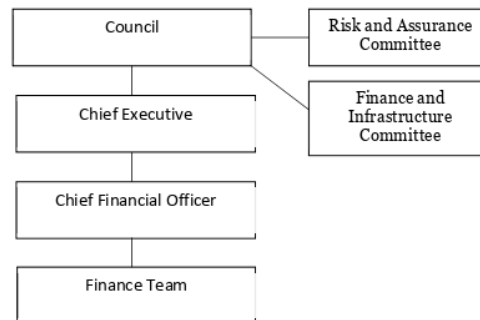


Central Hawke's Bay District Council

## 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:



### Council

The Council has ultimate responsibility for ensuring that there is an effective Policy for the management of its [financial market](#) risks. In this respect the Council decides the level and nature of risks that are acceptable, given Council's statutory objectives [and risk tolerance](#).

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).
- [Monitors and reviews the ongoing treasury risk management performance of the Council to ensure that the treasury function is operating in such a way as to ensure that the Council's strategic objectives are being met.](#)
- 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:

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ADOPTED: 13<sup>th</sup> May 2021

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6

Central Hawke's Bay District Council

- Review formally, on a three yearly basis, the Treasury Management Policy document.
- Evaluate and recommend amendments to the Treasury Management Policy to 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~~CFO. The CE has approval and monitoring responsibilities over the treasury function.

Commented [MO3]: AS before the CE does not have day to day management responsibility but should have oversight

#### 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.

Commented [MO4]: The CFO has responsibility for the day to day management of the treasury activities

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#### 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.

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ADOPTED: 13<sup>th</sup> May 2021

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7



Central Hawke's Bay District Council

## LIABILITY MANAGEMENT POLICY

### Introduction

Council's liabilities are comprised 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	LGFA Limit
Net External Debt / Total Revenue	<150%	<175%
Net Interest on External Debt / Total Revenue	<10%	<20%
Net Interest on External Debt / Annual Rates Income	<20%	<25%
Net Debt / Council Equity	<10%	
External, term debt + committed bank facilities + unencumbered cash/cash equivalents to existing external debt.	>115%	>110%

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- Total Revenue is defined as cash derived and 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).
- Disaster recovery requirements, urgent financing of emergency-related works and services are to be met through the special funds and liquidity policy.

### 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: 13<sup>th</sup> May 2021

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8

Central Hawke's Bay District Council

### Borrowing mechanisms

Council is able to externally borrow through a variety of market mechanisms including issuing ~~steek~~ 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:

- Council's projected debt requirements.
- 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, ~~term~~, 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-provided~~ by Council ranks all lenders 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.

Commented [SR6]: Need a special comment on this ?

Commented [MO7R6]: Possibly could be expanded on but not sure of wording

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ADOPTED: 13<sup>th</sup> May 2021

**E ora ngātahi ana!**

Commented [SR8]: Do we need this ?

Commented [MO9R8]: Agree not necessary

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 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.~~

**Commented [MO10]:** Should these be included as Council may not have any control over the management and therefore has an exposure it has no oversight/ management of

**Commented [MO11]:** Who has the responsibility to approve these loans

#### Internal borrowing of special funds

Special Funds must generally be used for the purposes for which they have been set aside. 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~~

**Commented [MO12]:** This is too vague and needs to be defined – up to 1 year ?

**Commented [RW13R12]:** Define

**Commented [SR14R12]:** Is vague so remove

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.

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.

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.

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ADOPTED: 13<sup>th</sup> May 2021

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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 primary reason to own property is 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). Any purchase of investment properties must be approved by Council Resolution.

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.~~

Commented [SR15]: Lets confirm the 50% is still appropriate.

Commented [MO16R15]: Agree

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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12

Central Hawke's Bay District Council

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

### 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 that are permissible with a underlying the parameters set out in Appendix A, credit rating of AA- or above. Credit ratings are monitored and reported at least six-monthly.

Commented [MO 17]: This is too restrictive need an investment matrix see end of document

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.

#### 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.

Commented [MO 18]: What sort of funds does this envisage managing – any equity investments if so then needs a policy

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

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ADOPTED: 13<sup>th</sup> May 2021

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13

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 AP so as to adversely impact revenue projections, cost control and capital investment decisions.

The primary objective of interest rate risk management is to manage and 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 as determined by the CE in consultation with the CFO should be within the following fixed/floating interest rate risk control limits 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.

<u>Fixed/Floating Interest Rate Risk Control Limits</u>		
	<u>Minimum Fixed Rate</u>	<u>Maximum Fixed Rate</u>
<u>0 – 2 years</u>	<u>40%</u>	<u>100%</u>
<u>2 – 4 years</u>	<u>20%</u>	<u>80%</u>
<u>4 – 8 years</u>	<u>0%</u>	<u>60%</u>

<u>Master Fixed/Floating Risk Control Limits</u>	
<u>Minimum Fixed Rate</u>	<u>Maximum Fixed Rate</u>
<u>50%</u>	<u>100%</u>

- "Fixed Rate" is defined as an interest rate repricing date beyond 12-63 months forward on a continuous rolling basis.
- "Floating Rate" is defined as an interest rate repricing within 12-63 months.
- The percentages are calculated based on the rolling 12-month projected core debt levels calculated by management.

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

**Commented [MO19]:** This needs to be defined is it what is in the LTP or the Annual Plan or my preference is "as determined by the CE in consultation with the CFO". In this way unobtainable LTP debt forecasts are not used as the basis for the hedging.

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ADOPTED: 13<sup>th</sup> May 2021

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14

Central Hawke's Bay District Council

## Fixed-Rate Maturity Limit

Fixed-Rate Maturity Limit		
Period	Minimum Hedge %	Maximum Hedge %
1 to 4 years	15%	100%
4+ years	0%	60%

— 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.

- Any interest rate swaps with a maturity beyond 10-8 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.

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**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 <del>Loan stock</del> /bond issuance <ul style="list-style-type: none"> <li>Floating Rate Note (FRN)</li> <li>Fixed Rate Note (Medium Term Note/Bond)</li> <li>Commercial paper (CP)/Promissory notes</li> </ul>
Financial investments – no more than 12-month term (except for LGFA borrower notes, investments linked to debt pre-funding and bank bonds)	<del>Bank call/term deposits</del> <del>Bank registered certificates of deposit (RCDs)</del> <del>Secured/unsecured senior bank bonds for terms up to 5-years</del> <del>LGFA borrower notes</del> Refer to Appendix A.
Interest rate risk management	Forward rate agreements ("FRAs") on: <ul style="list-style-type: none"> <li><del>Bank bills</del></li> </ul> Interest rate swaps including: <ul style="list-style-type: none"> <li>Forward start swaps <del>Start date &lt; 24 months, unless linked to existing maturing swaps</del></li> <li>Swap maturity extensions and shortenings</li> </ul> Interest rate options on: <ul style="list-style-type: none"> <li>Bank bills (purchased caps and one for one collars)</li> <li>Interest rate swaptions (purchased swaptions and one for one collars only)</li> </ul>
Foreign exchange management	<ul style="list-style-type: none"> <li>Spot foreign exchange</li> <li>Forward exchange contracts <del>(including par forwards)</del></li> </ul>
Carbon price risk management	<ul style="list-style-type: none"> <li>New Zealand Units (NZUs) and Assigned Amount Units (ZAAUs)</li> <li>Emission Reduction Units (ERUs), Certified Emission Reduction Units (CERs), Removal Units (RMUs) – until such time as inadmissible on the NZ Emission Trading Scheme (ETS)</li> </ul>

Commented [RW20]: Can't take a TD longer than 12 months?? But can take a bank bond which is the same risk but less return?

