



Hastings District Council

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OPEN A G E N D A

RISK AND ASSURANCE COMMITTEE MEETING

Meeting Date: **Monday, 3 February 2020**

Time: **1.00pm**

Venue: **Landmarks Room
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Committee Members	Mr J Nichols – External Independent Appointee (Chair) Councillors Corban, Kerr, Nixon (Deputy Chair) and Travers Vacancy – External Independent Appointee Mayor Hazlehurst (ex-officio) <i>Quorum = 3</i>
Officer Responsible	Chief Financial Officer – Mr B Allan
Democracy & Governance Advisor	Mrs C Hilton (Extn 5633)

Risk and Assurance Subcommittee – Terms of Reference

Fields of Activity

The Risk and Assurance Committee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide;

- Effective management of potential risks, opportunities and adverse effects.
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council.
- Monitoring of Council's requirements under the Treasury Policy.
- Monitoring of Council's Strategic Risk Framework.

Membership

- Membership (6 including 4 Councillors).
- Independent Chair appointed by Council.
- Deputy Chair appointed by Council.
- 2 external independent members appointed by Council.

Quorum – 3 members

Delegated Powers

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by Council.

HASTINGS DISTRICT COUNCIL
RISK AND ASSURANCE COMMITTEE MEETING
MONDAY, 3 FEBRUARY 2020

VENUE: Landmarks Room
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings

TIME: 1.00pm

A G E N D A

1. Apologies

At the close of the agenda no apologies had been received.

At the close of the agenda no requests for leave of absence had been received.

2. Conflict of Interest

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Democratic Support Manager (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

3. Confirmation of Minutes

- | | |
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REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN

SUBJECT: TREASURY ACTIVITY AND FUNDING UPDATE

1.0 EXECUTIVE SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to update the Subcommittee on treasury activity and funding issues.
- 1.2 This report contributes to the purpose of local government by primarily promoting the economic and more specifically through the Council's strategic objective of sustainable use of resources and providing resilience to hazards and shocks.
- 1.3 The Council's current total external debt is \$149.74m as at 31 December 2019. Offsetting this are \$22m of term deposits, giving a net external debt position of \$127.74m.
- 1.4 Since the last update in September, Council has borrowed a further \$12m from the Local Government Funding Agency (LGFA). It has also had one term deposit of \$4m mature, and created has a further new term deposit of \$4m.
- 1.5 Council is currently compliant with its Treasury Management Policy.
- 1.6 Officers have been working with Bancorp Treasury Services about future funding requirements, and reviewing the Council's Treasury Policy (see separate report concerning this matter).
- 1.7 The Reserve Bank of New Zealand (RBNZ) left its Official Cash Rate (OCR) at 1% at its 13th November 2019 review.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Treasury Activity and Funding Update

3.0 BACKGROUND – TE HOROPAKI

- 3.1 The Hastings District Council has a Treasury Policy which forms part of the 2018-2028 Long Term Plan and a Treasury Management Policy. Under these policy documents responsibility for monitoring treasury activity is delegated to the Risk and Assurance Committee.
- 3.2 Council is provided with independent treasury advice by Miles O'Connor of Bancorp Treasury Services and receives daily and monthly updates on market conditions.
- 3.3 Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in depth treasury reporting is provided for the Risk and Assurance Committee.

4.0 DISCUSSION - TE MATAPAKITANGA

- 4.1 Council's debt portfolio is managed within macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues. The treasury policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.
- 4.2 **Attachment 1** sets out Council's overall compliance with Treasury Management Policy as at 31 December 2019.
- 4.3 The Council's current total external debt is \$149.74m as at 31 December 2019. Offsetting this are \$22m of term deposits, giving a net external debt position of \$127.74m. This is supported by the Treasury Position 31 December 2019 Report in **Attachment 1**.
- 4.4 **Recent Borrowings:** On the 7th October Council borrowed \$5m, and on the 16th December Council borrowed a further \$7m. Both these amounts were borrowed from the Local Government Funding Agency (LGFA) at a floating rate of Bank Bill 90 day Benchmark Rate (BKBM) (currently 1.22% pa) plus a margin. The details are as follows:

Draw Date	Amount	Margin	Effective Interest Rate	Maturity Date
07/10/2019	\$5m	0.6250%	1.8450%	15/04/2026
16/12/2019	\$3m	0.3525%	1.5725%	14/04/2022
16/12/2019	\$4m	0.5400%	1.7600%	15/04/2025

- 4.5 **Recent Movements in Investments:** On the 4th October one of Council's Term deposits matured (\$4m at 2.5%). These funds were used to fund Council's ongoing capital program.

Council has 3 active term deposits totalling \$18m with rates ranging from 3.1% pa to 3.13% pa. \$10m of these are linked to a loan maturity in April 2020, and the remaining \$8m is held as funding for future capital expenditure.

On the 16th December Council entered into a two new deposits totalling \$4m as follows:

Bank	Amount	Interest Rate	Maturity
BNZ	\$2m	2.89%	17/07/2020
Westpac	\$2m	2.62%	17/07/2020

The term deposit was split across two banks as Council already had \$18m of deposits with Westpac and has an investment cap of \$20m with any one bank as one time as per it's Treasury Policy.

- 4.6 **Recent RBNZ announcements:** The RBNZ left its Official Cash Rate (OCR) at 1% at its 13th November 2019 review.
- 4.7 In December 2019 the RBNZ also released the final outcome of its banking capital review which will require the high street banks to hold more funds to further protect from themselves from economic shocks. Economists speculate that this change may have the impact of increasing retail interest rates in the short term while the high street banks adjust their equity mix to compile. The Council borrows on the wholesale market so this should have little impact of their funding.

5.0 OPTIONS - NGĀ KŌWHIRINGA

- 5.1 Not applicable.

6.0 NEXT STEPS - TE ANGA WHAKAMUA

- 6.1 Council Officers will continue to work with Bancorp Treasury Services to keep Council's financing costs to a minimum, maintaining adequate liquidity, while maintaining compliance with Council's Treasury policy.

Attachments:

- 1 [Treasury Position Report 31 December 2019](#) FIN-15-03-20-197
 2 [Capital Position Report 31 December 2019](#) FIN-15-03-20-198

SUMMARY OF CONSIDERATIONS - HE WHAKARĀPOPOTO WHAIWHAKAARO

Fit with purpose of Local Government - E noho hāngai pū ai ki te Rangatōpū-ā-rohe

The Council is required to give effect to the purpose of local government as set

out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

This report contributes to the purpose of local government by primarily promoting economic wellbeing and more specifically through the Council's objective of sustainable use of resources and providing resilience to hazards and shocks.

Link to the Council's Community Outcomes - *E noho hāngai pū ai ki te rautaki matua*

This proposal promotes the economic well-being of communities in the present and for the future.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

There are no known impacts for Tangata Whenua.

Sustainability - *Te Toitūtanga*

This proposal promotes sustainable financing costs ensuring the economic well-being of communities in the present and for the future.

Financial considerations - *Ngā Whaiwhakaaro Ahumoni*

This proposal will ensure that financing costs are kept within Council's existing budgets.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

This decision/report has been assessed under the Council's Significance and Engagement Policy as being of minor significance.

Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto, ā-waho*

There has been no external engagement.

Risks: Legal/ Health and Safety - *Ngā Tūrarū: Ngā Ture / Hauora me te Haumarū*

The purpose of this report, and the Treasury Policies it refers to, assist Officers to manage Council's treasury risk.

Rural Community Board - *Ngā Poari-ā-hapori*

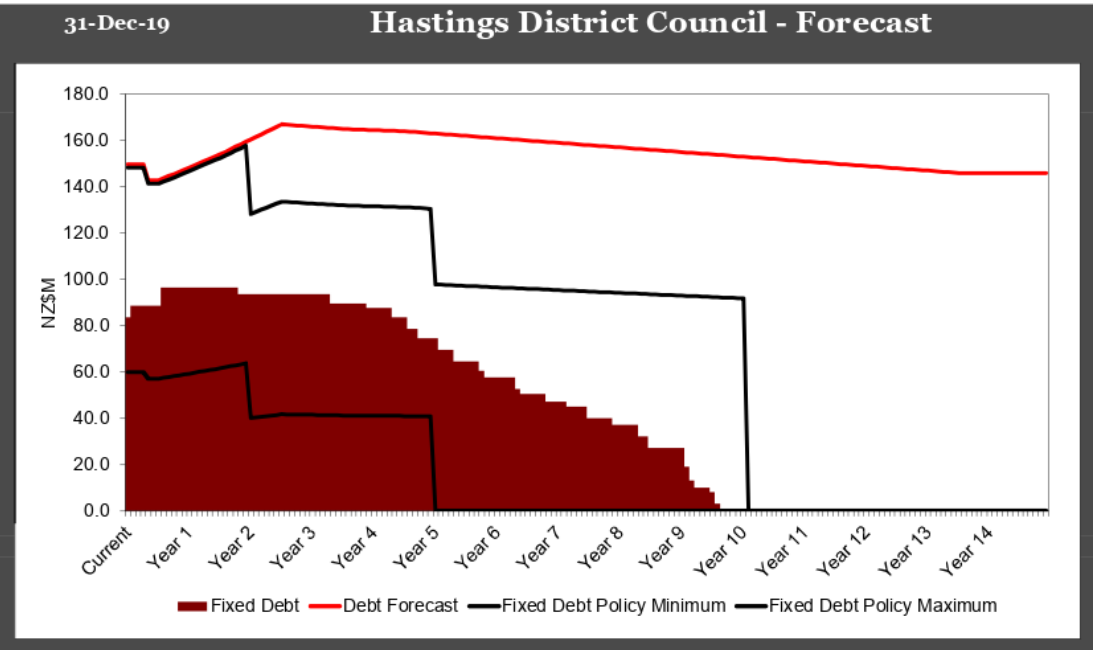
There are no implications for the Rural Community Board.

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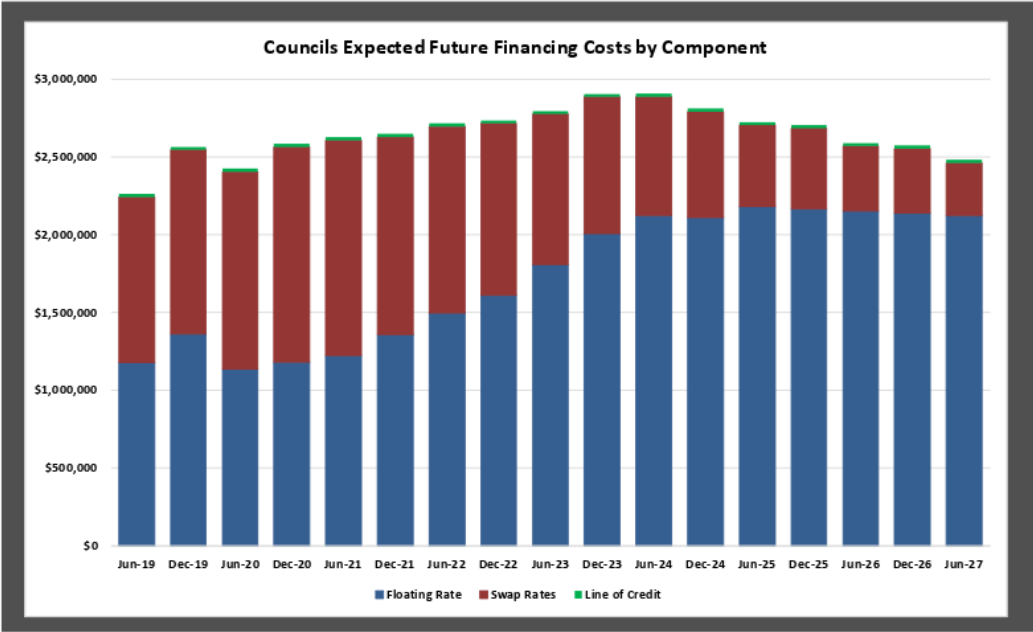
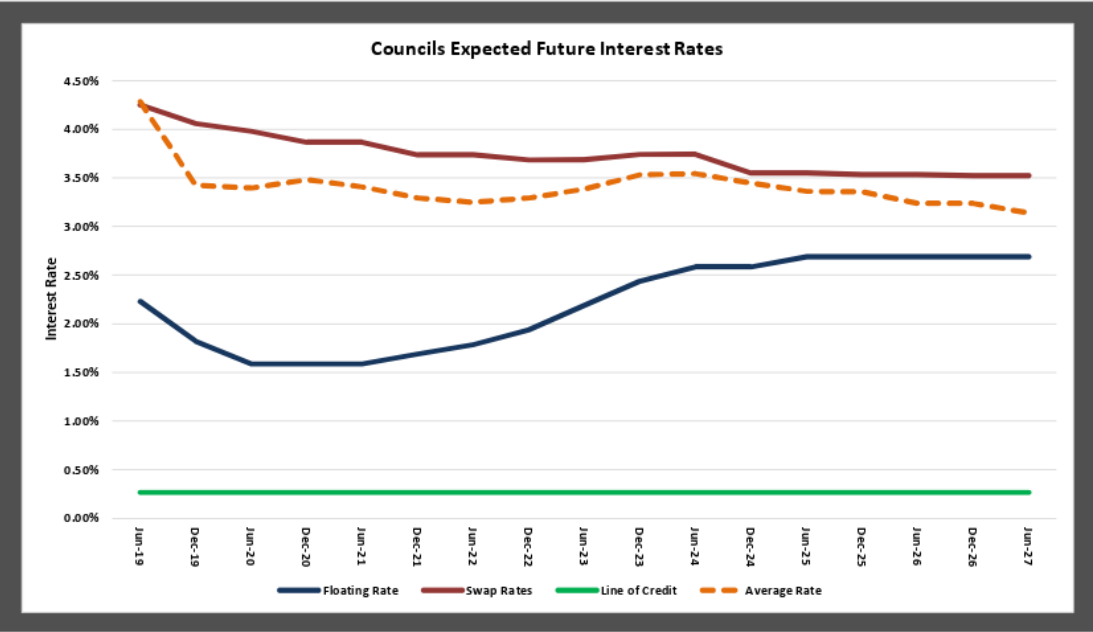
Item 4

Interest Rate Risk Position

31 December 2019



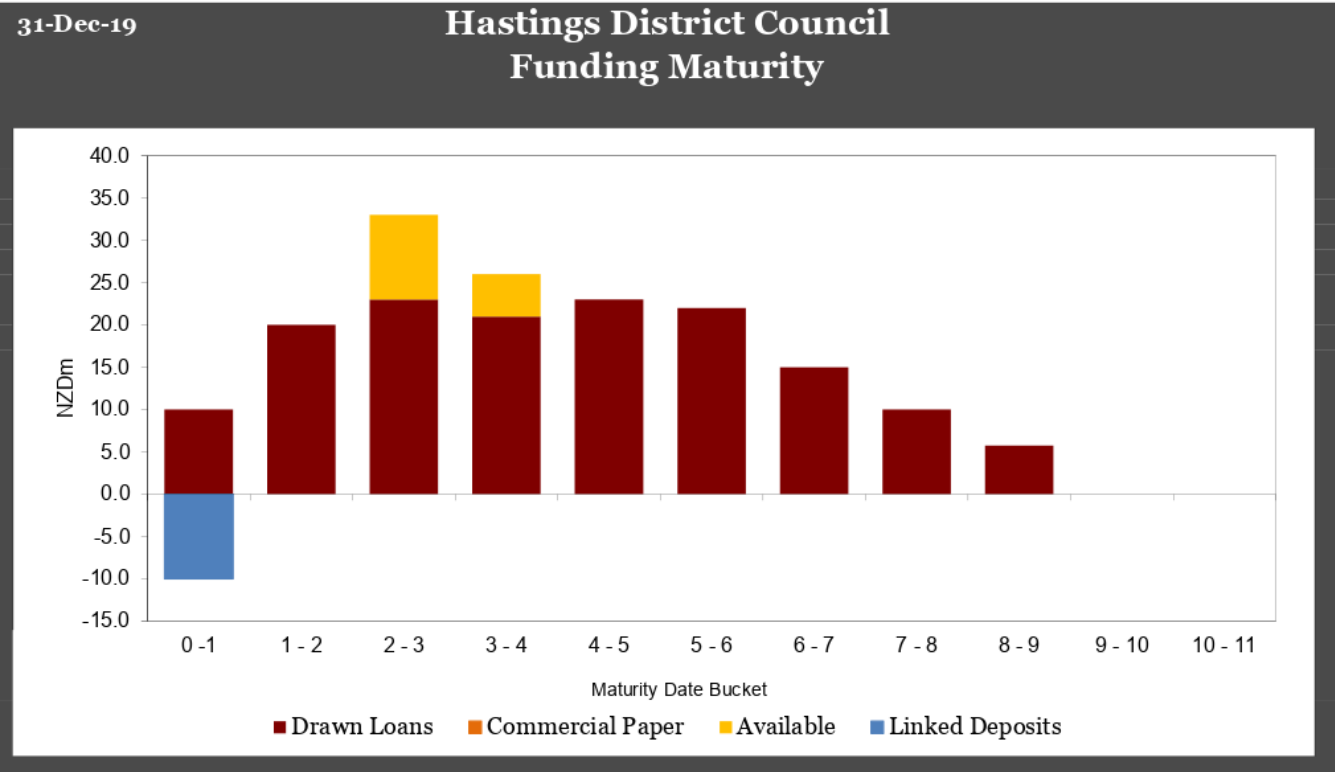
Debt Interest Rate Policy Parameters					
(calculated on rolling monthly basis)					
Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	150	40%	99%	56%	Yes
Year 1	148	40%	99%	65%	Yes
Year 2	161	25%	80%	58%	Yes
Year 3	166	25%	80%	56%	Yes
Year 4	165	25%	80%	53%	Yes
Year 5	163	0%	60%	46%	Yes
Year 6	161	0%	60%	36%	Yes
Year 7	159	0%	60%	30%	Yes
Year 8	157	0%	60%	24%	Yes
Year 9	155	0%	60%	17%	Yes
Year 10	153	0%	60%	0%	Yes
Year 11	151	0%	0%	0%	Yes
Year 12	149	0%	0%	0%	Yes
Year 13	147	0%	0%	0%	Yes
Year 14	146	0%	0%	0%	Yes
Year 15	146	0%	0%	0%	Yes
Weighted Avg Cost of Fixed Rate Instruments				4.06%	
Value of Live Fixed Rate Instruments				\$ 83,500,000	
Weighted Avg Length of Fixed Rate Instruments				6.77 Years	