Commented [SR21R20]: OK with this as focus is on net debt - will discuss

Commented [MO22]: Refer to investment matrix

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.

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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16

Central Hawke's Bay District Council

### 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 or unexpected credit events.

#### 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 115%.  
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-CFO after consulting with 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-managed by the following control system. No more than the greater of \$10m, or 35% of Councils total debt can mature in any 12 month rolling period.


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.

**Commented [SR23]:** Lets consider this – too short as compromises investments

**Commented [MO24R23]:** If invest in bonds gives enhanced liquidity as can be sold on the secondary market at any time

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**Commented [RW25]:** Is there something missing here?

**Commented [SR26R25]:** Must have been a maturity risk table?

**Commented [SR27]:** This must of related to the maturity Table?

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ADOPTED: 13<sup>th</sup> May 2021

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17

Central Hawke's Bay District Council

**Counterparty credit risk**

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a derivative 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 for NZ Registered Banks of AA- /AA-1. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

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-/AA-1	10.0	5.0	15.0
NZ Registered Bank	AA-/AA-1	10.0 (with the exception of Council's transactional bank which may exceed this for up to 5 working days)	5.0	15.0

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.

Exposures to each counterparty are calculated and reported as follows:

- Interest rate contracts - determined by adding 3% of the notional 'face' value of the contract to its mark-to-market valuation. If this sum is negative (i.e. the instrument is substantially 'out of the money'), there is no counterparty credit exposure on the contract.
- Foreign exchange contracts - determined by multiplying the notional value of outstanding transactions by 10%.

**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

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Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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18

Commented [MO29]: Don't need to have multiple counterparties

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Central Hawke's Bay District Council

~~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.

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 **approved** 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: 13<sup>th</sup> May 2021

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19

Central Hawke's Bay District Council

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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20

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"> <li>All Policy limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits.</li> <li>All treasury deadlines are to be met, including reporting deadlines.</li> </ul>
Management of debt and interest rate risk (borrowing costs)	<ul style="list-style-type: none"> <li>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.</li> <li><u>Interest rate risk management compared to a policy derived benchmark.</u></li> </ul>
Treasury investment returns	<ul style="list-style-type: none"> <li>The actual investment income should be above the budgeted YTD/annual interest income amount.</li> </ul>

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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21

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.

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ADOPTED: 13<sup>th</sup> May 2021

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22

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 including all fees must be taken into account.

### Treasury reporting

Regular treasury reporting on at least a quarterly basis is to be provided to six-monthly is provided to the Finance Risk and Assurance & Infrastructure Committee. The reports should contain the following.

- Total debt facility utilisation, including any debt sourced from a bank, the capital markets and the LGFA.
- Interest rate maturity profile against percentage hedging limits.
- New hedging transactions completed - interest rate risk management.
- Weighted average cost of funds.
- Funding profile against the policy limits.
- Liquidity profile against the policy limits.
- Details of financial market investments held including, type of instrument, nominal amount, maturity date and interest rate.
- Exception reporting as required.
- Summary of any unresolved exception reports.
- Statement of policy compliance.
- Commentary on economic conditions and the debt markets.

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### 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) hedge accounting 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.

### Benchmarking

The Finance Team has Council discretion to manage debt and interest rate risk within policy control limits. Thus the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within policy. In this respect, a risk

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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23



Central Hawke's Bay District Council

neutral position is always precisely at the mid-point of the minimum and maximum control limits specified in the policy.

Given the Fixed/Floating Interest Rate Risk Control Limits of this policy, the market benchmark (composite) indicator rate will be calculated as follows:

- 30% Average 90 day bill rate for reporting month.
- 10% 2 year swap rate at end of reporting month.
- 10% 2 year swap rate, 2 year ago.
- 10% 4 year swap rate at end of reporting month.
- 10% 4 year swap rate, 4 years ago.
- 15% 8 year swap rate at end of reporting month.
- 15% 8 year swap rate, 8 years ago.

The actual reporting benchmark is the 12 month rolling average of the monthly calculated benchmarks using the above parameters. This is compared to actual cost of funds, excluding all credit margins and fees.

Compliance with the Reporting against benchmarking standard is not required if debt is less than \$10 million.

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

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24

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### 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: 13<sup>th</sup> May 2021

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25

**APPENDIX A: AUTHORISED INVESTMENT CRITERIA**

Authorised Asset Classes	Maximum limit as a Percentage of the Total Portfolio	Approved Financial Market Investment Instruments (must be denominated in NZ dollars)	Credit Rating Criteria – S&P (or Moody's or Fitch equivalents)**	Limit for each issuer subject to overall portfolio limit for issuer class
▲ <u>New Zealand Government or Government Guaranteed</u>	100%	<u>Government Stock Bonds</u> <u>Treasury Bills</u>	Not Applicable	Unlimited
▲ <u>Rated Local Authorities</u>	50%	<u>Commercial Paper</u> <u>Bonds/MTNs/FRNs</u>	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	\$2 million \$4 million
▲ <u>Unrated local authorities where rates are used as security</u>	25%	<u>Bonds/MTNs/FRNs</u>	Not applicable	\$2 million
▲ <u>New Zealand Registered Banks</u>	100%	<u>Call/Term Deposits</u> <u>Bonds/MTNs/FRNs</u>	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	\$3 million <del>\$120 million</del>
▲ <u>State Owned Enterprises</u>	33%	<u>Commercial Paper</u> <u>Bonds/MTNs/FRNs</u>	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	\$2 million \$4 million
▲ <u>Corporates</u>	25%	<u>Commercial Paper</u> <u>Bonds/MTNs/FRNs</u>	S&P ST rating of 'A-1' or LT 'A-' or 'A' S&P ST rating of 'A-1+' or LT 'A+' or better	\$1 million \$2 million

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Central Hawke's Bay District Council

Financials	25%	Commercial Paper	S&P ST rating of 'A-1' or LT 'A-' or 'A'	\$1 million
		Bonds/MTNs/FRNs	S&P ST rating of 'A-1+' or LT 'A+' or better	\$2 million

Procurement Policy  
ADOPTED: 13<sup>th</sup> May 2021

**E ora ngātahi ana!** <sup>1</sup>

## **6.5 RISK STATUS REPORT**

**File Number:** COU1-1408

**Author:** Nicola Bousfield, Group Manager - People & Business Enablement

**Authoriser:** Monique Davidson, Chief Executive

**Attachments:** Nil

### **RECOMMENDATION**

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

### **PURPOSE**

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

### **SIGNIFICANCE AND ENGAGEMENT**

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

### **BACKGROUND**

The Risk Status Report is part of regular and routine reporting designed to provide governance with oversight and input into the way that identified risks are being managed within 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 intend that these reports facilitate discussion that identifies new risk, as well as 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 Council's risk-scape.

#### **Risk Management Review and Improvement Programme**

Officers previously reported to the Committee that Council was preparing to undertake a Risk Management improvement programme, including a review of the Risk Management Framework, training for staff on risk management and workshops with Activity Managers on the operational risks.

This work is now underway, the review of the Risk Management Framework nearing completion and workshop scheduled with Elected Members to review the Risk Appetite Statement for council decision making.

Training for risk management is scheduled for activity managers through November and will be closely followed with the workshops with operational risks before the end of the year.

The purpose of this work to provide staff and particularly the activity managers an increased understanding of risk management and applying that knowledge within each of the operational activities.

#### **Active Risks**

The following risks are considered to be 'active' or 'live' at the time of this report, as determined by Officers. These risks span across the operational portfolios of the organisation. Some may be linked to or part of a larger Corporate Strategic Risk. This list will change from report to report as risks become live, escalate in terms of priority or are mitigated and no longer require reporting at this level.

Risk	Strategic Risk Register Linkage	Update
Impact on business operations from COVID lockdown restrictions	<b>Failure to effectively deliver services and projects</b>	COVID restrictions have impacted aspects of the business through level 4 and 3 as services have been ceased or hampered by changes or delays. There is risk to ongoing programmes of work from the lockdown restrictions that have already occurred or may continue to occur. Capital and maintenance programmes where not critical have been delayed, for example and these delays are considered manageable without significant impact on assets or the community for now. Ongoing lockdowns and restricted work will place further pressure on these programmes and mean community outcomes or asset / infrastructure integrity will be challenged.
Maintaining customer consenting services	<b>Failure to effectively deliver services and projects</b>	Consent volumes remain very high and limited ability to gain external resource support has pushed out processing timeframes for both building and resource consents. The volume of building consents processed year to date already exceeds the total processed for last year with 2 months to go. External resources are being used more effectively now to support the continued delivery of consenting services including via the formal procurement and engagement of a long-term resource consenting support partner.
Construction of infrastructure to service the wave of growth	<b>Failure to effectively deliver services and projects</b>	<p>Relating to the active risk above, Officers have identified that following the wave of consents flowing through processing channels, subsequent programmes of physical and professional work will be required to plan for and build infrastructure to meet the needs of growth.</p> <p>Council have recently employed a full time dedicated development engineer to complete necessary infrastructure engineering requirements for growth and Council are embarking on numerous capital projects as part of the adopted LTP.</p>
Asset condition related failures	<b>Failure of Critical Assets</b>	Councils 3 waters assets remain largely in a compromised condition and failures are still common. Significant funding has been tagged in the new LTP to address this risk but until such time as work is undertaken across a number of years to replace tired assets, the risk will remain actively managed.
Ability to secure resources to complete work (External)	<b>Failure to effectively deliver services and projects</b>	<p>Tightening competitive contracts market make it difficult to quickly and easily secure external contracting resources for a range of works, especially civil works and specialist works in the waters sector. This has the potential and experienced impact of delaying projects or increasing budget timelines and/or costs as principles begin bidding for contractors.</p> <p>Council are embarking on numerous large programmes of work as part of the LTP with a heavy reliance on external contracting resources to deliver. Council relies on its</p>

		relationship with the market, being a preferred buyer, providing clear forward work programmes, optimally bundling and packaging works for delivery to the market and securing contracts with long term partners to manage this risk where it can.
Ability to secure resources to complete work (Internal)	<b>Failure to effectively deliver services and projects</b>	<p>Council are embarking on numerous large programmes of work as part of the LTP 2021, to effectively manage these project(s), council need to ensure they have adequate resourcing to lead and coordinate the technical, community engagement and due diligence of each project as the client – recruitment for additional resources are planned to continue to support the delivery of this heightened work programme.</p> <p>Councils Executive Leadership Team are actively coordinating and supporting a range of recruitments across the organisation.</p>
Supply Chain Delays	<b>Failure to effectively deliver services and projects</b>	Tightened supply chain is resulting in delays in material and product arriving in the country – this is affecting pipe supply and may result in delays in project(s) commencing and/ or cost increases as supply ability aims to keep up with demand.
Infrastructure ability to service development	<b>Failure to effectively deliver services and projects</b>	<p>The influx of development while putting pressure on the consenting team, also puts pressure on the tangible infrastructure to adequately service the development and not have a negative impact on existing levels of service.</p> <p>Council continues to develop modelling of infrastructure networks to best understand impact of development and how to service these, and use the tools available to grow networks to support development.</p> <p>A number of very large subdivisions have recently progressed through consenting processes with a significant amount of input provided by engineering teams. This has given confidence in the ability of the network (with planned upgrades) to meet the needs of those developments.</p>
Interest Rate Increases	<b>Failure to adequately budget to fund debt servicing requirements</b>	<p>The Central Bank has recently lifted in Official Cash Rate by 0.25% pa and banks are modelling a further 0.5% pa lift over the next months. This will impact Councils financing costs.</p> <p>Council's existing debt is all at fixed rates so will not be impacted until rollover on maturity, however new debt will be impacted from day one.</p> <p>In the Long Term Plan Officers allowed for the average cost of funds to increase to 2.5% pa. Council's current cost of funds is 2.19% pa.</p>
Fraud	<b>Failure to protect Council Assets</b>	<p>Council has a number of internal controls, separation of duties, and policies to protect Council's assets.</p> <p>These are tested through both internal audits and external audits the findings of which are brought to this committee.</p> <p>A policy on fraud was developed and adopted in May 2021, and staff training provided on the new policy.</p>
Community Irritability /	<b>Failure to effectively deliver</b>	Council consider a growing risk of community fatigue from COVID restrictions and a corresponding irritability growing in the community with respect to Council-led change

COVID Fatigue	<b>services and projects</b>	programmes. Council are conscious of this and actively seek to ensure community engagement is coordinated and well-timed in all cases.
Responding to 3 Waters Reform	<b>Failure to effectively deliver services and projects</b>	Recent decisions made and direction given regarding the National 3 Waters Reform Programme create risk for Council in how it responds. There is political risk as decisions made will need to be understood by a range of stakeholders and operational risk as Council must manage its networks and teams through any transition phase.

### 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 focus on Risk Management continues to be the establishment and embedding of a common single system for managing and reporting all risks.

Officers welcome feedback and guidance of the Committee and its members on the future of this report and other matters with respect to Risk Management in the organisation.