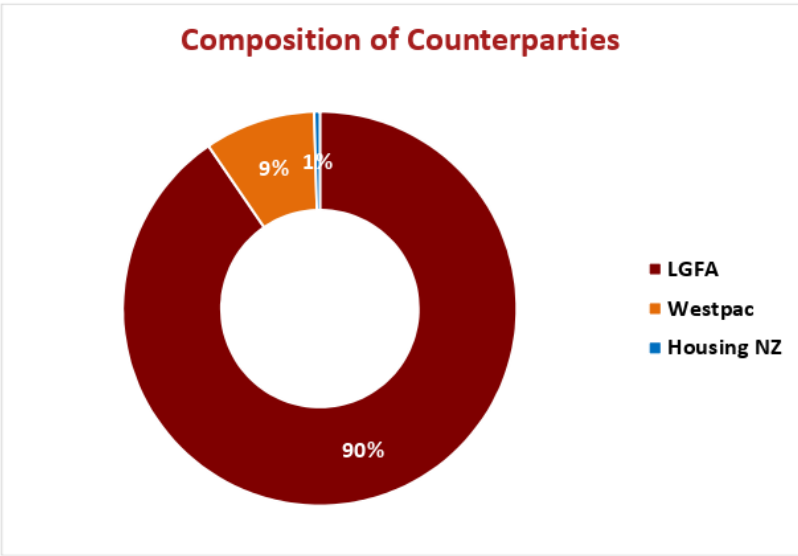
Cost of Holding Fixed Interest Position			31-Dec-19			30-Jun-19			Movement for Year		
Live Interest Rate Swaps	Notional Swap Value	Avg Int Rate	Valuation			Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation
Forward Starting Interest Rate Swaps	75,500,000	4.24%	(6,462,180)			73,500,000	4.45%	(6,476,862)	2,000,000	(0.21%)	14,682
Total Interest Rate Swaps	68,500,000	3.84%	(6,361,951)			80,500,000	3.78%	(7,003,501)	(12,000,000)	0.06%	641,550
	144,000,000	4.05%	(12,824,131)			154,000,000	4.10%	(13,480,363)	(10,000,000)	(0.05%)	656,232
Average Cost of Funds			31-Dec-19			30-Jun-19			Movement for Year		
Fixed Rate Loans with LGFA	Notional Value	Avg Int Rate				Notional Value	Avg Int Rate		Notional Value	Avg Int Rate	
Floating Rate Loans with LGFA	8,000,000	2.37%				8,000,000	2.37%		0	0.00%	
Live Interest Rate Swaps	141,000,000	1.78%				97,500,000	2.26%		43,500,000	(0.48%)	
Westpac Lines of Credit	75,500,000	4.24%				73,500,000	4.45%		2,000,000	(0.21%)	
Fixed Rate Loans with HNZ	15,000,000	0.27%				15,000,000	0.27%		0	0.00%	
Total External Loans / Average Cost of Borrowing	740,000	0.00%				740,000	0.00%		0	0.00%	
	149,740,000	3.36%				106,240,000	4.24%		43,500,000	(0.87%)	

Funding and Liquidity Risk Position

31 December 2019



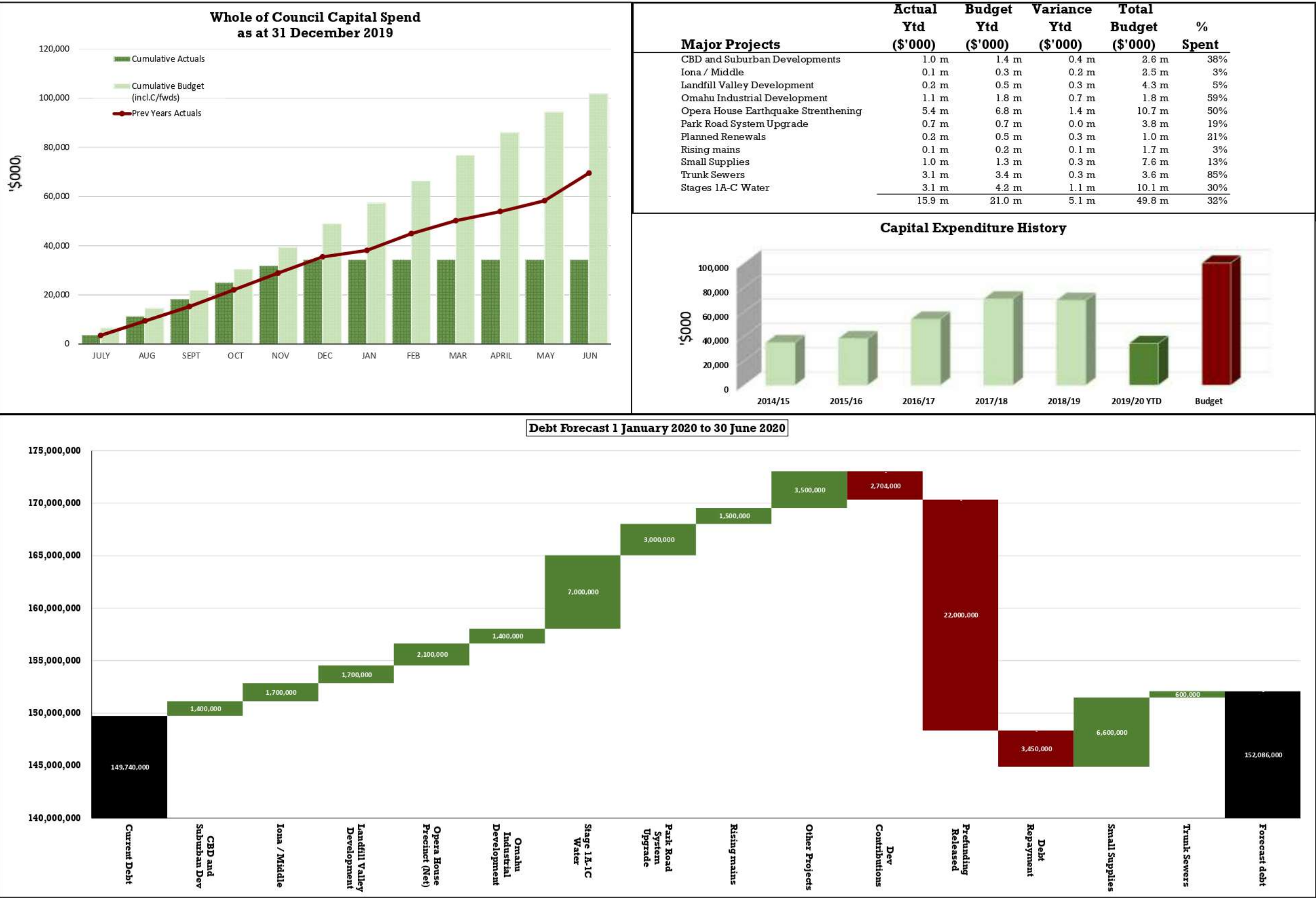
Funding KPI's				
	Minimum %	Maximum %	Actual	Compliant (Y/N)
Liquidity	110%	170%	118%	Yes
Fixed Interest Debt	40%	99%	56%	Yes
Funding Maturity Profile				
0-1 Year	0%	33%	12%	Yes
1-2 Year	0%	33%	11%	Yes
2-3 Year	0%	33%	19%	Yes
3-4 Year	0%	33%	15%	Yes
5-6 Year	0%	33%	13%	Yes
6-7 Year	0%	33%	12%	Yes
7-8 Year	0%	33%	8%	Yes
8-9 Year	0%	33%	6%	Yes
9-10 Year	0%	33%	3%	Yes
10-11 Year	0%	33%	0%	Yes
Net Debt as % Equity	6%	20%	6%	Yes
Net Debt as % Income	93%	150%	93%	Yes
Net Interest as % Income	3%	15%	3%	Yes
Net Interest as % of Rates	5%	20%	5%	Yes



Funding and Liquidity Characteristics	
Total External Council Drawn Debt	149,740,000
Funds Drawn from LGFA	149,000,000
Undrawn Bank Facilities	15,000,000
Term Deposits	22,000,000.00
LIQUIDITY RATIO Definition: (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt	118%
Weighted Average Length of Funding	4.33 Years

CAPITAL PROGRAM and FORECAST DEBT POSITION

31 December 2019



REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN

SUBJECT: ANNUAL REVIEW OF TREASURY MANAGEMENT POLICY

1.0 EXECUTIVE SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report to undertake a review of Council's Treasury Management Policy.
- 1.2 This report contributes to the purpose of local government by primarily promoting economic wellbeing and more specifically through the Council's strategic objective of protecting Council's assets and efficient use of public funds.
- 1.3 This report reviews and proposes changes to Council's Treasury Management Policy.
- 1.4 The proposed change include changes to daily transaction limits, definitions of liquid assets, the fixed and floating debts limits, the maturity profile of external debt, and changes to interest cost benchmarks. In addition there has been an attempt to shorten the policy by culling superfluous clauses.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Annual Review of Treasury Management Policy
- B) That the Committee approves the proposed changes to the Treasury Management Policy, and sends it to Council for adoption

3.0 BACKGROUND – TE HOROPAKI

- 3.1 Hastings District Council has a Treasury Management Policy which has the aim of minimising the Council's costs and risks in the management of its external borrowings and maximise its return on investments.
- 3.2 It is a requirement of the Local Government Act 2002 Section 102 [2] that all Councils have a Liability Management Policy and an Investment Policy. Hastings District Council has chosen to incorporate these policies into a single policy entitled Treasury Management Policy.
- 3.3 Until July 2019 Council's treasury advisor was PriceWaterhouse Coopers. As a result of a RFP process Council has changed its Treasury Advisors to Bancorp Treasury.
- 3.4 This is the first review of Council's Treasury Management Policy undertaken by Bancorp Treasury.

4.0 DISCUSSION - TE MATAPAKITANGA

- 4.1 Council's current Treasury Management Policy has been developed in conjunction with PriceWaterhouse Coopers and was last reviewed in November 2018.
- 4.2 The proposed replacement policy document is based on Council's existing policy, rather than a complete rewrite from scratch. Attached is Council's existing policy with the proposed changes marked up using track changes.
- 4.3 The current policy is quite wordy and repetitive, therefore a number of the changes proposed are simply removing some of the unnecessary background information and sharpening the document up without changing the underlying meaning.
- 4.4 The major changes that alter absolute limits and KPI's are as follows:

2.4 Delegation of Authority and Authority Limits

The Maximum daily transaction limit has been increased to \$40m to reflect what has been happening in reality anyway. With the LGFA debt rollovers often hitting \$20m on a single date, Officer's often find themselves extinguishing one \$20m debt and drawing a new \$20m replacement debt the same day which totals \$40m of transactions before any other business is conducted.

3.1 External Debt Ratios and Limits

The definition of Liquid Assets has been broadened to include pre-funding of term debt maturing in the next 365 days, and term deposits maturing in less than 181 days.

5.1.3 Interest Rate Risk Control Limits

This section deals with Interest Rate Risk Control Limits or stated another way the percentages of fixed and floating rate debt. The section that is being amended had 16 separate one year time bands compared to the proposed 3 time bands. Bancorp's view is that 16 bands is too complex and means that

interest rate exposures have to be micro managed merely to comply with the policy but which in reality produces little or no economic benefit to Council. The current bands extend out to 16 years which means that HDC could fix its interest rate out to a 16 year horizon. Bancorp's analysis indicates that fixing exposures that far in the future does not provide any tangible benefit and in many cases actually costs the borrower in terms of interest expense compared to the situation where exposures had not been fixed that far.

5.2.2 Liquidity/Funding Risk Control Limits

Section 5.2.2 deals with Funding/Liquidity risk control limits with the table which contains three time bands replaced with one requirement stating that no more than \$100 million of 33% of a councils borrowings will mature in any rolling 12 month period. This simplifies the management process and provides greater flexibility when managing funding maturity exposures.

6.2 Management of Debt and Interest Rate Risk

Section 6.2 deals with management of Debt and Interest Rate Risk and replaces the existing benchmark which refers to only one interest rate (the wholesale 7 year rate) with a new benchmark which incorporates 7 separate interest rates which are directly related to new risk control bands contained in Section 5.1.3. The new benchmark will provide a more appropriate comparison and one which is not unduly affected by distortions in one rate (which the old one is as it only refers to the 7 year rate).

Appendix I – Definition of Financial Instruments, and Appendix II – Glossary of terms Corporate Treasury Management

This whole section (while nice to have) doesn't add any value to the policy and is recommended to be removed and put into a separate document to be used for training purposes.

5.0 OPTIONS - NGĀ KŌWHIRINGA

Option One - Recommended Option - Te Kōwhiringa Tuatahi – Te Kōwhiringa Tūtohunga

- 5.1 The Risk and Assurance Subcommittee can choose to adopt the proposed changes in part or in full.

Advantages

- The proposed changes are a simplification of the policy, without significantly changing the risk profile of the policy. They are easier to understand and less stringent to work within allowing officers a slightly greater degree of flexibility, while maintaining the necessary controls.

Disadvantages

- The previous policy was very detailed and prescriptive which made treasury management very black and white but sometimes prevented officers from making decisions that an informed investor might make.

6.0 NEXT STEPS - *TE ANGA WHAKAMUA*

- 6.1 The updated policy will be taken to Operations and Monitoring Committee for ratification and adoption.

Attachments:

1 [Down Arrow](#) Treasury Management Policy - Risk and Assurance FIN-15-01-20-17

SUMMARY OF CONSIDERATIONS - *HE WHAKARĀPOOTO WHAIWHAKAARO*

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

Link to the Council's Community Outcomes - *E noho hāngai pū ai ki te rautaki matua*

This proposal promotes the economic well-being of communities in the present and for the future.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

There are no known impacts on Tangata Whenua of adopting the revised Treasury Management Policy.

Sustainability - *Te Toitūtanga*

There is no impact on sustainability of adopting the revised Treasury Management Policy.

Financial considerations - *Ngā Whaiwhakaaro Ahumoni*

There is no financial impact of adopting the revised Treasury Management Policy.

<p>Significance and Engagement - <i>Te Hiranga me te Tūhonotanga</i> This report has been assessed under the Council's Significance and Engagement Policy as being of minor significance.</p>
<p>Consultation – internal and/or external - <i>Whakawhiti Whakaaro-ā-roto, ā-waho</i> Apart from consultation between officers and Council's treasury advisors there has been no other consultation occur on this matter.</p>
<p>Risks: Legal/ Health and Safety - <i>Ngā Tūrarū: Ngā Ture / Hauora me te Haumarū</i> No implications</p>
<p>Rural Community Board - <i>Ngā Poari-ā-hapori</i> No implications</p>



Treasury Management Policy

(Incorporates LT² Treasury Policy plus more detailed management delegations and performance measures)

Policy expert	Brent Chamberlain, Manager Strategic Finance
Policy owner	Bruce Allan, Chief Financial Officer
Owner Department	Finance
Approval date	[Date this version was approved]
Version	PMD-02-06-03-
Review date	[Date the next review of the policy is needed]

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1. Introduction/Scope and Objectives

1.1. Purpose of Policy

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by the Council. The formalisation of such policies and procedures will enable treasury risks within the 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 the Council continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

- Industry "best practices" for a Council the size and type of Hastings.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Treasury Policy and treasury management function to recognise, measure, control, manage and report on the Council's financial exposure to market interest rate risks, funding risk, liquidity risks and other associated risks.
- The operation of a pro-active treasury management in an environment of control and compliance.
- The robustness of the Policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assist the Council in achieving strategic objectives relating to ratepayers.

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.