### RECOMMENDATION

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



## 6.6 HEALTH & SAFETY REPORT

**File Number:** COU1-1408

**Author:** Nicola Bousfield, Group Manager - People & Business Enablement

**Authoriser:** Monique Davidson, Chief Executive

**Attachments:** 1. Health & Safety Governance Dashboard [↓](#)

### RECOMMENDATION

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

### PURPOSE

To provide the Risk & Assurance Committee with health, safety and wellbeing information and insight and to update the Committee on key health and safety critical 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 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 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

This is the update for Quarter three of 2021 – September 2021 through to November 2021. The Health Safety & Wellbeing (HS&W) team continue to work on the improvements previously identified while beginning other planned work.

This report introduces a new Governance dashboard for H&S reporting, lifting the report up from operational detail to governance oversight. Officers are seeking feedback from the Risk & Assurance Committee on the new dashboard and expect it to be further refined and developed in coming reports.

### HEALTH AND SAFETY ACTIVITIES

#### Covid 19 Response and Covid-19 Vaccinations

Council is continuing to follow public health advice and taking a risk-based approach in its Covid 19 response. Officers are working through the Government's newly announced traffic light system and the introduction of the vaccination passport and how this will apply to the workplace.

Officers have established a high workforce vaccination rate when it recently measured the Covid 19 vaccination rate for staff and contractors. This information will help inform Council's approach as it applies Government and public health advice.

#### Health & Safety Training

The Health & Safety Training programme for staff previously reported is now underway, progressing the priority actions recommended within the Gap Analysis Report. This included Health and Safety Leadership training which was completed in October for activity managers and the Health & Safety Committee, then Risk Management training scheduled in November (as detailed in the Risk Status Report forming part of the risk management improvement work) and followed by Contractor Management training relating to the wider contract management work presented to Council in workshop.

As previously reported to the Committee, the recommendations related to training in the Gap Analysis Report were:

1. Develop an OH&S leadership training and coaching program, to develop middle and senior management, enhance knowledge, reset attitudes towards health and safety risk management and legislation, as well as provide practical leadership tools and techniques to foster higher levels of engagement.
2. Develop an operational risk management guideline to establish practical tools and templates to support operational risk assessment.
3. Bring the whole of the organisation up to the same basic level of knowledge of understanding related to core risk management principles and terminology.

### **Wellbeing Update**

Council has recently adopted a split team approach in its Covid Response plan. Through this remote working environment, Officers have recognised that the team culture is equally impacted by “how” we work, not just “where” we work and wellbeing of staff. Focusing on fostering the team culture in the “how” we work remotely, virtual coffee dates were introduced through this period for staff to come together and keep the team culture alive. This period has also highlighted the ways on which managers support their staff and the flexibility required to meet individual team needs.

The People & Capability Advisor (Council’s wellbeing lead) meets regularly with managers to discuss staff wellbeing needs and how we are supporting and investing in our staff. Council also introduced a wellbeing day for staff which has been well received and utilised, this initiative is for a period of 6 weeks only to enable staff to take a day for themselves. Wellbeing champions have been introduced to support the People & Capability Advisor to provide wellbeing initiatives for staff.

### **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 improve the safety culture at Council, while implementing the initiatives laid out in the Health and Safety Action Plan for 2021, and to work through the actions laid out in the Gap Analysis Report.

**RECOMMENDATION**

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



# Risk and Assurance Committee Health and Safety Governance Dashboard 11 November 2021

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Central Hawke's Bay District Council – Health and Safety Governance Dashboard

**Author:** Bevan Johnstone

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**Date:** November 2021

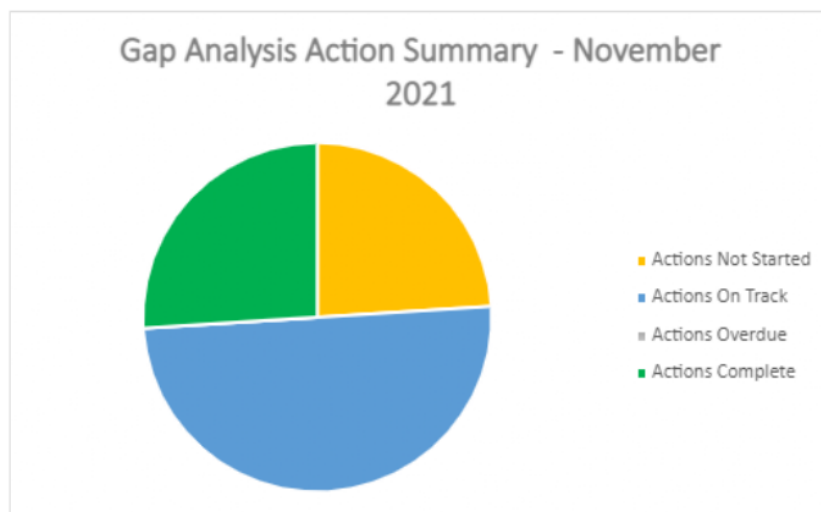


## OVERVIEW

The Health & Safety Report to the November 2021 Risk & Assurance Committee introduces this new Governance dashboard for Health & Safety reporting, lifting the report up from operational detail to governance oversight. Officers are seeking feedback from the Risk & Assurance Committee on the new dashboard and expect it to be further refined and developed in coming reports.

## GAP ANALYSIS PROJECT

The Gap Analysis Project was undertaken in 2019 and formed Council's Health & Safety Action Plan, an improvement project with recommended actions over a three year period to 2022. The dashboard below shows Council's progress in progressing and implementing the recommended actions.



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



10	Audit and Review	4	1	2	0	1
11	Critical Risk Management	5	4	1	0	0
12	Special Projects	5	0	1	0	4
	<b>TOTAL</b>	<b>50</b>	<b>12</b>	<b>25</b>	<b>0</b>	<b>13</b>