1.2. Scope

- This document identifies the policy and procedures of the Council in respect of treasury management activities.
- ~~This treasury management policy extends on the treasury policy included in the Council's Long Term Plan (LTP).~~
- The policy has not been prepared to cover other aspects of the Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters.
- ~~Disposing tools and mechanisms are also outside of the scope of the policy.~~

1.3. Objectives

The objective of this Treasury Policy is to control and manage costs that can influence operational budgets and public equity. Specifically:

1.3.1 Statutory Objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet the requirements of the Local Government Act 2002 and its subsequent amendments and incorporate the Liability Management Policy and Investment Policy.
- HDC 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. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.
- ~~All legal documentation in respect to external borrowing and financial instruments will be approved by the Council's solicitors.~~
- All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is affected.
- ~~The Council will not enter into any borrowings denominated in a foreign currency.~~
- ~~The Council will not transact with any Council-Controlled Trading Organisation (CTO) on terms more favourable than that which the Council would achieve without pledging rates revenue subject to the exemption in section 4 of the Local Government Borrowing Act 2014, lending and financial accommodation provided to the Local Government Funding Agency.~~
- ~~A resolution of the 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 a aggregate amount determined by resolution of the Council.~~

1.3.2 General Objectives

- Minimise the Council's costs and risks in the management of its external borrowings and maximise its return on investments.
- Minimise the Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Policy so as to protect the Council's financial assets and manage costs.
- ~~Arrange and structure external short and long term funding for the Council at a favourable margin and cost from debt lenders.~~
- Optimise flexibility and spread of debt maturities within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.
- Monitor the Council's return on investments in Council-Controlled Organisations ('CCO's'), Council Controlled Trading Organisations (CCTO's), property and other shareholdings.
- ~~Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.~~
- ~~Manage funding requirements to ensure an appropriate spread of debt maturities.~~
- Comply with financial ratios and limits stated within this Policy.
- Ensure that ~~financial planning future capital expenditure~~ will not impose an unequitable spread of costs/benefits over current and future ratepayers.

- To minimise exposure to credit risk by dealing with and investing in creditworthy counterparties.
- ~~Ensure that all statutory requirements of a financial nature are adhered to.~~
- Develop and maintain relationships with financial institutions, credit rating agencies, ~~the Local Government Funding Agency (LGFA)~~, investors and investment counterparties.
- 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.

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2. Management Responsibilities

2.1. Delegations of Authorities

Pursuant to clause 32 (2), schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of the Council in order to allow for the efficient conduct of Council business. Clause 32 (3), schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding clause 32 (1) (c), schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

The limits of approved delegation to Officers are contained within the Council's Delegations Register.

2.2. Treasury Organisational Structure

The council will operate the treasury management function as a cost centre.
~~All treasury management activities are to be undertaken by that function.~~

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.



2.3. Treasury Responsibilities

The key responsibilities of the above positions are as follows:

2.3.1 Council

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

The Council is responsible for approving all Policy, as described in the Treasury Policy in the LTP and the Treasury Management Policy and any changes required from time to time. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated. Further, any changes to the Policy included in the LTP as required by Section 103 (2) will require the use of the special consultative procedure as specified within the Local Government Act 2003.

This Treasury Management Policy can be changed by the Council at any time however it must be consistent with broader contents of the Treasury Policy in the LTP.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of the Council through the 10-year Long Term Plan (LTP) and Financial Strategy, along with the adopted annual plan.
- Approving new debt/funding facilities.
- Approving the Treasury Management Policy incorporating all relevant the following delegated authorities:
 - approving investment and dealing limits and the respective authority levels delegated to the CFO and other management;
 - interest rate exposure limits and incidental arrangements that can be entered into;
 - liquidity and specific borrowing limits;
 - provisions for the repayment of debt;
 - counterparty and credit limits;
 - risk management methods, roles and benchmarks;
 - guidelines for the use of financial instruments;
 - receive an annual review report on the Policy;
- Evaluating and approving amendments to Policy;
- Approving budgets and high level performance reporting;
- Approve acquisition/disposal of assets and non-financial instruments;
- Approve the appointment of the Trustee to any Debenture/ Debenture Trust Deed;
- Delegate authority to the Chief Executive and other officers;
- Approval for one-off transactions falling outside Policy;

The Council, through the Risk and Audit Risk and Assurance Subcommittee, must also ensure that:

- It receives regular information from management on funding and interest rate risk exposures and financial instruments, ~~usage in a form that is understood and that enables it to make informed judgments as to the level of risk undertaken,~~
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately;
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines;

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2.3.2 Chief Executive Officer (CEO)

While the Council has final responsibility for the policy governing the management of the Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CEO.

The CEO's responsibilities include:

- Ensure the Council's Policies comply with existing and new legislation.
- Approving the register of authorised signatories.
- Approve new counterparties and counterparty limits.
- Approve opening and closing of bank accounts.
- Approve daily transactions in excess of \$15 million.
- Receiving and reviewing the monthly treasury report.

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2.3.3 Risk and Assurance Audit Subcommittee (RASC)

The RASC will oversee the implementation of the Council's treasury management strategies and monitor and review the effective management of the treasury function.

The RASC will ensure that the information presented to the Council is accurate, identifies the relevant issues and is represented in a clear and succinct report.

The RASC will discuss treasury matters on a quarterly basis (and informally as required).

Responsibilities are as follows:

- Recommending the Treasury Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the Chief Financial Officer and make submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activity.
- Monitoring quarterly performance against benchmarks.
- Approving allowable financial instruments.

2.3.4 Chief Financial Officer (CFO)

The CFO's responsibilities are as follows:

- Management responsibility for borrowing, and investment and cash management activities.
- Recommend Policy changes to the Risk and Assurance Subcommittee for evaluation.
- Ongoing risk assessment of borrowing and investment activity including procedures and controls.
- *Have Work with S&P Global Ratings ("S&P") standard and basis* in regards to obtaining/maintaining the Council's external credit rating.
- Oversee relationships with financial institutions.
- Approve new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approve re-financing of existing debt.
- Approve treasury transactions in accordance with policy parameters outside of the Finance Operations Manager's delegated authority.
- Authorise the use of Risk and Assurance Subcommittee approved interest rate risk management instruments within discretionary authority.
- Negotiate new and maturing borrowing facilities.

- Approve all amendments to the Council's records arising from checks to counterparty confirmations.
- Authorise ~~all~~ interest rate hedging transactions (swaps, FRAs and options) with bank counterparties to change the fixed: floating mix to re-profile the Council's interest rate risk.
- ~~Decide on the level of fixed and floating rate debt, terms and authorisations to raise and lower fixed rate interest rate marked price to set a (3 months) percentage of total debt within interest rate policy risk control limits.~~
- Recommend authorised signatories and delegated authorities in respect of all treasury dealing and banking activities.
- Propose new funding requirements to the ~~Risk and Audit~~ Risk and Assurance Subcommittee for consideration and submission to the Council.
- Review and make recommendations on all aspects of the Treasury Policy to the ~~Risk and Audit~~ Risk and Assurance Subcommittee ~~including dealing limits, approved instruments, counterparties, working capital policies and general guidelines for the use of finance instruments.~~
- Oversee the annual review of the Treasury Policy, treasury procedures and all dealing and counterparty limits.
- ~~Manage the long-term financial position of the Council in accordance with the Council's requirements.~~
- Ensure that all borrowing and financing covenants to lenders are adhered to.
- ~~Design, analyse, evaluate and test risk management strategies to position the interest rate risk profile to be protected against adverse market movements within the approved policy limits.~~
- ~~Ensure management procedures and policies are implemented in accordance with the Treasury Policy.~~
- ~~Analyse the most cost effective investigate financing options alternatives to minimise borrowing costs, margins and interest rates, making recommendations to the Risk and Audit Subcommittee as appropriate.~~
- ~~Negotiate all new or follow on bank funding facilities and manage bank and other financial institution relationships including the stock register.~~
- Monitor and review the ~~overall~~ performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs year-to-year.
- Monitor treasury exposure on a regular basis, including current and forecast cash position, interest rate exposures and borrowings.
- Approve deal tickets for treasury transactions.
- Review Treasury reports to ~~Risk and Audit~~ Risk and Assurance Subcommittee and Finance and Monitoring Committee.

2.3.5 Financial Controller (FC)

The FC's responsibilities are as follows:

- Provide regular short term and long-term cash flow and debt projections to the CFO.
- Review month end variance analysis to ensure reasonableness of borrowing and investment accounts.
- Review and approve borrowing and investment system/spreadsheet reconciliation to general ledger.

2.3.6 Finance Operations Manager (FOM)

- Deliver daily and weekly reports to the CFO covering cash/liquidity, interest rate risk position, transaction activity and performance.

- Execute treasury transactions in accordance with set limits and CFO authority.
- Manage the operation of all bank accounts and other account features.
- Monitor all treasury exposures daily.
- Manage daily cash management.

2.3.7 Manager Strategic Finance (MSF)

- Account for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.
- Update treasury spreadsheets for all new, re-negotiated and maturing transactions.
- Monitor borrowing and investment settlements and arrange for approval by authorised signatories.
- Prepare short term cash flow forecasts.
- Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Check compliance against limits and prepare report on an exceptions basis.
- Monitor credit rating of approved counterparties.
- Ensure all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- ~~Manage~~ Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA swap documents.
- Check all treasury deal confirmations against deal documentation and report any irregularities immediately to the CEO.

2.4. Delegation of Authority and Authority Limits

Treasury transactions entered into by the Council 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, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least every six months to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least every year that details all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.

Whenever a person with delegated authority on any account or facility leaves the Council, all relevant banks and other counterparties must be advised in writing immediately to ensure that no unauthorised instructions are to be accepted from such persons.

Clear Policy breaches should be reported to the CEO and tabled with action points to the Council.

The Council has the following responsibilities, either directly itself, or via the following stated delegated authorities.

Activity	Delegated Authority	Limit
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)

Activity	Delegated Authority	Limit
Acquisition and disposition of investments other than financial investments	The Council	Unlimited
Approval for changing assets as security over borrowing	The Council	Unlimited
Overall day-to-day risk management	CEO (delegated by Council) CFO	Subject to policy
Re-financing existing debt	CEO (delegated by Council) CFO	Subject to policy
Approving transactions outside Policy	The Council	Unlimited
Approving allowable risk management instruments	The Council	N/A
Adjust interest rate risk profile	CFO	Per risk control limits Fixed rate maturity profile limit as per risk control limits
Managing funding maturities in accordance with Council approved facilities	CFO	Per risk control limits
Maximum daily transaction amount (borrowing, investing, interest rate risk management)	The Council CEO CFO NONAPPLICABLE	Unlimited \$100 million \$450 million \$10 million
Authorising lists of signatories	CEO	Unlimited
Opening/closing bank accounts	CEO	Unlimited
Annual review of policy	CFO	N/A
Ensuring compliance with policy	CFO	N/A

3. Liability Management Policy

Council's liabilities comprise borrowings and various other liabilities. Council's Liability management policy focuses on borrowings as this is the most significant component and exposes the Council to the most significant risks. Other liabilities are generally non-interest bearing. Cash flows associated with other liabilities are incorporated in cash flow forecasts for liquidity management purposes and determining future borrowing requirements.

3.1. External Debt Ratios and Limits

External debt will be managed within the following macro limits.

Ratio:	HDC Policy limits
Net external debt as a percentage of income	<35.0%
Net interest on external debt as a percentage of income	<35%
Net interest on external debt as a percentage of annual rates income	<20%
Liquidity range (liquid funds and committed bank facilities as a proportion of external debt)	110% - 170%

Income is defined as earnings from rates, government grants and subsidies, user charges, interest 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 liquid financial assets/investments.

Liquidity funds are defined as:

- Overnight bank cash deposits at 100% of value
- Wholesale / retail bank term deposits no greater than 30 days at 100% of value
- NZ government bonds, Kauri bonds and LGFA bonds at 100% of market value
- Bank deposits less than 181 days at 100% market value
- Wholesale / retail bank term deposits linked to pre-funding of ~~maturity~~ term debt ~~expiring~~ maturing in the next 165 days.

The liquidity ratio excludes encumbered cash investments, such as cash held within special/reserve funds.

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). 'Rates' exclude regional levies.

External debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate. Disaster recovery requirements are met through the liquidity ratio.

3.2. Borrowing Mechanisms

The Council is able to externally borrow through a variety of market mechanisms including ~~using~~ ~~stock~~ direct bank borrowing or accessing the short and long-term New Zealand capital markets directly or through the ~~Local Government Funding Agency~~ (LGFA). In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the CFO takes into account the following:

- Available terms from banks, the LGFA, and ~~the wider open to be established~~ capital markets ~~and loan stock issuance~~,
- The Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time,
- Prevailing interest rates and margins ~~of the available funding alternatives relative to bank~~ ~~for loan stock issuance, the LGFA, capital markets and bank borrowing~~,
- The market's outlook on future credit margin and interest rate movements as well as its own,
- Ensuring that the implied finance terms within the specific debt (e.g. project finance) are at least as favourable as the Council could achieve in its own right.
- Legal documentation and financial covenants together with security and credit rating considerations.

~~Commercial Paper (CP) should not be issued to fund long-term debt unless there are committed bank facilities that are available to completely cover any outstanding CP. Accordingly, CP issued on this basis should be considered as drawings under committed bank facilities. The reason for this is that in the event that the CP market becomes illiquid, Council would need to immediately~~

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Until the CFO loses the committed bank facilities. For the purpose of calculating liquidity ratios, commercial paper issued is treated as debt drawn against committed bank facilities.

The 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 its investors, the LGFA, and financial institutions and S&P. To this end it is the Council's intention to seek and maintain a strong balance sheet position.

The Council may use a mixture of short-term facilities (which generally have lower credit margins) as well as longer term facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

3.3. Security

All the Council's external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over the Council's 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 Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

The Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of the Council's assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- The Council considers a charge over physical assets to be appropriate.
- The CFO ensures that the required register of charges and any associated documents are provided, filed and kept in accordance with the provisions of the Local Government Act 2002 and any other relevant legislation.

3.4. 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 loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate. The Council will manage debt on a net portfolio basis at all times.

3.5. 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, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

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

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council Committee in aggregate or attached to a property.

3.6. New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Liability Management Policy, the 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:

- a. Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;
- b. Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- c. Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- d. Subscribe for shares and uncalled capital in the LGFA; and
- e. 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.

4. INVESTMENT POLICY AND LIMITS

4.1. General Policy

As Council is a net borrower of funds and applies surplus funds to debt repayment, investments are only maintained to meet specified business reasons. Such reasons can be:

- For strategic purposes consistent with the Council's long term strategic plan
- The retention of vested land
- Holding short term investments for working capital and liquidity requirements
- Holding investments that are necessary to carry out the Council's operations consistent with annual long term plans, to implement strategic initiatives, or to support inter-generational allocations
- Pre-funding forecast capital expenditure.
- To reduce the current ratepayer burden.
- Holding assets (such as property) 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 (including insurance recoveries).

The Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

The Council does not hold financial investments other than those involving special funds, sinking funds and cash management balances. In its financial investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counterparties are acceptable.

4.2. Investment Mix

The Council maintains investments in the following assets from time to time:

- Equity investments and advances

- Property investments including vendor financing through deferred payment licences
- Financial investments incorporating longer term and liquidity investments
- Forestry investments

Council needs to take into consideration its obligations and duties to the community when making investment decisions. Council's investment decisions are guided by the goals and objectives of the Council as expressed in the Long Term Plan (LTP) and Annual Plan and are not made purely on commercial considerations.

4.2.1. Acquisition of New Investments

New investments will be acquired to meet the Council's long term objectives including the diversification of Council income streams. This may include the purchase of land or equity investments that the Council considers appropriate to meet an identified current or future need. Subject to the limits in the Council's significance policy the Council may invest in a new investment that is identified and is not in the Long Term Plan (LTP). When purchasing an investment that is not provided for in the LTP the Council will identify the risks and benefits associated with the purchase.

4.2.2. Use of Sale Proceeds

Any proceeds from the sale of investments (except for forestry assets) are used firstly to repay any debt related to the investment and then the use of any remaining funds will be determined by Council at the time of sale. Preference is to be given to either further debt reduction, the purchase of investments or the funding of capital expenditure.

4.2.3. Equity Investments and Loan Advances

Investments include shareholdings in OCTOs and trading and service enterprises. Advances are made to OCTOs and community organisations, such as Trusts managing Council facilities for financing purposes.

The CFO reviews performance of these investments and advances on a regular basis to ensure strategic and economic objectives are being achieved. Council ensures that interest and principal repayments are being made in accordance with the loan agreement.

All dividend and interest income is included in the consolidated revenue account

Any disposition of these investments, other than the repayment of loans and advances requires Council approval.

4.2.4. Property Investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. This includes property investment not essential to the delivery of relevant services, acquired to achieve commercial returns and to diversify Council income streams. 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.

The CFO reviews the performance of property investments on a regular basis and reports to the Chief Executive on any underperforming assets. Council periodically undertakes a strategic review of its property investments.

All income, including rentals and ground rent from property investments is included in the consolidated revenue account.

Council approves the sale of property.

4.2.5. Other Property Investments -Quarries

Council also maintains quarries for the extraction of metal for roading. These are held for their strategic importance in relation to the roading asset and they are leased to the roading maintenance contractor who must pay the Council royalties based on the quantity of metal extracted.

All royalties are included in the consolidated revenue account.

Any disposition of these assets requires Council approval.