## COUNCIL HEALTH AND SAFETY REPORTING



## Event Statistics by Reporting Line

From 01 Jan 2021 To 01 Nov 2021

**Events Reported:** Number of events reported but not under investigation (investigation neither completed nor closed)

**Events Investigated:** Number of events undergone investigation (investigation completed but not closed)

**Investigation Closed:** Number of events with investigations closed

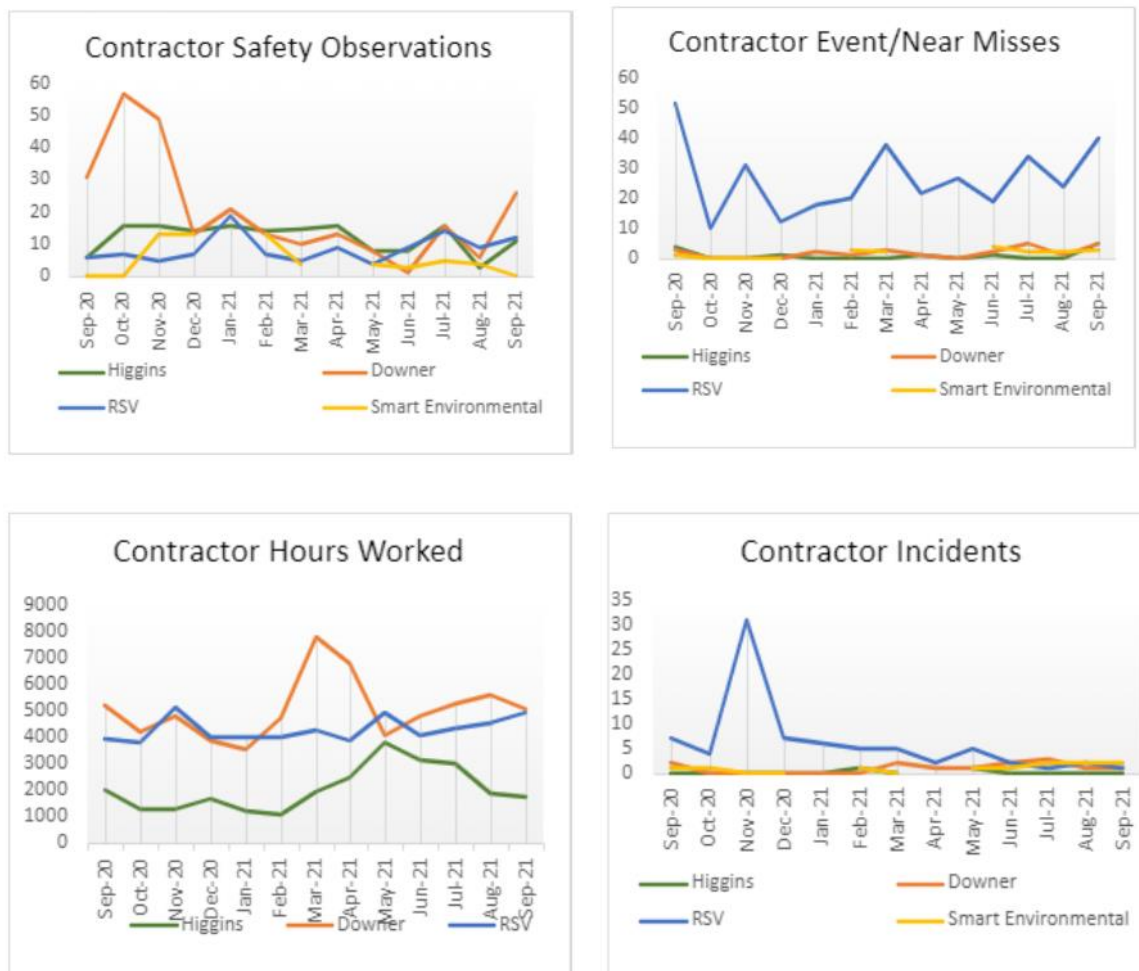
**Actions:** Actions refer to corrective actions or proactive actions logged in the system

Reporting Line	No. of Events Reported	No. of Events Investigated	No. of Investigations Closed	No. of Actions Closed	No. of Actions Open
CE and Strategy & Governance	1	0	0	0	0
Community Infrastructure & Development: 3 Waters	3	0	0	0	0
Community Infrastructure & Development: Asset Strategy	0	0	1	0	0
Community Infrastructure & Development: Customer & Consents	1	0	5	1	0
Community Infrastructure & Development: Land Transport	2	0	1	0	0
Community Infrastructure & Development: Projects & Programmes	0	0	3	0	0
Community Infrastructure & Development: Solid Waste	2	0	2	1	1
Customer & Community Partnerships: Animal Services and Compliance	1	0	3	0	2
Customer & Community Partnerships: Communications & Engagement	1	0	1	3	1
Customer & Community Partnerships: Community Development (MTFJ, PGF, Social&Ecc Dev)	0	0	2	2	2
Customer & Community Partnerships: Customer Relationships & Experience	3	0	0	0	0
Customer & Community Partnerships: Library Services	1	1	4	1	1
Customer & Community Partnerships: Places & Open Spaces	0	0	8	3	0
Financial	0	0	2	1	0
People & Business Enablement	0	0	4	1	2
<b>Total</b>	<b>15</b>	<b>1</b>	<b>36</b>	<b>13</b>	<b>9</b>

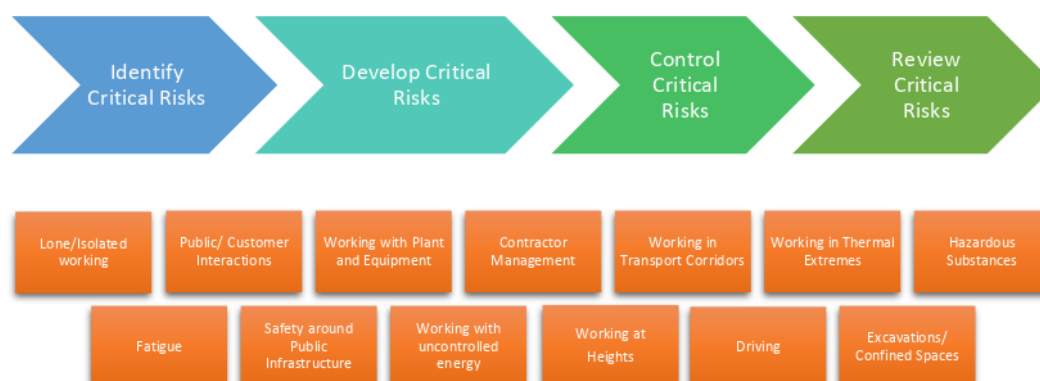


## CONTRACTOR REPORTING

The below dashboards are produced from Council's contracting partner's monthly health and safety reporting information and show trends over the last 12 months.



## CRITICAL RISKS (FROM GAP ANALYSIS PROJECT)



This diagram identifies the logical and methodical approach adopted to address our critical risks as well, as the 13 critical risks identified by Council.

### Critical Risk Action Summary Table

Critical Risk Action	Description	Status	Staff responsible	Expected completion
Identification of critical risks	Identify tasks and roles where the critical risk applies	On track	H&S Advisor	2022
Assurance from contractor engagement in critical risks	Gain assurance from contractors that they are meeting this standard or their own equivalent standard applying to the critical risk	Not started	H&S Advisor	2022
Staff and contractors exposed to critical risks	Identify all CHBDC roles and tasks where the critical risk applies	On track	H&S Advisor	2022
Information and training on critical risks	Provide information, instruction, training and supervision to any staff who may be at risk	On track	H&S Advisor	2022



**6.7 AUDIT FINDINGS MONITORING REPORT****File Number:** COU1-1408**Author:** Brent Chamberlain, Chief Financial Officer**Authoriser:** Monique Davidson, Chief Executive**Attachments:** Nil**RECOMMENDATION****That, having considered all matters raised in the report, the report be noted.****PURPOSE**

The purpose of this report is to track and update the committee on audit recommendations from recent audits.

**SIGNIFICANCE AND ENGAGEMENT**

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

**BACKGROUND**

Over the course of each year Council undertakes a number of audits that look at the activities of Council's Corporate Services functions.

This include internal audits which test Councils Policies and Procedures to ensure they are fit for purpose and that they are being adhered to, but also includes external audits of financial reporting to the public (whether this is an Annual Report, or a Long Term Plan). These external audit focus on the quality of data being supplied, and the controls that Council has in place to ensure accuracy of data, controls to ensure protection of public funds, and transparency of information supplied.

**DISCUSSION**

Below are the findings/recommendations of the last three audits undertaken on the Corporate Services Activities:

**Internal Audit: Procurement and Purchasing (undertaken November 2019)**

Observation	Recommendation	Actions Taken
<p><b>Managing Conflicts of Interest</b></p> <p>The Council adopted the Procurement and Contract Management Policy in October 2018. The Policy sets the Council's requirements and expectations in relation to how procurement should be done at the Council. The responsibility for the Policy has been assigned to Group Manager Corporate Support and Services.</p> <p>The Policy requires 'all staff involved in the preparation and execution of a public procurement process to complete a Conflict of Interest (Col) declaration which is to be approved by the delegated financial authority for the procurement'.</p> <p>We received a list of current major contracts from the Council's Contract Register and selected a sample to check how the decision to procure was made, how the supplier was selected, what procurement methods were used in the selection</p>	<p>The Council should effectively communicate the requirements of its Procurement and Contract Management Policy across relevant staff involved in procurement. This could be achieved through a Council-wide training session or workshop for staff.</p>	<p>Officers have worked with the PMO (Project Management Office) to ensure that conflict of interest forms are correctly filled out and kept for all of Councils significant procurements.</p> <p>Officers are working with MBIE staff (Wellington based) who have offered to run training sessions for Hawkes Bay Staff, and this will be progress once New Zealanders are allowed to move around the country again.</p>

<p>(tender, direct engagement, pre-approved supplier list), whether all documentation (such as conflicts of interest forms) were completed and documented.</p> <p>For our sample of 5 procurements we noted the following:</p> <ul style="list-style-type: none"> <li>• For 2 procurements the Col declarations were not prepared at all.</li> <li>• For 2 procurements the Col declarations were prepared by the members of the evaluation team but were approved by the 3 Waters Programme Manager instead of the appropriate delegated financial authority (the Council for one and the GM for the other).</li> <li>• For 1 procurement (for which the procurement plan was approved on 29/8/19) the Col hasn't been done at the time of our review (November 2019), although the Procurement Plan that went for approval to the Council said that the Col declarations had been approved.</li> </ul> <p><u>Risk</u></p> <p>If the Council doesn't effectively manage the conflicts of interest across its procurement activities, it can make inappropriate purchases or enter into inappropriate contracts which could be challenged by other suppliers or ratepayers. Poor management of conflicts of interest also increases risk of corruption.</p>		
<p><b>Managing procurement outside the Infrastructure Team</b></p> <p>As part of our testing, a listing of annualised Council spend by supplier was provided. From this a random sample of suppliers with annualised spends of over \$50k were selected for testing. The testing consisted of how the decision to procure was made, how the supplier was selected, what procurement methods were used in the selection (tender, direct engagement, pre-approved supplier list), whether all documentation (such as conflicts of interest forms) were completed and documented.</p> <p>For our sample of 6 vendors with purchases between \$25k and \$200k we were unable to find:</p> <ul style="list-style-type: none"> <li>- Procurement Plans</li> <li>- Vendor selection documentation</li> <li>- Conflicts of interest declarations for personnel involved in the procurement activities.</li> </ul> <p>According to the Council's Policy we would expect that these procurements would either use quotes from preferred or panel suppliers. If existing contracted, preferred or panel suppliers are not appropriate then a Procurement Plan that recommends another approach must be prepared (e.g. an open tender or direct award to a high</p>	<p>Like the point above, the Council should effectively communicate the requirements of its Procurement and Contract Management Policy across relevant staff involved in procurement outside the Infrastructure team. This could be achieved through a Council-wide training session or workshop for staff.</p>	<p>As above</p>

performing supplier).		
<p><b>Risk</b></p> <p>If the Council doesn't comply with its Policy, the Council may procure goods or services at a higher price or may spend public money inappropriately. The Council's decisions can be challenged by ratepayers or suppliers. This may lead to legal or reputational damage.</p>		
<p><b>Lack of oversight of procurement activities</b></p> <p>A large number of instances of non-compliance with the Council's Policy (findings 1-3 above), requires the Council to monitor the extent to which the business units comply with the requirements of the Policy. This becomes even more important given the decentralised procurement operating model at the Council, i.e. when each business unit performs its own procurements without a centralised support.</p> <p>Currently no monitoring is performed by the Council to ensure all purchases and procurement activities comply with the Policy and there is varying degrees of understanding of procurements activities happening across the Council.</p> <p>In addition, there is limited procurement reporting to the Executive Team and the Council. We understand that reporting is on an exception basis. As a result, this reduces Managements oversight on procurement activities.</p> <p>Procurement reporting would provide an overview of large value, high risk or complex procurements. It would also provide valuable insights into the activities of other departments.</p> <p><b>Risk</b></p> <p>The lack of an effective process to monitor compliance with the Council's Policy increases the risk that the Council's purchases may not meet the policy requirements and the Council's expectations.</p>	<p>The Council should implement a formal process to review the Council's compliance with the requirements of the Policy. This could be done by regularly reviewing a sample of purchases to check whether all Policy requirements have been met. The results of this 'audit' should be communicated to the ELT. The responsibility for this work should either sit with the Group Manager Corporate Support and Services (as the Policy Owner) or could be delegated to the 3 Waters Programme Manager (as a 'Centre of Procurement Excellence' within the Council).</p>	<p>Council's finance team has recently had a small restructure which has introduced procurement as an element into the job description of a staff member other than the Chief Financial Officer.</p> <p>This staff member has undertaken some procurement training in June 2021, and has been involved in the rebranding of the progressive procurement toolkit.</p> <p>Now the year end audit is complete this staff member will begin to undertake quarterly checks of adherence to policy post audit.</p>

### External Audit: Year End (Undertaken August/September 2021)

Observation	Recommendation	Actions Taken
<p><b>Approval of Expenditure</b></p> <p>Under the current sensitive expenditure policy, an approver or expenditure cannot benefit personally from the expenditure being claimed. However, through our testing we identified instances where expenditure was approved by a member of staff that benefited from the expense being incurred as well as the approver being more junior than the individual incurring the expense.</p>	<p>We recommend that Council update their policy to include a requirement for a "one up" approval of the individual incurring the expenses, this would be a council member in the case of the Mayor's expenses.</p>	<p>This item is a carry forward from previous years.</p> <p>Sensitive Expenditure was again retested in 2021 with five breaches identified so it remains an audit point.</p>
<p><b>Land Title Discrepancies</b></p> <p>We obtained and reviewed the land titles for land owned by the Council on a sample basis to verify</p>	<p>We recommend a formal review be completed for land held by the council to</p>	<p>This item is a carry forward from previous years.</p>