4.2.6. Forestry Investments

Council is not in the business of investing in forestry assets to be held as a long term investment. Council will only invest in forestry assets where the Forest also serves another purpose such as plantings associated with the Joint Landfill. A specific fund is allocated to meet annual maintenance and cutting costs of the Landfill forestry block.

Council approves the sale of forestry. Sale proceeds of the Landfill forestry block are to be used for future landfill development and the Waste Futures project unless otherwise authorised by Council.

4.2.7. Financial Investments

For the foreseeable future, the Council will have a permanent net debt/borrowing position and will use flexible short-term working capital money market funding lines. Accordingly, it does not have any requirement to be in surplus cash. Circumstances where Council may have surplus funds other than for cash management purposes are listed below.

- Specific Bequests & Donations

Any liquid investments must be restricted to a term that meets future cash flow projections.

Interest income from financial investments is credited to general funds, except for income from investments for special funds and sinking funds where interest is credited to the particular fund.

The Council's primary objective when investing is the protection of its investment and maximise returns. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties covered in section 5.3. Credit ratings are monitored on a quarterly basis by the RM.

Council Created and Other Reserves

Liquid assets will not be required to be held against Council reserves (sometimes referred to as "special funds"). Instead Council should internally utilise these funds.

Through adopting this Treasury Policy, Council supersedes any previous Council resolutions pertaining to the funding of specific Council reserves.

Unless the Council specifically determines, by resolution, that interest should be credited to a specific reserve for a specified purpose, no interest shall be credited to reserves.

Where the Council has determined that interest shall be credited to specific reserves accounting entries representing monthly interest accrual allocations will be made using the rate prescribed by the Council. If no interest rate is prescribed the calculation shall be based on the average of the 90 day bank bill bid rate and the 3 year Government Stock rate.

4.2.8. New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this Investment Policy, the 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.

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

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

Because of this dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

Council may invest in financial instrument issues by the LGFA up to a maximum of \$50m.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

5. RISK RECOGNITION/IDENTIFICATION/ MANAGEMENT

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council will be as detailed below and applies to both the Liability Management Policy and Investment policy.

5.1. Interest Rate Risk

5.1.1 Risk Recognition

Interest rate risk is the risk that funding costs (due to adverse movements in market interest rates) will materially exceed adopted annual plans and LTP interest cost projections, so as to adversely impact cost control, capital investment decisions/returns/and feasibility.

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of funding costs. However, a secondary objective is to minimise the net funding costs for the Council within acceptable risk parameters. Both objectives are to be achieved through the active management of underlying interest rate exposures.

5.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council.

Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and external borrowing	Bank overdraft Committed (over cash advance and bank-arranged bill facilities (short-term and long-term loan facilities)) Uncommitted money market facilities Bond issuance Commercial paper (CP)/ Promissory notes Short term bank deposits Bank bills Registered Bank certificates of deposit (RCD's)
Investments	Local Authority stock or State-Owned Enterprise (SOE) bonds LGFA borrower notes Corporate bonds Promissory notes/Commercial paper Bank term deposits linked to pre-funding maturing debt up to 18 months
Interest rate risk management	Forward rate agreements (bank bills) Interest rate swaps including: Forward-start swaps/collars (start date < 18 months) unless linked to existing maturing swaps/collars Amortising swaps (whereby notional principal amount reduces) Interest rate options on Bank bills (purchased caps and one-for-one collars) Interest rate swaptions (purchased swaptions and one-for-one collars only)

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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. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

5.1.3 Interest Rate Risk Control Limits

External Core Debt/Borrowings

The Council external core debt/borrowings must be within the following fixed/floating interest rate risk control limit (calculated on a rolling monthly basis):

Fixed/Floating Interest Rate Risk Control Limits/Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
0 – 2 years	40%	100%
2 – 5 years	25%	80%

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5 – 10 years	0%	60%
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Debt-Signed Issued	Minimum Floor	Maximum Ceiling
Current	50%	95%
Year-1	45%	90%
Year-2	40%	85%
Year-3	35%	80%
Year-4	30%	75%
Year-5	25%	70%
Year-6	15%	60%
Year-7	0%	55%
Year-8	0%	50%
Year-9	0%	45%
Year-10	0%	40%
Year-11	0%	35%
Year-12	0%	30%
Year-13	0%	25%
Year-14	0%	20%
Year-15	0%	15%
Year-16	0%	10%

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

"Floating Rate" is defined as an interest rate repricing within 12 months. This includes FRNs with a maturity date beyond one year that are not swapped to fixed rate. Floating rate debt may be spread over any maturity out to 12 months.

The percentages are calculated on the rolling projected external core debt level calculated by management (grossed off by the CDO). External core debt is the amount of total external debt expected to mature in beyond 12 months. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to comply with the policy minimum and maximum. The fixed rate amount at any point in time must be within the following maturity bands:

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• A fixed rate maturity profile that is outside the above limits, but not corrects within 90 days is not in breach of this Policy. However, maintaining a maturity profile beyond 90 days requires specific approval by Council.

• Floating rate debt may be spread over any maturity out to 12 months. Bank advances only up to a maximum term of 12 months.

•
• RAs outstanding at any one time must not exceed 25% of the total floating rate debt. RAs may be "closed out" before maturity date by entering an equal and opposite RA to the same maturity date or alternatively, by purchasing an option on a RA for the equal and opposite amount to the same date.

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- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. *During the term of the option, the purchased side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".*
- Purchased borrower swaptions maturing within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

- The forward start period on swap/collar strategies to be no more than 24 months, unless the forward start swap/collar starts on the maturity date of an existing swap/collar and has a notional amount which is no more than 10% of the existing swap/collar.*

Any fixed rate debt or interest rate swap beyond 10 years requires the approval from the Risk and Audit Risk and Assurance Subcommittee. *The only approved exception to this will be if Council enters LGFA funding at a fixed interest rate, or a floating interest rate swap that is linked to corresponding LGFA fixed interest rate funding.*

Liquid Investments

For the foreseeable future, the Council will have a permanent net debt/borrowing position and will use flexible short-term working capital money market funding lines. Accordingly, it would not have any requirement to be in a term surplus cash situation.

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Therefore, outside of the above mentioned exceptions, any liquid investments must be restricted to a term that meets future cash flow projections.

5.1.4 Council Reserves

- Liquid assets will not be required to be held against special funds, instead Council will manage these funds using internal borrowing facilities.

Foreign Currency

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The Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment and the on-going purchase of library books.

Generally, all significant commitments for foreign exchange are hedged by the Council. Significant foreign exchange commitments are defined as individual currency amounts exceeding NZ\$50,000.

The following foreign exchange risk management instruments may be used for foreign exchange risk management activity:

- Spot and Forward Exchange Contracts.
- Purchase of foreign exchange options, and collar-type instruments (1:1 only).

Independent external advice would be sought before the use of such instruments.

- The Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.
- Contingent Liabilities

- Unless the possibility of an outflow is remote, contingent liabilities must be identified and reported within the Council's financial statements. Such liabilities will be valued based on an accepted basis, and such a valuation will be provided for within the financial statements.
- Contingent liabilities include but are not limited to the following:
 - Staff Gratuities
 - Guarantees

5.1.5 Disaster Recovery

- Council recognises that events of an unforeseen or un-forecasted nature may result in financial loss to the Council. Such events are provided for through undrawn committed bank facilities.

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5.2. Liquidity Risk/Funding Risk

5.2.1 Risk Recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow 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 or better than current market prices the same or more favourable pricing (down and borrowing margin) and maturity terms of existing facilities.

Managing the Council's funding risk is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility resulting:

- Local Government risk is priced to a higher fee and margin level.
- The Council's own credit standing or financial strength as a borrower deteriorates due to financial regulatory or other reasons.
- A large individual lender to the Council experiences time own financial/liquidity difficulties, resulting in the Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand government's economy experiences a substantial "down supply" of Council investment assets.
- Financial market shocks from domestic or global events.

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 if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

5.2.2 Liquidity/Funding Risk Control Limits

- The Council must approve all new loans and borrowing facilities.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- Liquid funds, ~~and~~ committed bank ~~and~~ capital markets facilities must be maintained at a minimum of within the range of 110% - 170% of existing over forecast external debt levels over the next 12 months.
- Treasury provides daily and weekly cash management reporting, together with monthly (rolling 12 month forecast) and annual cash/debt forecasting and that long-term debt forecasts out to ten years are made available.

- The CFO has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be ratified and approved by the Council at the earliest opportunity.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings providing there is a high level of confidence in the forecast debt levels.
- The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system:

Period	Advantage	Adjustment
0-30 days	10%	50%
31-90 days	20%	60%
91 days plus	30%	80%

A funding maturity profile that is outside the above limits, but still conforms within 90 days is not in breach of this Policy. However, a maturity schedule outside these limits requires specific Council approval.

To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a council's borrowings from the LGFA will mature in any rolling 12-month period.

5.3. Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the 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 Council. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's S&P or equivalent Fitch or Moody's) being A- and above.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits (with the exception of externally managed funds which are governed by the appropriate SPO).

Counterparty/Issuer	Minimum long term credit rating – stated and possible	Investments maximum per counterparty (\$m)	Interest rate risk management instrument maximum per counterparty (\$m)	Total maximum per counterparty (\$m)
NZ Government	1/A	unlimited	none	unlimited
Local Government Funding Agency	A-	50.0	none	50.0
State Owned Enterprises (name)	A-	5.0	none	5.0
NZ Registered Bank	A-	20.0	20.0	30.0
Corporate Bonds	A-	2.0*	none	2.0
Local Government Stock	A- (if rated) Unrated	2.0** 0.5**	none none	2.0 0.5

* Subject to a maximum of \$5.0m investment in corporate/securitised bonds at any one point in time.

** Subject to a maximum of \$15.0m investment in Local Government stock at any point in time.

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In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Notional @ Weighting 100%.
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional @ Maturity (years) @ 3%.

Each transaction should be entered into a reporting spreadsheet and a monthly report prepared to show assessed counterparty actual exposure versus limits.

Credit ratings should be reviewed by the ACC on an ongoing basis and in the event of material credit downgrades, below the minimum long term credit rating, the investment will cease. Future investments assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

5.4. Risk Management

To avoid undue concentration of exposures, a range of financial instruments must be used with as wide a range of counterparties as practical. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and repriced from.

5.5. Operational Risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood.
- Too much reliance is often placed on the specialised skills of one or two people.
- Most treasury instruments are executed over the phone or email.
- Operational risk is minimised through the adoption of all requirements of this policy

5.5.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by the Council. These limits are detailed in the schedule of delegated authorities table in section 2.4 of this policy.

5.5.2 Segregation of Duties

Adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in borrowing and investment activity. Accordingly, strict segregation of duties is not always achievable. The risk will be minimised by the following process:

5.5.3 Procedures

All treasury products must be recorded and diarised on a spreadsheet system, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy. The Council should capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary to the Council records.

Procedures should include:

- Regular management reporting

- Regular risk assessment, including review of procedures and controls as directed by the committee.
- Organisational, systems, procedural and reconciliation controls to ensure:
 - All borrowing and investment activity is bona fide and properly authorised
 - Checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely
 - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity

5.5.4 Organisational Controls

- The CFO has responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations authorised by the Council.

5.5.5 Cheque/Electronic Banking Signatories

- Positions approved by the CEO as per register.
- Dual signatures are required for all cheques and electronic transfers.

5.5.6 Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

5.5.7 Recording of Deals

- All deals are recorded on properly formatted deal tickets by the FOM and approved by the CFO. Market quotes for deals (other than cash management transactions) are perused by the FOM before the transaction is executed. Deal summary records for borrowing (on the Debt Management System) investments, interest rate risk management and cash management transactions (on spreadsheets) are maintained and updated promptly following completion of transaction.

5.5.8 Confirmations

- All inward letter confirmations including registry confirmations are received and checked by the MSF against completed deal tickets and summary spreadsheets records to ensure accuracy.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records are signed off by the CEO.

Settlement

- The majority of borrowing and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically by Accounts Payable and the Bank Management Officer. These batches are checked by an Accountant to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the Bank Management Officer. Any material unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's records are signed off by the CEO.
- A monthly reconciliation of borrowing and investment spreadsheets to the general ledger is carried out by the MSFand reviewed by the FC.

5.6. Legal Risk

5.6.1-Legal and regulatory 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. While legal risks are more relevant for banks, the Council may be exposed to such risks. In the event that the Council is unable to enforce its rights due to deficient or inaccurate documentation.

The 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 for any non-standardised transactions

5.6.12 Agreements

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

The Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

Currently the Council has ISDA agreements with the following banks:

- Westpac Banking Corporation NZ Ltd
- Australia and New Zealand Banking Group
- ASB Bank Limited
- Bank of New Zealand
- Kiwibank

5.6.3 Financial Covenants and Other Obligations

The Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

The Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

The Council must maintain a register of charges relating to any commitment which is specifically relating to any asset.

6. MEASURING TREASURY PERFORMANCE

In order to determine the success of the 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 (operational performance and management of debt and interest rate risk) are to be reported to the committee on a monthly basis.

6.1. Operational Performance

All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and exposure limits.

All treasury deadlines are to be met, including reporting deadlines.

6.2. Management of Debt and Interest Rate Risk

The actual funding cost for the Council (taking into consideration ~~the costs of~~ entering into ~~of~~ interest rate risk management transactions) should be below the budgeted interest cost. When budgeting forecast interest costs, the actual physical position of existing loans and swaps / swaptions / FRAs must be incorporated together with all fees.

Since senior management is granted discretion by the Council to manage debt and interest rate risk within specified limits ~~of this policy~~, the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. ~~Herein~~ in this respect, a risk neutral position ~~is one that~~ is always precisely at the mid-point of the minimum and maximum percentage ~~control~~ limits specified within the policy.

Given current fixed/floating risk control limits and fixed rate maturity profile limits as defined in Section 5.1.3 of this policy, the market benchmark (composite) indicator rate will be calculated as follows:

- 30% Average 30 day bill rate for reporting month.
- 8.75% 2 year swap rate at end of reporting month.
- 8.75% 2 year swap rate, 2 year ago.
- 11.75% 5 year swap rate at end of reporting month.
- 11.75% 5 year swap rate, 5 years ago.
- 15% 7 year swap rate at end of reporting month.
- 15% 7 year swap rate, 7 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.

- The wholesale interest rate is the mid-point policy benchmark rate. Council's policy mid-point represents an average term of 7 years. The market benchmark rate will be calculated every month and represent the 2-year swap rate monthly rolling average over a 7-year period.

The micro-benchmark rate used to measure performance is the aggregate of the composite benchmark indicator rate calculated above and the margin that applies to existing funding facilities.

Accordingly, the actual weighted average interest rate for the financial year-to-date (that incorporates all issuance margins and derivative settlements) must be compared against the micro-benchmark rate on a monthly basis, with historical comparison reported graphically over the previous 12 months.

7. CASH MANAGEMENT

The FOM has the responsibility to carry out the day-to-day cash and short-term debt management activities.

- The FOM will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), and weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.

- On a daily basis, electronically download all the Council bank account information.
- Co-ordinate the Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- Undertake short term borrowing functions as required, minimising overdraft costs.
- Ensuring efficient cash management through improvement to accurate forecasting using spreadsheet modeling.
- Minimise fees and bank/Government charges by optimising bank account/facility structures.
- Monitor the Council's usage of cash advance facilities.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.
- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

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The FOM will calculate and maintain cash flow projections monthly (twelve months forward) and annual (five years) basis.

8. REPORTING – PERFORMANCE MEASUREMENT

When budgeting forecast interest costs, the actual physical position of existing loans and swaps/swaptions/FRA's must be incorporated.

8.1. Treasury Reporting

8.1.1 Reporting

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	FOM	CFO
Treasury Exceptions Report	Daily	MSF	CEO
Risk Management performance	Quarterly	MSF	CFO
Policy Compliance	Quarterly	MSF	CFO
Interest rate exposure report	Quarterly	MSF	CFO
Cost of funds & funding facility report	Quarterly	MSF	CFO
Cash flow forecast report	Monthly	FOM/MSF	CFO
Summary Treasury Report	Quarterly	FOM/MSF	Council CEO
Quarterly Treasury Strategy Paper	Quarterly	CFO	Risk and Audit Risk and Assurance Subcommittee CEO
Limits Report	Daily, reported on an exceptions basis Quarterly	FOM	CFO Council
Debt Maturity Profile	Quarterly	CFO	Council
Revaluation of financial instruments	Quarterly	MSF	CFO

Quarterly the RASC approves borrowing, investment and risk management strategies and reviews the preceding quarters results amending if appropriate. Tactics for the following quarter are agreed with operating guidelines and provided to the CFO for implementation. The CFO is responsible for preparing the agenda for the quarterly meeting as well as documenting the actions required by the committee.

8.2. Valuation of Treasury Instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

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

Council's principal objective is to actively manage the 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 annual accounts.

The CFO is responsible for advising the CEO of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every three months for risk management purposes.

Note: For management accounting purposes, financial instruments used for hedging will not be marked-to-market but will be shown in the annual statutory accounts.