<p>the information used by QV in their 2017 valuation of the Council's land and to validate the land is freehold. We identified several discrepancies between the Council records and the information used by QV. For one title the land information on the title was less than the area valued in by QV. In addition, a number of titles were not able to be obtained.</p> <p>There is a risk the Council records do not contain the most up to date information in relation to land titles. In addition, there is a risk QV may be performing their valuation on incomplete / inaccurate information.</p>	<p>ensure all land titles are available and the title area reflects the Council's records and that used by QV.</p>	<p>5 Titles were identified as belonging to CHBDC but had discrepancies with the LINZ records. 3 have now been resolved, and 2 remain:</p> <p>1092050900 232 Pourerere Beach 1095013300 Hatuma Road</p> <p>Both these are recorded by LINZ as public reserves with Department of Conservation Ownership</p>
<p><b>Policies due for update</b></p> <p>We noted a number of policies are past their date for revision.</p> <p>There is a risk that outdated policies may not reflect the most up to date intentions of Council. It is important policies are updated in a timely manner, particularly when there is public visibility to policies via the council's website.</p>	<p>We recommend the Council update the policies, and in the future establish a process to ensure they are updated in a timely manner.</p>	<p>This item is a carry forward from previous years.</p> <p>While EY acknowledge that many policies were update leading in the LTP, a few policies still need reviewing.</p>
<p><b>Authorisation of Payroll</b></p> <p>We noted in the last payroll completed under the old process had a timesheet wasn't properly authorised.</p> <p>We noted there was no documented review of the payroll file being produced by HDC by CHBDC before payment was made.</p>	<p>We recommend the Council more formally document their review of the HDC pay file before payment is made and that all timesheets are correctly authorised.</p>	<p>This item was picked up in the interim audit (pre year end), and the process improvements were immediately mad to correct both these items.</p>

### Internal Audit: Fraud Health Check (Undertaken April 2021)

Observation	Recommendation	Actions Taken
<p><b>Fraud-related policies and procedures</b></p> <p>The Council does not have a Fraud Policy in place.</p> <p>We also noted the following regarding other fraud related policies:</p> <ul style="list-style-type: none"> <li>• The Staff Conduct Policy is out of date and was due for renewal in 2018.</li> <li>• The Protected Disclosures Policy is out of date and due for renewal in 2018.</li> </ul> <p>The absence of up-to-date and relevant fraud-related policies prevents the Council from clearly communicating its attitude to fraudulent behaviour, raising awareness of fraud risk amongst its staff and communicating relevant fraud prevention, detection and monitoring controls.</p>	<p>A significant amount of occupational fraud and corruption is opportunistic in nature and informing employees that the company has detailed fraud and corruption control strategies can act as an effective deterrent to fraudulent activity.</p> <p>We recommend that a specific Fraud Policy should be documented including the following key elements:</p> <ul style="list-style-type: none"> <li>• A categorical statement that the council has zero tolerance to fraud.</li> <li>• A statement that all staff are responsible to disclose</li> </ul>	<p>A Fraud and Corruption Prevention Policy has been written and adopted.</p> <p>Staff Conduct Policy and Protected Disclosures Policy scheduled to be reviewed in 2021 by People and Capability Advisor</p> <p><b>Responsible person</b> CFO and People and Capability Advisor</p> <p><b>Date of implementation</b> Fraud Policy – 31/05/2021</p> <p>Other Policy Reviews –</p>

	<p>any suspicious activities they become aware of should be included.</p> <ul style="list-style-type: none"> <li>• Examples of the types of behaviour the council considers to be fraudulent should be given.</li> <li>• A description of specific prevention and detection procedures that are employed to manage fraud risk, such as, fraud awareness training, specific transactional reviews, management reporting etc</li> <li>• An overview of fraud investigation processes and responsibilities.</li> <li>• The consequences for perpetrating fraud.</li> </ul> <p>The following is also recommended:</p> <ul style="list-style-type: none"> <li>• The Council should consider assigning the responsibility of maintaining the Fraud Policy to a person in a position with sufficient authority, relevant subject matter expertise, independence and objectivity (for example the CFO).</li> <li>• The Council should periodically review its internal policies to ensure they remain relevant and include the latest fraud risks.</li> <li>• The Audit Committee should proactively oversee fraud risk by: <ul style="list-style-type: none"> <li>- Providing direction and input into anti-fraud activities and implementation of a fraud programme</li> <li>- Reviewing the results of the fraud risk assessment (see above)</li> <li>- Reviewing and approving relevant fraud-related policies</li> <li>- Overseeing and monitoring fraud related</li> </ul> </li> </ul>	October 2021
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	assurance activity.	
<p><b>Fraud risk assessment</b></p> <ul style="list-style-type: none"> <li>• The Council does not have formal fraud risk assessment procedures in place. Reliance is placed on controls implemented at transaction level to identify its exposure to fraud risk.</li> </ul> <p>Whilst this assignment has considered fraud risks as a stand-alone assignment, the review and consideration of fraud risks should be considered alongside other strategic and operational risks on an ongoing basis.</p> <p>With a lack of formal fraud risk assessment and placing reliance on controls in only one area (payments), limits the Council's ability to understand the areas of its activities that are exposed to fraud, bribery and corruption and develop fit-for-purpose fraud identification and response procedure.</p> <ul style="list-style-type: none"> <li>• Risk assessment criteria are not periodically reassessed which can lead to a lack of awareness of the latest fraud that can occur.</li> <li>• Risk registers are only maintained for each project, at an operational level.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council should perform a formal fraud risk assessment (FRA). Fraud risk should be treated as a business risk like other risks and be incorporated into the Council's ongoing risk assessment and risk management processes.</li> </ul> <p>The FRA should identify and evaluate the Council's exposure to key fraud risks – bribery and corruption, financial statement fraud, etc. – across all the Council's activities.</p> <p>The FRA should also assess the effectiveness of the Council's key fraud-related controls and assurance activities providing a better understanding of the level of risk and comfort and any possible gaps that need to be addressed.</p> <ul style="list-style-type: none"> <li>• Discussions of fraud or errors should be incorporated in management meetings and documented in the minutes.</li> <li>• The Council should periodically reassess risk assessment criteria to consider changes in Council processes, and the latest fraudulent activities.</li> <li>• The risk register should include council-wide fraud risks.</li> </ul>	<p>Council has undertaken this Fraud Health Check as a Fraud Risk Assessment with its internal auditor – Crowe.</p> <p>This will result a paper being taken to Risk and Assurance Sub-committee.</p> <p>Council is also audited annually by Ernst Young as part of the external audit program who check internal controls as part of their audit reliance program.</p> <p>Post Audit, every year Council has a debrief with Ernst and Young where audit findings and concerns are discussed.</p> <p>Council has a risk register that covers financial strategy failure, but officers will extend this to cover the risk of fraud.</p> <p><b>Responsible person</b> CFO</p> <p><b>Date of implementation</b> October 2021</p>
<p><b>Fraud awareness and training</b></p> <p>We note the following:</p> <ul style="list-style-type: none"> <li>• There is no ongoing fraud-related communication and training provided to employees.</li> <li>• There is no fraud awareness communication to third parties (i.e. vendors, contractors, etc.)</li> </ul> <p>Raising awareness of fraud risks, scenarios and 'red flags' is an effective way to prevent and</p>	<p>With the implementation of the Fraud Policy and the Fraud Risk Assessment, we recommend that periodic training and awareness sessions should be provided to all staff. Contents should include:</p> <ul style="list-style-type: none"> <li>• A clear definition of the types of behaviour that</li> </ul>	<p>Council has undertaken training and socialization on the new 'Fraud and Corruption Prevention Policy' with staff.</p> <p>The refreshed Staff Conduct Policy and Protected Disclosures Policy will be socialized with staff in September</p>

<p>detect fraudulent activity. The absence of regular communication of fraud matters and relevant training creates an environment where staff can better understand their obligations and support effective prevention and detection of fraud, bribery and corruption.</p>	<p>constitute fraudulent or corrupt practice.</p> <ul style="list-style-type: none"> <li>• An unequivocal statement that fraudulent and corrupt practices within the council will not be tolerated.</li> <li>• The types of fraud that are common (as identified in the fraud risk assessment).</li> <li>• The fraud detection measures that are in place.</li> <li>• Red flag behaviours and due diligence activities that staff should undertake when reviewing invoices, contracts etc.</li> <li>• How staff should report any unusual or suspicious documents or red flag behaviours.</li> </ul>	<p>2021 by People and Capability Advisor.</p> <p><b>Responsible person</b> CFO and People and Capability Advisor</p> <p><b>Date of implementation</b> Fraud Policy – 31/05/2021</p> <p>Other Policy Reviews – October 2021</p>
<p><b>Fraud prevention – internal controls</b></p> <p>We identified a number of internal control weaknesses during our review including the following:</p> <ul style="list-style-type: none"> <li>• We noted that there are insufficient controls in place for adding and uploading direct debits to the bank account. Currently this process is performed by one individual and no secondary review is completed prior to the bank upload. Where bank numbers are entered by one person and not reviewed, the risk of error exists. Reliance is currently placed on complaints being made to identify errors.</li> <li>• A review of permissions in the Magiq accounting system noted users outside the Finance team and Finance team members that should not be able to, can process journal entries. There is also no review of journal entries undertaken. We noted additionally that a recent IT security review identified a number of user access issues that are currently being investigated and resolved.</li> <li>• Some basic data analytics testing was undertaken in 2018 as part of a Sensitive Expenditure audit to identify any unusual transactions, trends or relationships between employees and suppliers. No periodic routine analytics is undertaken on a scheduled basis.</li> </ul>	<p>The following is recommended:</p> <ul style="list-style-type: none"> <li>• The Council should consider implementing dual controls for adding and uploading direct debits into the bank account for the receipt of rate payments. A secondary review on all bank account addition or changes should be undertaken either on a real time basis or through reviewing change logs or reports from the accounting system on a regular scheduled basis.</li> <li>• Magiq access rights and authorisations should be should be reviewed on a periodic basis to ensure individual authorisations remain up to date and appropriate.</li> <li>• Consideration should be given to undertaking further periodic data analytics audits to help identify 'red flags', suspicious</li> </ul>	<p>Direct Debits – Issue is a result of only having a single rates officer and not being able to achieve separation of duties.</p> <p>The financial delegation register has been reviewed in August 2021, and these have been updated in Magiq as part of the move to Magiq Cloud in August 2021.</p> <p>Data Analytics – This was last undertaken by Crowe in October 2018.</p> <p><b>Responsible person</b> CFO</p> <p><b>Date of implementation</b> July 2021</p>

	transactions, trends or relationships between employees and suppliers.	
<p><b>Protected disclosures</b></p> <p>The Association of Certified Fraud Examiners' Global Fraud Survey 2020 noted 43% of frauds were initially detected through a tip off (3 times higher than the next-most common detection method). Having clear protected disclosure policies and procedures is therefore a key control in the detection of fraud.</p> <p>Surveys undertaken by us and preferred methods indicated in the Association of Certified Fraud Examiners' Global Fraud Survey 2020 note preferences for whistleblowing equally split between telephone hotlines, email reports, web-based/online forms as well as face-to-face disclosures.</p> <p>Surveys undertaken by us also suggest a range of persons to whom staff prefer to make reports (most commonly to their direct supervisor but also to their HR representative to senior management or external parties).</p> <p>We note that the council has a Protected Disclosures Policy which covers the key areas we would expect it to. We note however that, as per the details above, that there is currently further mechanisms for reporting disclosures could be offered to ensure staff do not feel uncomfortable or discouraged in reporting.</p>	<p>Consideration should be given as to whether further methods of reporting and persons to whom reports can be made can be established to ensure the methods available do not discourage staff from reporting concerns (these could include a hotline, internal email address or contact details of the internal or external auditors).</p>	<p>Protected Disclosures Policy scheduled to be reviewed in 2021 by People and Capability Advisor.</p> <p><b>Responsible person</b> People and Capability Advisor</p> <p><b>Date of implementation</b> October 2021</p>

### External Audit: Waka Kotahi Investment Audit Report (Undertaken March 2021)

Observation	Recommendation	Actions Taken
<p><b>NPV's For 2020/21 Programs</b></p> <p>Council didn't have documentary evidence of NPV's (Net Present Value) calculations for its work program.</p>	<p>Provides evidence to Waka Kotahi of completed NPVs for 2020/21 programs.</p> <p>NPVs on all renewal and improvement projects start immediately and will be on-going.</p>	<p>NPV's are now being calculated and reported on project by project.</p>
<p><b>Rural road delineation strategy</b></p> <p>Council doesn't have a rural road delineation strategy.</p>	<p>Develops and implements a rural road delineation strategy, based on ONRC classifications and including a strong focus on curve warning.</p>	<p>A rural road delineation strategy is under development with the 2 highest class roads (Arterials and Primary Collectors) already complete. A work programme is being compiled to address delineation deficiencies.</p>



<b>Technical specifications for new development work</b>  Council doesn't develop technical specifications for new developments.	Develops technical specifications for new development work to reduce the variety and ensure the quality of asset types to be maintained by Council. These should then be prescribed through the District Plan.	Incorporated into the proposed district plan
<b>Resolve Data Gaps</b>  Council has data gaps and data issues as identified in the REG Data Quality report.	Assigns resources to investigate and resolve data gaps and the data issues identified in the REG Data Quality report to provide long term assurance of data quality.	The data gaps have been assigned to Stantec and a lot of them have already been rectified. Others were found to be errors as a result of the system REG uses.

## 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 work towards resolution for the audit recommendations listed above that have yet to be resolved. Officers will continue to report any items above until resolution is achieved.

## RECOMMENDATION

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

**7 PUBLIC EXCLUDED****RESOLUTION TO EXCLUDE THE PUBLIC****RECOMMENDATION**

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

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
<b>7.1 - Public Excluded Resolution Monitoring Report</b>	<p>s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(f)(i) - free and frank expression of opinions by or between or to members or officers or employees of any local authority</p> <p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities</p>	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

**8 DATE OF NEXT MEETING****RECOMMENDATION**

THAT the next meeting of the Central Hawke's Bay District Council Risk and Assurance Committee be held in 2022 .

**9 TIME OF CLOSURE**