Underlying rates to be used to value treasury instruments are as follows:

- Official daily settlement prices for established markets.
- Official daily market rates for short term treasury instruments (e.g. FMA settlement rates calculated by Reuters from price maker quotations as displayed on the BCBM page).
- Relevant market mid-rates provided by the company's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.
- For markets that are illiquid, or where market prices are not readily available, rates calculated in accordance with procedures approved by the CFO.

9. POLICY REVIEW

This Treasury Policy is to be formally reviewed on an annual basis.

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

- Recommendation as to any proposed changes, deletions and additions to the policy.
 - Any amendment to this policy requires the adoption of the special consultative procedures as outlined in the Local Government Act 2002.
 - Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).

- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury systems and procedures must be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to the Council.

The Council receives the report, approves policy changes for consultation with the community and/or reject recommendations for policy changes.

The policy review must be completed and presented to the Council within five months of the financial year-end.

APPENDIX I - DEFINITION OF FINANCIAL INSTRUMENTS

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Forward Rate Agreements (FRAs)

Definition

A forward rate agreement ("FRA") is a synthetic contract between two parties in which one party agrees to pay to the other an agreed interest rate on a notional principal amount, for a fixed period of time, commencing on a specific date in the future (settlement date).

A borrower's FRA provides protection against rising interest rates whereas an investor FRA provides protection against falling rates.

FRAs are available from any specific date but contract periods are generally quoted for 90-day periods. FRAs are usually referred to by the number of calendar months from the current month to the settlement date against the number of months from the current month to the maturity date. For example, a 3 month borrowing rate in 4 months time would be quoted as a 4 against 7 FRA (4 x 7 FRA).

FRAs are valued (and settled) on the relevant FRA settlement rates shown on the Reuters BKM page each morning at 10:45am. FRA settlement rates are calculated from the 7 Bank Bill price maker bid/offer quotations provided to Reuters at 10:30 am. The settlement rate is the average mid-rate of the quotes after excluding the highest and lowest quotes.

Characteristics

- FRAs are generally used to hedge short-term exposures.
- Because the transaction is synthetic, no movement of principal amounts is necessary.
- On settlement date, only the net settlement amount representing profit or loss changes hands, thereby requiring minimal utilisation of credit lines.
- A FRA can be closed out at any time by taking an opposite FRA with the same settlement date.
- FRAs attract no deposit requirements, margin calls or brokerage fees.
- FRAs can be customised according to individual requirements in terms of amount, maturity settlement date and counterparty.
- FRAs are off-balance sheet transactions with credit risk limited to the interest rate variation over the term of the FRA.

Recommended Usage

FRAs should be used where the Council has a view on interest rate trends that may adversely affect future borrowing rates.

They are ideally suited for the following applications:

- Where uncertainty exists coming up to a rollover date for term borrowings, buying a borrower FRA will effectively "lock in" a rate over a pre-determined period of time.
- Where additional funding is required and it is anticipated that interest rates will rise, buying a borrower FRA will "lock in" a rate today and neutralise the effect of interest rate increases.

Example

The Council wishes to borrow additional funds of \$2 million in a month's time for 90-days. It is concerned about the effect on interest rates of a Reserve Bank statement to be announced this week. The Council decides to hedge the amount by purchasing a 1 x 4 borrower FRA for \$2 million (with a settlement date of one month hence and a maturity date of four months hence). The agreed FRA rate is 5.20%. Note: current 90-day rates are 5.00%.

In one month's time, 90-day rates have risen by 40 basis points with the rate now 5.40%. The 3 month FRA settlement rate per BKBM page is 5.40%.

The Council receives \$1,000 for the FRA settlement and borrows the \$2 million at a rate of 5.40%. The effective borrowing rate is 5.20% i.e. the Council borrows at the rate they budgeted for.

Interest Rate Swaps

Definition

An interest rate swap is an agreement between two parties to exchange interest payments at regular intervals over a period of time based on a notional principal amount. Generally, one party will pay interest at a fixed rate while the other will pay interest at a floating rate.

Like FRAs, the intervals between swap payments can be for any specified period (and the floating period need not be the same as the fixed period). However, the period between payments will generally be 90-days. The floating rate is set at the beginning of each swap period and will normally be a specified margin over the 3 month rate shown on the Reuters BKBM page on the day (much the same as the settlement of the Council's 90-day Bank Bill rate from its bank lenders).

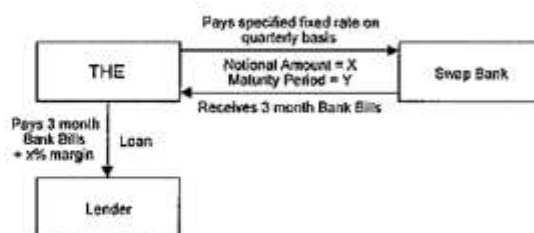
The swap agreement is a separate paper contract, the physical debt remains unchanged.

A "payers" swap, as its name suggests, allows a corporate borrower to swap its underlying interest rate exposures from a floating to fixed basis to protect against rising interest rates. For the purposes of the Council, the counterparties to all swaps will be banks. The Council's credit risk will always be with the bank and vice-versa.

The following diagram illustrates payment flows for each swap period for an interest rate swap (from the point of view of a corporate borrower who has an underlying floating exposure and who wishes to fix it):

Illustration Swap

The operation of a swap is determined by the underlying swap confirmation. This will define the swap periods, the fixed interest rate and the floating rate as appropriate.



The variations of an interest rate swap include the following:

- **Forward start swaps:** A swap that has a future start date. Often used to hedge future debt drawdowns in anticipation of a rise in interest rates.
- **Amortising swaps:** A swap where the notional principal reduces on a straight-line basis over the life of the swap. Such swaps are useful in hedging the funding of depreciating assets especially when the loans require regular principal repayments during their life.
- **Arrears reset swap:** A swap where the floating rate is set a couple of days prior to payment rather than at the beginning of the interest period.
- **Basis swap:** A floating/floating swap where both parties exchange interest payments based on different floating rate indexes i.e. the Council could pay interest on a monthly basis against receiving interest on a quarterly basis.
- **Zero coupon swap:** A swap where the fixed payer only makes one lump sum payment on maturity rather than regular payments throughout the life of the swap (the floating payer continues to pay as normal).

Characteristics

- Swaps will typically cover a period in excess of one year. Maturities of less than one year generally use FRAs.
- Because the transaction is synthetic, no exchange of principal amounts is necessary.
- On each settlement date, only the net settlement amount representing the interest differential changes hands.
- Swap agreements may allow early termination. This would normally require settlement of the net present value of all future cash flows based on the current market settlement rates.
- A swap can be closed out at any time by taking an opposite swap position with the same settlement periods (referred to as a reverse swap) or by assigning the obligations under the swap to a different counterparty where the swap agreement permits (which would require a lump sum payment of the value of the swap to the appropriate counterparty).
- Swaps attract no deposit requirements, margin calls or brokerage fees.
- Swaps can be customised according to individual requirements i.e. the Council can perfectly tailor interest payment dates to match those of underlying loan advances.
- Swaps are off-balance sheet transactions.
- Swaps are governed by comprehensive agreements called ISDA documents.

Recommended Usage

Payer swaps should be used where the Council has a view on interest rate trends that may adversely affect future borrowing rates.

They are ideally suited for the following applications:

- Where uncertainty exists on medium to long-term interest rates and the impact this will have on term loans, entering into a swap will effectively "lock in" a rate for the entire term of the swap.
- Where additional core funding is required and it is anticipated that interest rates will rise, entering into a payers swap will "lock in" a rate today and neutralise the effect of interest rate increases.
- When it is widely forecast that 90-day Bank Bill rates will rise and average above current 1-5 year fixed swap rates over the term.

Example

The Council has a new borrowing of \$5 million under a revolving credit facility that is rolled every 90-days. There is widespread concern that rates will be considerably higher in the next six months and that this will most likely continue for the following 12 to 18 months.

The Council decides to hedge by entering into a 3 year, \$5 million payers swap (with settlement dates coinciding with rollover dates for the underlying borrowings). The 3-year swap rate is 7.20%.

- The Council pays fixed interest at 7.20%.
- The Council receives floating interest at 5.50% (assuming current 90-day Bank Bill rate) for the first settlement date (in 90-days).
- The Council receives floating interest at the 90-day Bank Bill rates for each subsequent interest period (this rate being set on the first day of each interest period).

In three months time (on the first rollover date), 90-day Bank Bill rates have risen by 100 basis points (assumption) with the 90-day Bank Bill rate now 6.50%. The swap floating rate cash flow is accordingly set at 6.50% for the second roll period.

Interest rate calculations for the first roll period

- THE COUNCIL pays \$5 million \times 7.20% \times 90/365 = \$88,767.12
- THE COUNCIL receives \$5 million \times 6.50% \times 90/365 = \$80,136.99
- The Council pays net difference = \$8,630.13

The Council is meanwhile paying its lenders 90-day Bank Bills plus 0.25% therefore, the full cost of funds =

5,000,000 \times Bank Bills (6.50%) \times 90/365 =	\$ 80,136.99
Plus 5,000,000 \times 0.25% margin \times 90/365 =	3,082.19
Plus net difference of swap payments =	8,630.13
	\$ 91,849.31

Effective annualised cost of funds = 7.45% (7.20% fixed rate + 0.25% loan margin)

Interest Rate Options

Definition

An interest rate option provides protection against adverse future interest rate movements while still allowing some benefit where rates move favourably.

The buyer (holder) has the right (but is not obligated) to exercise the option should rates be favourable whereas the seller (grantor) has no rights but is obligated to pay cash to the buyer where the option is exercised. The buyer pays a premium to the seller on the execution of the option. As the buyer can let an option expire worthless where rates are unfavourable, the premium is the maximum loss that the buyer will incur and conversely the maximum profit the seller will receive. In other words, the buyer of an option has limited loss potential while unlimited profit potential. The seller on the other hand has limited profit potential while having unlimited loss potential.

Caps and Floors

A "floor" provides the buyer protection against falling interest rates whereas an interest rate "cap" provides protection against rising interest rates. A floor might be used by an investor to establish a minimum rate on floating rate deposits and a cap might be used by a corporate borrower who wanted to set a maximum funding rate for borrowings. The floor and cap levels will sometimes be referred to as the strike rate, strike price or exercise price (consistent with other option products).

Swaptions

Swaptions are an option to enter into a pre-determined swap contract. Options are said to be "in the money" at a given point in time where the strike rate is more advantageous to the buyer of the option than the corresponding Bank Bill rate. Conversely, options are said to be "out of the money" where the strike rate is less advantageous to the buyer of the option than the corresponding Bank Bill rate. Where the strike rate and the corresponding Bank Bill rate are the same, options are said to be "at the money".

Interest rate options that are exercised on maturity are cash-settled with the settlement amount payable to the buyer. As the underlying instrument is not physically delivered, it will still be necessary for the buyer to borrow or invest funds at current market rates. However, the settlement of the option (if exercised) will partially offset the rate obtained.

The cost of an option (premium) is generally calculated using technical mathematical models based on lognormal probability distributions. While many option pricing models exist, the most widely used is the Black & Scholes model.

This model uses the following variables in determining the option price:

- Time to maturity of the option.
- Underlying Bank Bill (current and forward Bank Bill rates).
- Strike rate.
- Volatility of the underlying Bank Bill market.

Clearly an option that has a long time to maturity will be more expensive than one that has a short term to maturity. This portion of the cost is often described as the time decay effect. Also, an option that is "in the money" will be more expensive than one that is "out of the money" (as measured by the difference between the strike rate and the underlying Bank Bill rate). Finally, the more volatile the underlying market is, the more expensive the option. As will be evident, options are considerably more complicated to price and value than forward-based products. However, options are much more flexible with the strike rate able to be chosen to suit individual requirements.

One of the major benefits of options is that with so many variables affecting the pricing, combinations of floors and caps at different strike rates can allow very effective risk management strategies at tailored cost. The most common combination is referred to as an interest rate collar, which in the case of a corporate borrower involves simultaneously buying a cap and selling a floor. The premium received from selling the floor partially offsets the cost of buying the cap. In return, profits are fixed at a level. The effect of this strategy is that the corporate borrower can minimise its funding rates at very low cost.

Characteristics

- Options are used to insure against adverse market movements while still providing the ability to benefit from favourable movements.
- The option premium is payable up-front by the buyer and represents the maximum loss payable. Sometimes this premium can be deferred until the option expiry date.
- Because the transaction is synthetic, no movement of principal amounts is necessary.
- On maturity, if the option is "in the money" it can be exercised with the buyer receiving the profit. If the option is either "out of the money" or "at the money" the option will expire worthless with no settlement required.
- Options can be closed-out at any time by taking an opposite option with the same settlement date and strike rate.
- Combinations of options can provide sophisticated risk management at minimal cost.
- Options attract no deposit requirements, margin calls or brokerage fees.

- Options are able to be customised according to individual requirements in terms of amount, strike rate, maturity settlement date and counterparty.
- It is considered dangerous and imprudent for corporate borrowers to sell options for long terms in isolation. Such a transaction produces unknown risk and unlimited potential loss. The premium received may only be a minor offset to the end loss if market rates shift significantly.

Recommended Usage

An interest rate cap will provide a worst case interest rate in the event of short-term interest rates (90-day Bank Bills) rising in the future.

Options are at their most economic value when they are needed, and are therefore best used when financial budgeting requires certainty or "a worst case" insurance against a rise in interest rate however, the view may be that rates will not rise. Usually swaps represent the most cost effective form of actual hedge in the event of rising interest rates due to the relatively high cost of interest rate options.

Options are best purchased when:

- they are not intended to be exercised;
- volatility in the market is low; or
- the underlying debt being hedged is uncertain.

Example

The Council has purchased a swaption i.e. an option to enter into a swap with pre-determined pricing of 7.20% and a maturity of 3 years. The option expires in July of 2000. The notional is \$5 million.

Should the 3 year swap rate be higher than 7.20% next July, the Council will exercise the swaption and enter into a swap with the seller of the swaption where the Council will exchange the following cash flows each quarter for 3 years.

- The Council pays $5,000,000 \times 7.20\% \times 90/365 = \$88,767.12$.
- The Council receives $5,000,000 \times (90\text{-day Bank Bills}) \times 90/365$.

The net difference is paid by the Council if the 90-day Bank Bill rate is below 7.20% and paid by the swap counterparty if the 90-day Bank Bill rate is above 7.20%.

APPENDIX II - GLOSSARY OF TERMS CORPORATE TREASURY MANAGEMENT

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Term	Definition
Amortising Swap	An interest rate swap contract that has a reducing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an amortising swap is the weighted average maturity, not the final maturity date.
Arbitrage	A method or action that allows the securing of a profit (with no market risk) by taking advantage of a mis-pricing of one financial instrument between two markets/time-zones.
Asset/Liability Management	The management process a bank uses to ensure its assets (loan made to customers) matches its liabilities (deposits taken from customers).
Average Rate Forward	A series of forward exchange contracts to different dates for the same amount, but at different rates. The series of contracts is re-stated as one contract at the one average rate. Also called a "par forward".
Balloon Payment	The repayment terms of a loan being the full principal amount due for repayment in one amount on the final maturity date. Also called a "bullet" payment.
Bank Bill	A "bill of exchange" security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquify itself with cash. Normally for terms of 30, 60, 90 or 180 days.
Barrier Option	An option that will come into existence or cease to exist if the underlying asset, currency, commodity price trades at a pre-determined price prior to expiration.
Base Rate	Normally a lending bank's cost of funds/interest rate for a particular funding period. The base or "prime" rate will be changed by the bank from time to time, but not every day like market rates.
Basis Point(s)	In financial markets it is normal market practice to quote interest rates to two decimal places e.g. 6.25% – one basis point is the change from 6.25% to 6.26%, one hundred basis points is the change from 6.25% to 7.25%.
Basis Risk	The risk that the interest rate difference between the current physical debt instrument (say, a bank bill) market interest rate and the interest rate quoted for that debt instrument's future price (say, a bank bill futures price) changes over the period to the date of the future price.

Basis Swap	A variation of an Interest rate swap whereby interest payments are exchanged on a floating to floating basis to change the timing of interest payments on a bank loan i.e. quarterly payments swapped to monthly basis.
Benchmark	An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.
Bid-Offet Spread	The exchange points (FX) or basis points (Interest rates) difference between the bid and offer rate when quoted by a bank is known as the "bid-offer spread". Banks make their profits from dealing at their own bid and offer prices, thus earning the spread.
Bid Rate	Exchange rates and interest rate securities/instruments that are traded between banks are always quoted as a two-way price. One rate is where the quoting bank will buy – the bid rate, the second rate or price where the bank will sell at the offer rate.
Bond	The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond's interest rate is always fixed.
Bond FRA	A tailored contract to buy or sell a bond (Government or Corporate) at a fixed interest rate at some specified future date. The Bond FRA contract rate will differ from the current physical market bond yield, depending on the slope of the interest rate yield curve.
Bond Option	The right, but not the obligation by the owner/holder of the option to buy or sell bonds (Government or Corporate) at a pre-determined interest rate at a specified future date. The buyer pays a "premium" in cash up-front to reduce risk and have insurance-type protection, the seller or grantor of the bond option receiving the premium for assuming the risk.
Call Option	The owner or buyer of a call option has the right, but not the obligation, to buy the underlying debt security/currency/commodity at the price stated in the option contract.
Cap	A series or string of interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the "capped rate." A cap is normally for more than one 90-day funding period. Also called a "ceiling".
Certificate of Deposit "CD"	A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.
Closing-Out	The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.

Collar	Two option contracts linked together into the one transaction or contract. A borrower's collar is normally a "cap" above current market rates and a "floor" below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a "cylinder".
Collateral	A legal term, means "security".
Commercial Paper	The debt security instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called "one-name paper" and "promissory notes" issued by competitive public tender to investors, or by private treaty to one investor.
Commoditised	When a financial market or instrument becomes so popular and "plain vanilla" that there is no longer any difference in the prices quoted by participants in the market.
Compound Option	An option contract on the premium of an option i.e. the right, but not the obligation, to enter an option contract at a pre-determined premium amount.
Convexity	A measure of the degree of curve or slope in an interest rate yield curve.
Convertible Bonds	A debt instrument issued to investors by a borrower that has a fixed interest rate for a period and then converts (under a strict pricing formula) to shares in the issuing company.
Coupon	The interest rate and amount that will be paid on the interest due dates of a bond. The coupon will normally differ from the purchase or issue yield/interest rate on a bond instrument.
Counterparty	The contracting party to a financial transaction or financial instrument.
Covenants	Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.
Cover	A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.
Credit Risk	The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.
Credit Spread	The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the

	difference in credit quality, size, liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds
Cross Currency Interest	A borrower exchanges (swaps) one set of interest payments
Rate Swap	from a loan in one currency for another set of interest payments in a second currency. Interest payments are swapped from fixed to floating and vice versa. See "Interest Rate Swaps".
Debenture	A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.
Delta	"Greek" letter that measures how the price of an option (premium) changes given a movement in the price of the underlying asset/instrument.
Derivative(s)	A "paper" contract whose value depends on the value of some "underlying" asset e.g. sharemarket stocks, bank bills, bonds or foreign currency. Also called a "synthetic." The value of the assets will change as its market price changes, the derivative instrument will correspondingly change its value
Digital Option	An option contract that provides a predetermined payout based on an agreed and contracted market price path.
Discount	A bond or bank bill is discounted when the interest rate is applied to the face value of the security and the net proceeds after deducting the interest is paid out to the borrower. Investors pay for the discounted (NPV) value at the commencement of the investment and receive the interest coupon payments along the way and the full face value at the maturity date.
Duration	Not the simple average maturity term of a debt or investment portfolio, but a measure of the interest rate risk in a portfolio at a particular point in time. The duration of a portfolio is the term (measured in years and months) if the total portfolio of bonds/fixed interest investments was revalued at market rates and expressed as one single bond. The profit/loss on revaluation of a one basis point movement being the same in both cases.
Embedded Option	An option arrangement that may be exercised by or on a borrower at a future date, but the determining conditions are buried or "embedded" in a separate debt or financial instrument.
Eurobond	A fixed rate bond issued by a non-resident borrower in a European country.
Eurodollar	The borrowing and depositing of a currency outside its domestic financial markets.

Event Risk	The risk of a major/unforeseen catastrophe e.g. earthquake, Y2K, political elections, adversely affecting a company's financial position or performance.
Exchange - Traded	A currency, debt or financial instrument that is quoted and traded on a formal exchange with standardised terms, amounts and dates.
Exercise Date/Price	The day and fixed price that an option contract is enforced/actioned or "exercised" because it is in the interests of one of the parties to the contract to do so.
Fair Value	The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.
Federal Reserve	The US Government's central bank and/or monetary authority.
Fixed Rate	The interest rate on a debt or financial instrument is fixed and does not change from the commencement date to the maturity date.
Floating Rate	The interest rate on a loan or debt instrument is re-set at the ruling market interest rates on the maturity date of the stipulated funding period (usually 90-days).
Floor	The opposite of a "cap." An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards.
Forward Exchange Contract	A contract to buy or sell one currency against another at a fixed price for delivery at some specified future date.
Forward Forwards	A forward exchange contract on the forward points for foreign exchange forward contracts i.e. a hedge on the forward points which are determined by the two separate interest rates of the currencies involved.
Forward Points	The difference in interest rates between two currencies expressed as the exchange rate points i.e. 152 forward points is a 0.0152 adjustment to the 0.5500 NZ\$/US\$ exchange spot rate.
Forward Rate Agreement	A contract ("FRA") whereby a borrower or investor in Bank B's agrees to borrow or invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an "over-the-counter" contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor.
Forward Starting Swap	An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.

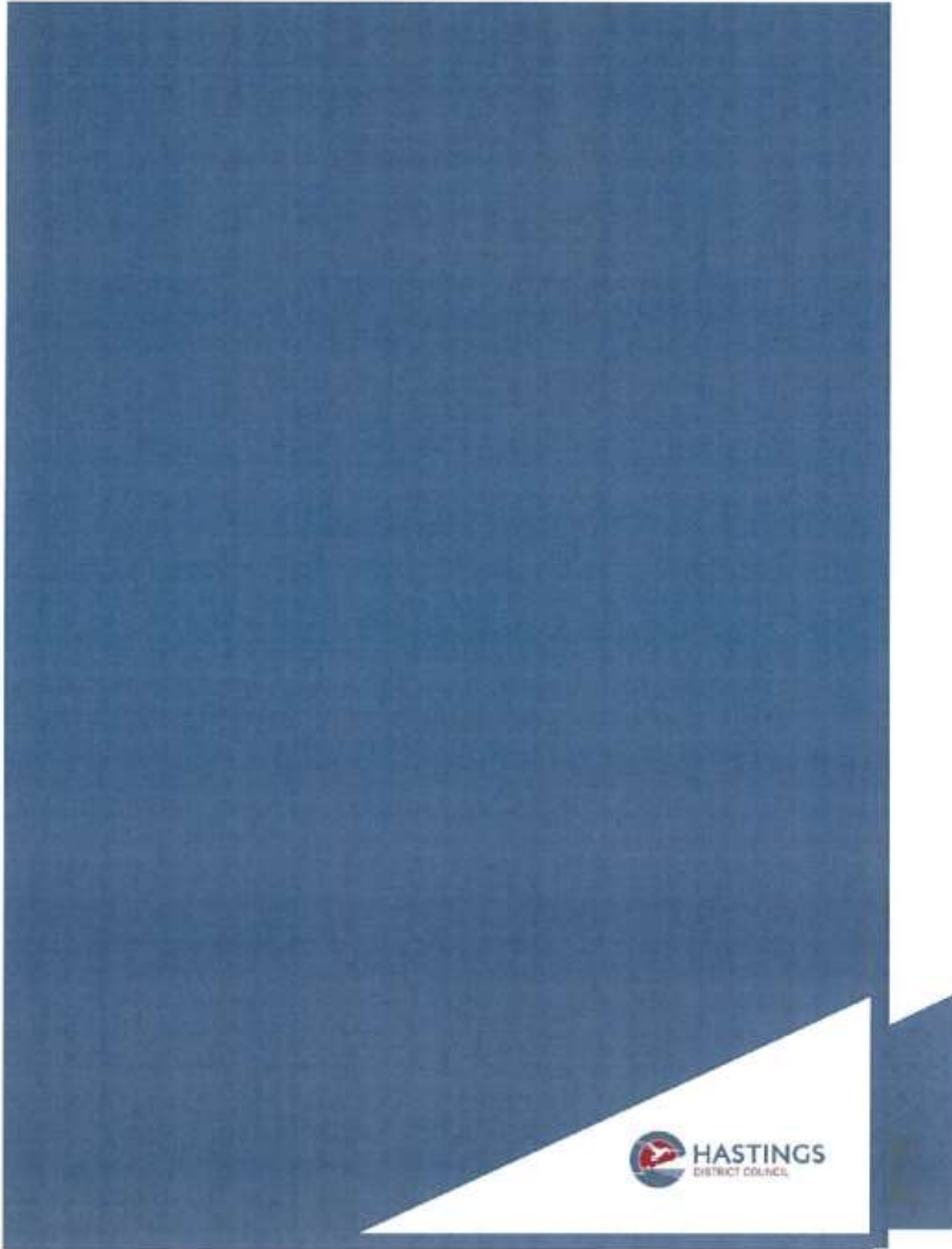
Funding Risk	The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due the company's own credit worthiness, industry trends or banking market conditions.
Futures	Exchange-traded financial and commodity markets which provide forward prices for the underlying asset, instrument or commodity. Futures contracts are standardised in amount, term and specifications. Futures markets are cash-based, transacting parties do not take any counter-party credit risk on each other. Deposits and margin-calls are critical requirements of all futures markets.
Gamma	"Greek" letter used in option pricing that measures how rapidly the delta of an option changes given a change in the price of the underlying asset/instrument.
Hedging	The action of reducing the likelihood of financial loss by entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.
High-Yield Bonds	Corporate bonds issued by borrowing companies that are non-prime i.e. have a low or no credit rating. The margin or credit spread above Government bond yields is high (>300 basis points) to compensate the investor into the bond for the higher credit and liquidity risk.
Implied Volatility	Used in option pricing. To estimate the future volatility of the underlying asset or instrument, the option pricing models use historical volatility (expressed as a percentage) as a key variable to calculate the option premium amount. The movement in option prices is therefore a good indicator of future market volatility, as volatility is "implied" in the option price.
Index Linked Bonds	Debt instruments that pay an interest coupon or return that is wholly or partially governed by the performance of another separate index e.g. a sharemarket index, or the gold price
Indirect FX Risk	A company has indirect foreign exchange risk where their costs, revenues or profits can be adversely affected by exchange rates that they are not directly paying or receiving. The prices they pay or receive in the domestic currency are influenced by the exchange rate movements.
ISDA	International Security Dealers Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counterparties that covers all transactions.

Interest Rate Swaps	A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.
"In-the-Money" Option	An option contract that has a strike price/rate that is more favourable or valuable than the current market spot or forward rate for the underlying currency/instrument.
Inverse Yield Curve	The slope of the interest rate yield curve (90-days to 10 years) is "inverse" when the short-term rates are higher than the long-term rates. The opposite, when short-term rates are lower than long-term interest rates is a normal curve or "upward sloping." In theory, a normal curve reflects the fact that there is more time, therefore more time for risk to occur in long term rates, hence they are higher to build in this extra risk premium.
Junk Bonds Knock-in/Knock-out Options	High yield bonds at the bottom-end of the credit quality spectrum. Option contracts for currencies or interest rates that are either activated or de-activated on pre-determined market rates being achieved.
Local Government Funding Agency (LGFA)	A Council Controlled Trading Organisation that works within parameters under the Local Government Borrowing Act (2011), to issue debt on behalf of participating local authorities.
Liability Management	The policy, strategy and process of actively managing a portfolio of debt.
LIBOR	London Inter-bank Offered Rate, the average of five to six banks quote for Eurodollar deposits in London at 11:00 am each day. The accepted interest rate-fixing benchmark for most offshore loans.
Limit(s)	The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".
Liquidity Risk	The risk that a company cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.
"Long" Position	Holding an asset or purchased financial instrument in anticipation that the price will increase to sell later at a profit.
Look-back Option	An option structure where the strike price is selected and the premium paid at the end of the option period.

Marked-to-Market	Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.
Margin	The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.
Medium Term Notes (MTN)	A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.
Multi-currency Facility	A committed banking facility that allows the borrowing of several alternative currencies to the NZ dollar.
Netting	Method of subtracting currency receivables from currency payables (and vice versa) over the same time period to arrive at a net exposure position.
Open Position	Where a company has purchased or sold an asset, currency, financial security or instrument unrelated to any physical exposure, and adverse/favourable future price movements will cause direct financial loss/gain.
Option Premium	The value of an option, normally paid in cash at the commencement of the option contract, similar to an insurance premium.
Order	The placement of an instruction to a bank to buy or sell a currency or financial instrument at a pre-set and pre-determined level and to transact the deal if and when the market rates reach this level. Orders are normally placed for a specific time period, or "good till cancelled." The bank must deal at the first price available to them once the market level is reached. Some banks will only take orders above a minimum dollar amount.
"Out-of-the-Money" Option	An option contract which has a strike price/rate that is unfavourable or has less value than the underlying current spot market rate for the instrument.
Over-the-Counter	Financial and derivative instruments that are tailored and packaged by the bank to meet the very specific needs of the corporate client in terms of amount, term, price and structure. Such financial products are non-standard and not traded on official exchanges.
Perpetual Issue	A loan or bond that has no final maturity date.
Pre-Hedging	Entering forward or option contracts in advance of an exposure being officially recognised or booked in the records of the company.
Primary Market	The market for new issues of bonds or MTNs.

Proxy Hedge	Where there is no forward or derivative market to hedge the price risk of a particular currency, instrument or commodity. A proxy instrument or currency is selected and used as the hedging method as a surrogate. There needs to be a high correlation or price movements between the two underlying prices to justify using a proxy hedge.
Put Option	The right, but not the obligation to sell a debt security/currency/commodity at the contract price in the option agreement.
Revaluation	The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/bought back (closed-out) with the counterparty at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.
Roll-over	The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.
Secondary Market	The market for securities or financial instruments that develops after the period of the new issue.
"Short" Position	Selling of an asset or financial instrument in anticipation that the price will decrease or fall in value to buy later at a profit.
Spot Rate	The current market rate for currencies, interest rates for immediate delivery/settlement, normally two business days after the transaction is agreed.
Stop Loss	Bank traders use a "stop-loss order" placed in the market to automatically closeout an open position at a pre-determined maximum loss.
Strike Price	The rate or price that is selected and agreed as the rate at which an option is exercised.
Strip	A series of short-term interest rate FRAs for a one or two year period, normally expressed as one average rate.
Swap Spread	The interest rate margin (in basis points) that interest rate swap rates trade above Government bond yields.
Swaption	An option on an interest rate swap, that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.
Time Value	Option contracts taken for longer-term periods may still have some time value left even though the market rate is a long way from the strike rate of the option and the option is unlikely to be exercised.

Tranches	A loan may be borrowed in a series of partial drawdowns from the facility, each part borrowing is called a tranche.
Treasury	Generic term to describe the activities of the financial function within a company that is responsible for managing the cash resources, debt, foreign exchange risk, and sometimes the commodity price and energy price risk.
Treasury Bill	A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.
Vega	Another "Greeks" letter that is the name given to the measure of the sensitivity of the change in option prices to small changes in the implied volatility of the underlying asset or instrument price.
Volatility	The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.
Yankee Bond	A non-resident US borrower issuing a corporate bond in the domestic US bond market.
Yield	Read - interest rate, always expressed as a percentage.
Yield Curve	The plotting of market interest rate levels from short term (90-days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.
Zero Coupon Bond	A bond that is issued with the coupon interest rate being zero i.e. no cash payments of interest made during the term of the bond, all interest paid on the final maturity date. In effect the borrower accrues interest on interest during the term, increasing the total interest cost compared to a normal bond of paying interest quarterly, half-yearly or annually.



REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: HEALTH AND SAFETY MANAGER
JENNIE KUZMAN

SUBJECT: HEALTH & SAFETY RISK MANAGEMENT UPDATE

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to provide an update to the Committee in regards to the management of Health and Safety risks within Council.
- 1.2 This issue arises due to the Health and Safety at Work Act 2015 and the requirement of that legislation for Elected Members to exercise due diligence to ensure that Council complies with its Health and Safety duties and obligations.
- 1.3 Due diligence is defined in section 44(4) of the Health and Safety at Work Act 2015 as (Elected Members) taking reasonable steps to:
- *“Acquire and update knowledge of health and safety matters.*
 - *Gain an understanding of the operations carried out by the organisation, and the hazards and risks generally associated with those operations.*
 - *Ensure the PCBU has, and uses, appropriate resources and processes to eliminate or minimise those risks.*
 - *Ensure the PCBU has appropriate processes for receiving and considering information about incidents, hazards and risks, and for responding to that information in a timely way.*
 - *Ensure there are processes for complying with any duty, and that these are implemented.*
 - *Verify that these resources and processes are in place and being used”.*
- 1.4 Please note that the term ‘PCBU’ or Person Conducting a Business or Undertaking, is a legal term that applies to one person (sole trader) or more than one person (organisation) and in this context can be interpreted as referring to Hastings District Council as the organisation.
- 1.5 The publication ‘Health and Safety Guide: Good Governance for Directors’ published in March 2016 provides useful information for Elected Members and can be found online at: <https://worksafe.govt.nz/managing-health-and-safety/businesses/guidance-for-business-leaders/>
- 1.6 The guide states that directors (or in this case Elected Members) “*must exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances. What is considered reasonable will depend on the particular circumstances, including the nature of the business or undertaking, and the director or officer’s role and responsibilities*”.

- 1.7 *“Directors, may seek health and safety advice from experts or others within their organisation, such as managers. Where they choose to rely on this advice, the reliance must be reasonable. Directors should obtain enough health and safety knowledge to ask the right questions of the right people and to obtain credible information”.*
- 1.8 Currently, in order to assist Elected Members with their due diligence duties, a high level summary report is provided on a quarterly basis to meetings where full Council are in attendance. This report focuses on the overall Health and Safety Performance of Council against organisational objectives.
- 1.9 Additionally, regular detailed reports are provided to the Risk and Assurance Committee (formerly the Risk and Audit subcommittee) regarding the management of Council’s Health and Safety Risks.
- 1.10 **Report Contents**
- 1.11 This report provides information regarding the areas of:
- Health and Safety Training for Elected Members
 - Health and Safety Policy Update.
 - Contractor Health and Safety Management.
 - ISO/NZS 45001:2018 (External Health & Safety Audit) Implementation Update.
- 1.12 **Health and Safety Training for Elected Members**
- 1.13 A training workshop will be provided to Elected Members within the next few months in order to provide further guidance with regards to Health and Safety responsibilities, this will be of particular importance to those Elected Members who are new to Council.
- 1.14 **Health and Safety Policy Update**
- 1.15 Council updated its Health and Safety Policy in 2018, this policy was formally ratified by Council and signed by the then Chief Executive and Mayor on behalf of Council.
- 1.16 An update to this policy has recently been drafted for approval by the Chief Executive and it is proposed that this Policy also be ratified by Council.
- 1.17 A copy of the updated policy is attached as **Attachment 1** for Committee members to review prior to this policy going to the Operations and Monitoring Committee for ratification on the 27th February 2020.
- 1.18 **Contractor Health and Safety Management**
- 1.19 Under the Health and Safety at Work Act 2015, Council has a primary duty of care to ensure as far as reasonably practicable, the Health and Safety of workers who work for Council and workers whose activities are influenced or directed by Council. The legal term ‘worker’ applies to any individual who carries out work in any capacity for Council (this includes Employees, Volunteers, Contractors and the employees of contractors).
- 1.20 Additionally, Council will often share Health and Safety duties with other organisations (in relation to the same matter) when activities form part of a

contracting chain or work in a shared workplace. This is usually referred to as 'overlapping duties' and Council has a duty under the Act to consult, cooperate with and coordinate activities with all other organisations that it shares overlapping duties with, so far as is reasonably practicable.

- 1.21 WorkSafe (the Regulator) has set out its expectations for the Principal (this is Council when it contracts others to undertake work) in a contracting chain within its reference document 'Good Practice Guidelines: PCBU's working together – Advice When Contracting, June 2019'. Which can be found online at <https://worksafe.govt.nz/managing-health-and-safety/getting-started/understanding-the-law/overlapping-duties/pcb-us-working-together-advice-when-contracting/>
- 1.22 WorkSafe expects the principal in a contracting chain to be a Health and Safety leader and WorkSafe also expects principals to :
 - *“Set clear Health and Safety expectations and incorporate these into contracts with contractors.*
 - *Work with designers to eliminate risks so far as is reasonably practicable, or minimise risks if they cannot be eliminated (this is a concept commonly known as ‘safety in design’).*
 - *Choose the best contractors and site managers for the job using Health & Safety prequalification measures, not simply choosing them based on cost.*
 - *Check health and safety records of potential contractors.*
 - *Put clear and effective reporting procedures in place so they can be confident all duties are being met.*
 - *Set up a clear framework for information sharing for the duration of the project”.*
- 1.23 Additionally, where Council staff manage projects, WorkSafe expects that Council staff will:
 - *“Work with Contractors to ensure an appropriate Health and Safety plan is in place.*
 - *Monitor the work practices of Contractor and subcontractor workers.*
 - *Put clear and effective reporting procedures in place so they can be confident all duties are being met”.*
- 1.24 Council manages its Contracts and Contractors in-line with the principles of these Good Practice Guidelines and has done so for the past several years. There are processes in place regarding procurement to ensure that there is a non-price evaluation (including an evaluation of tenderers' Health and Safety systems and practices) as well as a lowest price evaluation during tenderer selection.
- 1.25 To assist Elected Members in undertaking their due diligences requirements in regards to the management of Contractors it was proposed at the September 2019 Risk and Audit Subcommittee Meeting, that a high level contractor performance report (for the Contractors working under Council's 10

highest risk term contracts) be provided to the Committee on a quarterly basis. It is intended that the first report be provided for the meeting scheduled for the 4th May 2020.

- 1.26 This report will include performance indicator scores for each of the Contractors working under Council's 10 highest risk term contracts, covering management of Health and Safety, quality, contract delivery and finances.
- 1.27 The 10 contractors in alphabetical order are:
 - Armourguard Ltd (Noise Control Contract)
 - City Care Ltd (Water Services Maintenance Contract)
 - Downer Ltd (Urban Road Maintenance Contract)
 - Fulton Hogan Ltd (Rural Road Maintenance Contract)
 - Gemco Ltd (Opera House Redevelopment Contract)
 - Greensky Ltd (Recycling Collection Contract)
 - HSM Security Ltd (Night Security and Animal Control After hours Contracts)
 - M.W. Lissette Ltd (Landfill Civil Works Contract)
 - Recreational Services Ltd, (Parks, Open Spaces and Amenities Maintenance Contract).
 - Waste Management Ltd (Municipal Waste Collection Contract)
- 1.28 **Attachment 2** sets out a draft template for this report.
- 1.29 **Implementation of ISO/NZ Standard 45001:2018 (Health and Safety Management Systems) Accreditation**
- 1.30 As previously advised to the Risk and Audit Subcommittee, following the disestablishment of the ACC Workplace Safety Management Practices (WSMP) accreditation scheme in 2018, the then Acting Chief Executive authorised implementation of the international Health and Safety standard ISO 45001:2018 which has also been adopted by the New Zealand Standards Authority.
- 1.31 Telarc NZ has been engaged to undertake an initial assessment of what is required to meet the standard (essentially a gap analysis). Unfortunately the assessment which was scheduled for late 2019, has had to be rescheduled for the 25th February 2020 due to auditor unavailability. A report will be provided to the Risk and Audit Subcommittee following this assessment.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Health & Safety Risk Management Update**
- B) That the Committee recommend to Council that the updated Health and Safety Policy be ratified.**

Attachments:

- | | | |
|---------------------|--|------------------|
| 1 ↓ | Draft HDC Health and Safety Policy 2020 | HR-03-02-2-20-35 |
| 2 ↓ | Draft Contractor Quarterly Performance Report Template | HR-03-01-20-334 |

HEALTH AND SAFETY POLICY 2020

Proposed changes are highlighted in yellow

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OUR COMMITMENT:

Hastings District Council is committed to keeping workers (employees, volunteers and contractors) and the community safe through living a strong Health and Safety culture.

TO ACHIEVE THIS, HASTINGS DISTRICT COUNCIL MANAGERS WILL:

- Maintain and continuously improve our Health and Safety management system.
- Set targets for improvement and measure, appraise and report on our Health and Safety performance.
- Take a proactive approach to managing Health and Safety risk by actively identifying hazards and unsafe behaviour within the workplace, and take steps to reduce the risks to an acceptable level.
- Build and maintain a workplace environment and culture that supports good health and Wellbeing.
- Increase awareness, participation and learning through active communication consultation, training and collaboration with workers with regard to Health, Safety and Wellbeing matters.
- Assess and recognise the Health and Safety performance of employees and contractors.
- Accurately report and learn from our incidents (including near misses).
- Support the safe and early return to work of injured employees.
- Ensure that we design, construct, operate and maintain our assets so that they safeguard the community.
- Require our contractors to demonstrate a strong Health and Safety culture within their organisations.
- Comply with all relevant legislation, regulations, and codes of practice and industry standards.

EVERYONE'S RESPONSIBILITIES:

We believe that whilst senior management have ultimate accountability, we all have responsibility for Health and Safety. All workers (employees, volunteers and contractors) must observe our safety rules, policies, procedures and instructions. They shall ensure their own Health and Safety at work and ensure that no action or inaction on their part causes harm to others. This includes the responsibility to stop any work that they believe is unsafe or cannot be conducted in a safe manner.

Contractor Quarterly Performance Report

Indicator Report – Quarter 3, 2019/2020




• Summary

This report provides a high level indication of contractor performance on Council's ten highest risk term Contracts for members of the Risk and Assurance Committee. There are four categories which are monitored: Health and Safety Management, Quality Management, Contract Delivery and Financial Management.

• OPTION ONE: Based on Standard Contract Management Delivery Criteria

• Key:

• Traffic Light	• Score	• Health & Safety • Criteria	• Quality • Criteria	• Contract Delivery • Criteria	• Financial • Criteria
	Good Performance	<ul style="list-style-type: none"> Less than 5% of Safety Observation scores <i>Poor</i> or <i>Fair</i> No WorkSafe notifiable/ serious incidents, injuries or illnesses Proactive management of Safety and Health risks 	<i>Criteria to be developed regarding: Specifications Rework</i>	<i>Criteria to be developed regarding: Delivery on schedule Delays /issues</i>	<i>Criteria to be developed regarding Budget Variations</i>
	Average Performance	<ul style="list-style-type: none"> 6-20% of Safety Observation scores <i>Poor</i> or <i>Fair</i> No WorkSafe notifiable / serious injuries, illnesses or incidents which were reasonably preventable Reasonable management of Health and Safety risks 			
	Poor Performance	<ul style="list-style-type: none"> Greater than 20% of Safety Observation Scores <i>Poor</i> or <i>Fair</i> Occurrence of WorkSafe notifiable /serious injury or illness which were reasonably preventable Unsatisfactory/poor management 			

<ul style="list-style-type: none">Traffic Light	<ul style="list-style-type: none">Score	<ul style="list-style-type: none">Health & SafetyCriteria	<ul style="list-style-type: none">QualityCriteria	<ul style="list-style-type: none">Contract DeliveryCriteria	<ul style="list-style-type: none">FinancialCriteria
		of Health and Safety risks			

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Contractor Name

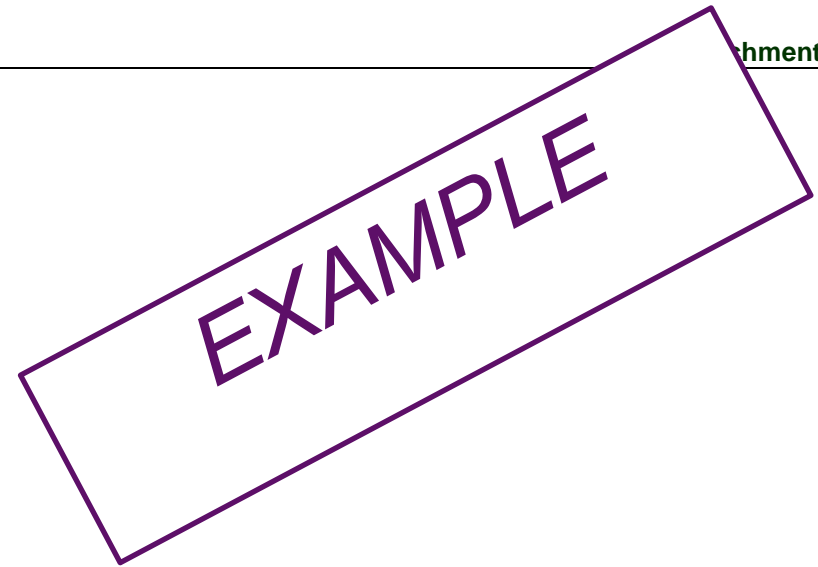
Insert brief description of contract works and contract term

<ul style="list-style-type: none">Indicator Status	<ul style="list-style-type: none">Performance Category	<ul style="list-style-type: none">Comments
<div>R</div>	Health & Safety	25 % of safety observation scores are poor
<div>A</div>	Quality	
<div>A</div>	Contract Delivery	
<div>A</div>	Finances	

- **Commentary**




A number of issues with regards to traffic management observed within the quarter.

Meeting held with Contractor to discuss ways to make improvements



- **OPTION TWO: Based on Risk Impact Scales**






- **Key:**

• Traffic Light	• Score	• Health & Safety • Criteria	• Financial • Criteria	• Service Delivery • Criteria	• Compliance • Criteria	• Reputation • Criteria
	Good Performance	<ul style="list-style-type: none"> • Less than 5% of Safety Observation scores <i>Poor</i> or <i>Fair</i> • No Worksafe notifiable or serious incidents, injuries or illnesses • Proactive management of Safety and Health risks 	<ul style="list-style-type: none"> • Less than 10% or \$200,000 variation on approved budget including variations 	<ul style="list-style-type: none"> • Less than 10% variation in service delivery timeframe or quality standard. 	<ul style="list-style-type: none"> • No detected material non-compliance with legislative obligations. 	<ul style="list-style-type: none"> • No media attention or attention of a few individuals
	Average Performance	<ul style="list-style-type: none"> • 6-20% of Safety Observation scores <i>Poor</i> or <i>Fair</i> • No Worksafe Notifiable or serious injuries, illnesses or incidents which were reasonably preventable • Reasonable management of Health and Safety risks 	<ul style="list-style-type: none"> • Variation of between 10% and 25% or \$200,000 - \$1,000,000 from approved budget including variations 	<ul style="list-style-type: none"> • Variation of between 10% and 25% in service delivery timeframe or quality standard 	<ul style="list-style-type: none"> • Formal warning, or adverse public exposure, for a legislative non-compliance. 	<ul style="list-style-type: none"> • Local media attention or adverse feedback from an organised local group or community.
	Poor Performance	<ul style="list-style-type: none"> • Greater than 20% of Safety Observation Scores <i>Poor</i> or <i>Fair</i> • Occurrence of notifiable injury or illnesses which were reasonably preventable • Unsatisfactory/poor management of Health and Safety risks 	<ul style="list-style-type: none"> • More than 25% or \$1,000,000 variation on approved budget including variations. 	<ul style="list-style-type: none"> • More than 25% variation in service delivery timeframe or quality standard. 	<ul style="list-style-type: none"> • Fine or prosecution for a legislative non-compliance. 	<ul style="list-style-type: none"> • Significant regional or national adverse public interest or media attention.

●

Contractor Name

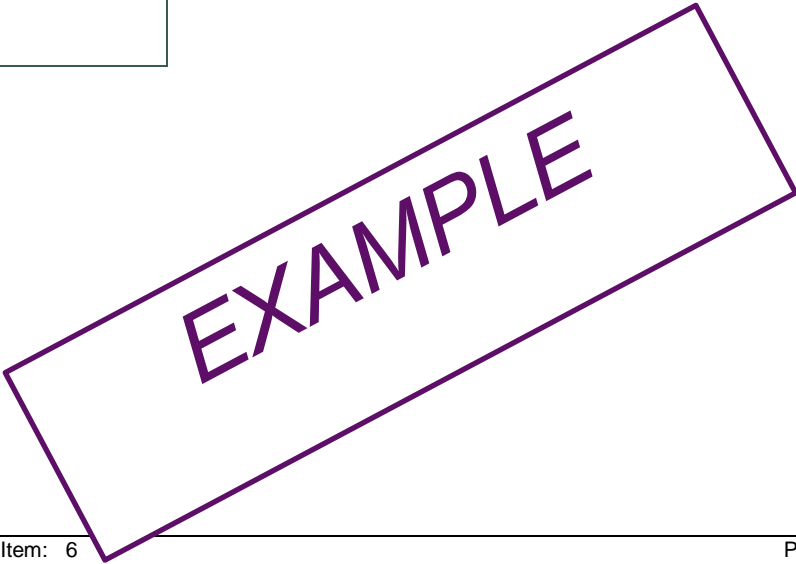
Insert brief description of contract works and contract term

Indicator Status	Performance Category	Comments
	Health & Safety	25 % of safety observation scores are poor
	Financial	
	Service Delivery	
	Compliance	
	Reputation	

- Commentary

A number of issues with regards to traffic management observed within the quarter.

Meeting held with Contractor to discuss ways to make improvements



REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: RISK AND CORPORATE SERVICES MANAGER
REGAN SMITH

SUBJECT: COUNCIL RISK APPETITE STATEMENTS

1.0 EXECUTIVE SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to present a revised Hastings District Council (HDC) Risk Appetite statement for the Committee to approve, and subsequently recommendation to Council for adoption.
- 1.2 This proposal contributes to the purpose of local government by promoting successful implementation of all Council Long Term Plan focus areas.
- 1.3 Based on feedback from the Risk and Audit Subcommittee on 2 July 2019 regarding the original draft Risk Appetite Statement the following changes should be noted:
- Risk Appetite Terminology has been refined.
 - The overarching risk appetite statement has been expanded upon by providing specific statements of risk appetite and tolerance for each of the focus areas in 2018/2028 Long Term Plan (LTP), plus an additional area covering Council core business.
 - The Council risk appetite is recognised to vary depending on the strategic outcome, and ranges from Minimalist to Flexible.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Council Risk Appetite Statements.**
- B) That the Committee:**
- i. **Approve the Risk Appetite Statement as a fair reflection of the Council's attitude toward risk, and subsequently,**
 - ii. **Recommend to the Council that the Risk Appetite Statement be adopted as a means for communicating risk taking tolerances and monitoring risk taking behavior.**
 - iii. **Recommends to Council that reviewing the Risk Appetite Statement should be a key step within the Long Term Plan process.**

3.0 BACKGROUND – TE HOROPAKI

- 3.1 In order to develop a Risk Appetite Statement for Council, a survey of Elected Members and Council Officers was undertaken. The results of these surveys were incorporated into a draft Risk Appetite Statement presented to the Risk and Audit Subcommittee on 2 July 2019.
- 3.2 Based on feedback from the Subcommittee at this meeting, a revised draft Risk Appetite Statement was tabled at the 2nd September Risk & Audit Subcommittee meeting. This draft better reflected the variation in risk appetite across the range of services that Council provides.
- 3.3 The current draft Risk Appetite Statement (Attachment 1) now covers the Council approach to risk for each of the key focus areas in the 2018/2028 LTP, plus an additional focus area to capture Council's core service areas of regulatory oversight, provision of infrastructure and community well-being.

4.0 DISCUSSION - TE MATAPAKITANGA

- 4.1 It is considered best practice to include a statement of risk appetite as part of a risk management framework. The ISO31000 risk management standard recommends defining risk criteria, the equivalent of risk appetite, before undertaking risk identification and analysis processes.
- 4.2 The Institute of Risk Management defines risk appetite as the “amount of risk that an organisation is willing to seek or accept in pursuit of long-term objectives”. Put another way, risk appetite can be considered the value the organisation is willing to put at risk in order to deliver strategic goals.
- 4.3 A good risk appetite statement should include the acceptable tolerances for variation in delivery of the organisation's objectives. These tolerances should be measurable so that they can be effectively monitored. In this way, defining risk appetite should assist with managing the organisation's total risk exposure.
- 4.4 Because risk appetite is a tool to managing the organisation's total risk exposure, it is vital that the statement is defined by the organisation's governing body. As a result, the draft Risk Appetite Statement for HDC is presented to the Risk and Assurance Committee for consideration.
- 4.5 **Risk Survey Key Discussion Points**
- 4.6 The risk appetite survey results identified four key areas of difference between Elected Members, Executive Management and Officers that warrant further discussion. Those are tabled for consideration by the Committee:
 - How much focus should be put on protecting the community when seeking to achieve progress.
 - How much focus to apply to compliance when trying to deliver responsive service.
 - How much effort to put in to partnership and communication/consultation when that might affect the speed of service or perceived bureaucracy.
 - Should speed of service or cost effectiveness be the key service driver.

OPTIONS - NGĀ KŌWHIRINGA Option One - Recommended Option - Te Kōwhiringa Tuatahi – Te Kōwhiringa Tūtohunga 5.1 Approve the draft Risk Appetite Statement, with or without amendment.

Advantages

- Sets a foundation for communicating appropriate risk taking behaviour within Council.
- Defines a set of tolerances that can be used to monitor whether Council's total risk exposure is within acceptable limits.
- Implements a key component of a best practice Enterprise Risk Management system.

Disadvantages

- Requires Council to report against the tolerances and therefore creates some additional administrative overhead.

Option Two – Status Quo - Te Kōwhiringa Tuarua – Te Āhuatanga o nāianeī

5.2 Reject the draft Risk Appetite Statement, with or without requesting further work.

Advantages

- May save some administrative overhead associated with reporting against risk tolerances.

Disadvantages

- Council Officers will be left to make their own conclusions regarding the level of risk taking that is appropriate, which is likely to result variable outcomes and potentially overly conservative approach.

6.0 NEXT STEPS - TE ANGA WHAKAMUA

6.1 Should the Committee approve the draft Risk Appetite Statement, the next steps will include:

- Communicating the approved risk tolerances within Council.
- Monitoring performance against the defined risk tolerances.

6.2 In order to keep the Risk Appetite Statement relevant, it is recommended that a review of the Council' risk appetite is a key step within the LTP process.

Attachments:

1 [DRAFT HDC Risk Appetite Statement V3.4](#)

PMD-03-81-19-198

SUMMARY OF CONSIDERATIONS - HE WHAKARĀPOOTO WHAIWHAKAARO

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

This report contributes to the purpose of Local Government by promoting successful implementation of all Long Term Plan focus areas to achieve the wellbeing and strategic outcomes set by Council.

Link to the Council's Community Outcomes - *E noho hāngai pū ai ki te rautaki matua*

This proposal does not directly contribute to delivery of a specific well-being, but will promote greater understanding of the attitude to risk to increase confidence that any specific well-being outcome is delivered as expected.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

There are no known impacts for Tangata Whenua.

Sustainability - *Te Toitūtanga*

There are no implications for sustainability.

Financial considerations - *Ngā Whaiwhakaaro Ahumoni*

There are no direct financial implications of the proposal.

It should be noted that the purpose of risk appetite is to assist understanding of risk taking, including how much value can be put at risk. Therefore, this proposal should assist with reducing unexpected financial variations.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

This decision has been assessed under the Council's Significance and Engagement Policy as being of low significance to the community.

It is of some operational importance to Council, as a good understanding of risk appetite supports effective operational delivery and reduces unexpected outcomes.

Consultation – internal and/or external - Whakawhiti Whakaaro-ā-roto, ā-waho

No external engagement or consultation has been undertaken.

Risks: Legal/ Health and Safety - *Ngā Tūrarū: Ngā Ture / Hauora me te Haumarū*

Definition of Risk Criteria, or Risk Appetite, is not a legislative compliance requirement but is considered industry best practice, and is included in ISO31000 the standard on Risk Management.

There are no other specific risks associated with this proposal.

Rural Community Board - *Ngā Poari-ā-hapori*

There are no specific implications for any Community Boards.



DRAFT Hastings District Council Risk Appetite Statement

The Council's over-arching risk appetite statement is as follows:

The Hastings District Council is responsible to the rate payers of the district to enable democratic local decision-making and action by, and on behalf of, communities to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

To achieve these outcomes Council has a conservative attitude toward risk and generally applies a **minimalist** appetite to risks that would adversely affect core services. In contrast, there is a desire to leverage opportunities that enhance outcomes for the community. As a result there is a more open approach to considering innovation or solutions that create long term benefits.

Whilst the overarching risk appetite may be conservative, Council recognises that it is not possible, or necessarily desirable, to eliminate all of the risks inherent in its activities. In some instances acceptance of risk within the public sector is necessary due to the nature of services, constraints within operating environment and a limited ability to directly influence where risks are shared across sectors.

Therefore, in relation to the Long Term Plan strategic objectives Council's risk appetite may vary depending on the circumstances and tradeoffs implicit in the specific context. Resources are aligned to priority outcomes based on the specific risk appetite, and arrangements are in place to monitor and mitigate risks to acceptable levels.

The risk appetite for each of the key focus areas in the current Long Term Plan are stated in the following sections.

Risk Appetite Terminology

Rating	Philosophy	Tolerance for Uncertainty Willingness to accept uncertain outcomes or variations.	Choice Willingness to select an option puts objectives at risk	Trade-off Willingness to trade off against achievement of other objectives.
5 Open	Will take justified risks	Fully anticipated	Will choose option with highest return; accepting possibility of failure.	Willing
4 Flexible	Will take strongly justified risks	Expect some	Will choose to put at risk, but will manage impact	Willing under right conditions
3 Cautious	Preference for delivering expected outcome.	Limited	Will accept if limited and heavily out-weighted by benefits	Prefer to avoid
2 Minimalist	Extremely conservative	Low	Will accept only if essential, and limited possibility/extent of failure	With extreme reluctance
1 Averse	Avoidance of risk is a core objective	Extremely low	Will always select the lowest risk option.	Never



Key Areas of Focus and Investment – Long Term Plan 18/28

1. Our Environment

Context

LTP18/19 focus is to invest significantly in drinking water infrastructure as our first priority to meet community expectation and new national standards around safe drinking water.

- Safe drinking water: \$47.8M
- Demand management: \$1.5M
- Environmental enhancement: \$1.7M



Risk Appetite ☐ Averse ☒ **Minimalist** ☐ Cautious ☐ Flexible ☐ Open

Council intends to take a **Minimalist** approach to risk in order to achieve this outcome as Council has a statutory obligation to deliver the services, which means it is not possible to limit or cease service provision. This means that risks will be accepted only when essential to the core outcome, and limited possibility/extent of failure exists particularly with regard to Safety or Compliance.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety <i>Performance</i>	●				
	Maintain an approved Water Safety Plan for full compliance with Drinking Water Standards for each Council supply. Fewer than 5 dry weather sewerage overflow events per 1000 connections per annum (<i>LTP measure</i>)				
Financial <i>Variation</i>			●		
	Spend between \$38.25M (-25%) and \$56.1M (+10%) for all projects.				
Service Delivery <i>Standard</i>		●			
	No more than 20 unplanned water supply outages or waste water system restrictions per month. No habitable floors affected per 1000 connections up to a 1 in 50 year ARI storm event (<i>LTP Measure</i>)				
Compliance <i>Outcomes</i>		●			
	No material non-compliance raised by Water Assessors against a Council water supply. Full Hawkes Bay Regional Council consent compliance.				
Reputation <i>Outcomes</i>		●			
	Regional public interest or media attention is expected, but events should not result in adverse national media coverage. There is support for being recognised as national leaders in water supply (<i>Aligns with Water Services Business Plan</i>).				



Key Areas of Focus and Investment – Long Term Plan 18/28

2. Moving Around

Context

LTP18/19 focus is to invest in our infrastructure to look after our assets prudently and to meet new challenges in bridge strengthening, increasing environmental standards and climate change.

- Renewals & Safety upgrades: \$4.4
- Walking & Cycling: \$1.1M
- Better Bridges: \$1.8M



Appetite Averse **Minimalist** Cautious Flexible Open

Council intends to take a **Minimalist** approach to risk in order to achieve this outcome due to the potential adverse impacts on public safety and economic prosperity as a result of failing to provide a transportation network and bridges that are able to cope with current and future demands. This means that risks will be accepted only when essential to the core outcome, and limited possibility/extent of failure exists. In practice, the result is that assets will be prioritised based on sound research and data, and upgraded using the most suitable certified construction solution. In other words, Council is not looking to apply untested innovative solutions.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety					
<i>Performance</i>	Reducing trend of fatality and serious injury from previous year (<i>LTP measure</i>). All bridges meet requirements for safe carriage.				
Financial					
<i>Variation</i>	Spend between \$5.5M (-25%) and \$8M (+10%) for all projects.				
Service Delivery					
<i>Standard</i>	5.5% of sealed local road network is resurfaced per annum (<i>LTP measure</i>). No more than 1.5 % of footpaths classified poor or worse as measured by Council's condition rating system (<i>LTP measure</i>). Maximum of 27 (10%) weight and/or speed restricted bridges on the network.				
Compliance					
<i>Outcomes</i>	Full compliance with NZTA funding requirements Full compliance with NZ Bridge Design Manual and Regulatory requirements.				
Reputation					
<i>Outcomes</i>	Interest of local groups or individuals is expected, but events should not result in adverse regional or national media coverage. Some desire to be recognised for best practice asset management and renewal planning.				



Key Areas of Focus and Investment – Long Term Plan 18/28

3. Our Economy

Context

Invest in the Hasting City Centre to increase its vibrancy and to meet the challenges of changing retail patterns and how people use the central city.

Ensure industrial development opportunities are easily accessible in Omaha, Irongate and Whakatu/Tomoana to meet our target of increased jobs and investment.

- Industrial Zone Investment: \$19M
- Economic Development: \$3.5M
- CBD Development: \$3.4M



Appetite Averse Minimalist **Cautious** Flexible Open

Council is prepared to take a **Cautious** approach to achieving this outcome on the basis that there is a desire try innovative ideas that may increase development of industrial land and improve the utility of the City Centre. This means that risk will be accepted if limited and heavily out-weighted by benefits.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety <i>Performance</i>		●			
	No notifiable injuries or illness from infrastructure projects due to poor health & safety practices by Council or a contractor. No serious assaults in the CBD resulting from failure of community safety services (including; CPTED design, CCTV, City Assist).				
Financial <i>Variation</i>				●	
	Spend between \$12.9M (-50%) and \$32.4M (+25%) for all projects.				
Service Delivery <i>Standard</i>			●		
	A minimum of 20% and a target of 30% of vacant industrial land (<i>LTP measure</i>). Less than 10% of retail spaces vacant on a quarter basis.				
Compliance <i>Outcomes</i>		●			
	No material failures to comply with the life safety goals of planning and building acts and regulations.				
Reputation <i>Outcomes</i>			●		
	Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.				

Example:

- Council invested \$3.8M installing water infrastructure for the Irongate industrial area to stimulate development after receiving only 20% of development contributions.



Key Areas of Focus and Investment – Long Term Plan 18/28

4. Where We Live

Context

Ensure a range of housing options are available to meet the needs of changing community while protecting our valuable soils.

- Residential infrastructure spend: \$20.5M

Appetite

Averse Minimalist Cautious **Flexible** Open

Council is prepared to take a **Flexible** approach to achieving this outcome in order to meet the need in the community for sufficient liveable spaces. This means that strongly justified risks may be taken, as long as the potential impact is managed.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety Performance					
	No new houses constructed in at risk areas (i.e. natural hazard zones) without mitigation. All new houses meet safe and sanitary requirements (e.g. weather tightness).				
Financial Variation					
	Spend between \$10.25M (-50%) and \$25.6M (+25%) for all projects.				
Service Delivery Standard					
	A minimum 20% residential greenfields land available (<i>LTP measure</i>) Less than 0.2% of plan zone land (valuable soils) used for new housing per annum (<i>Note: this is equivalent to 62Ha or two times Lyndhurst Stage 1 & 2</i>).				
Compliance Outcomes					
	No legal challenges upheld for unsound Resource Consents or Building Consents decisions.				
Reputation Outcomes					
	Positive regional public interest or media attention is expected, but events within Council's control should not result in adverse national media coverage. There is support for national recognition of successful innovation in provision of housing.				

Example:

- Council is looking to invest around \$11M installing road and water infrastructure for Howard Street residential area to make the development more appealing to the market prior.



Key Areas of Focus and Investment – Long Term Plan 18/28

5. Things To Do

Context

Continue enhancing our parks, recreational and cultural facilities to make the Hastings District a place where people want to work, live and play.

- Opera House: \$39.6M
- Enjoyable reserves: \$5.9M
- Regional Sports Park Grant: \$4.9M



Scope

This strategic outcome covers the approach taken to enhancing the playgrounds, sports fields, parks, reserves, swimming pools and aquatic facilities, Skate Park and mountain bike trails in the District.

Appetite

Averse Minimalist Cautious **Flexible** Open

Council is prepared to take a **Flexible** approach to achieving this outcome on the basis that there is a desire to provide spaces that allow people to enjoy the natural environment and seek adventure. This means that risk may be accepted as long as the impact is managed.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety Performance				●	
It is expected that injuries will occur within parks, recreational and cultural facilities as a result of the actions of individual's. However, no notifiable injuries or illness should be caused by the condition of the physical infrastructure provided by Council. <i>Note: Injuries resulting from an individual's actions not caused or influenced by Council equipment or infrastructure are excluded from this measure.</i>					
Financial Variation			●		
Spend between \$37.8M (-25%) and \$55.4M (+10%) for all projects.					
Service Delivery Standard			●		
Opera House Qualmark rating – Five star (<i>LTP measure</i>) Greater than 97% parks user satisfaction (<i>LTP measure</i>). Less than 3 non-weather related unplanned park closures per year.					
Compliance Outcomes		●			
Only compliant equipment is use or installed in play grounds. No fines or prosecutions for non-compliant equipment or facilities.					
Reputation Outcomes				●	
Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.					

Example:

- Work on the Opera House, plaza and municipal building was started before all funding sources were confirmed.
- A covered slide tower was installed in Cornwall Park to provide an adventure opportunity.

Ref: PMD-03-81-19-187

V3.4



Key Areas of Focus and Investment – Long Term Plan 18/28

6. Our People

Context

Work together with communities and other to build civic pride, develop our youth and uplift people and communities.

- Youth, Hapu and Community Development: \$2.2M
- City Assist & Kaitiaki: \$3.1M
- Community Grants: \$3.2M



Appetite

Averse Minimalist **Cautious** Flexible Open

Council is prepared to take a **Cautious** approach to achieving community uplift due to the need to work collaboratively with local Hapu, community and other agencies. This means that risk will be accepted if limited and heavily out-weighted by benefits.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety	●				
<i>Performance</i>	No programmes or placements put youth in potentially harmful situations.				
Financial		●			
<i>Variation</i>	Spend between \$7.6M (-10%) and \$9.3M (+10%) for all projects.				
Service Delivery			●		
<i>Standard</i>	No unplanned outages for CCTV, City Assist or Kaitiaki services. At least 3 place based plans completed (<i>LTP measure</i>) At least 1 social development review completed (<i>LTP measure</i>)				
Compliance		●			
<i>Outcomes</i>	No challenges against community programmes for lack of engagement or consultation that can be upheld.				
Reputation			●		
<i>Outcomes</i>	Positive regional public interest or media attention is expected for community lead plans and pathways for youth, but outcomes within Council's control should not result in adverse national media coverage.				



Core Council Service Standards – Long Term Plan 18/28

Our Service Delivery

Context:

Local Infrastructure which contributes to public health and safety, supports growth, connects communities, activates communities and helps to protect the natural environment

Local public services which help meet the needs of young and old, people in need, visitors and locals, businesses and households.

Regulatory functions which help to prevent harm and help create a safe and healthy environment for people, which promote the best use of natural resources and which are responsive to community needs.

- Operating budget: \$88M

Appetite Averse **Minimalist** Cautious Flexible Open

Council intends to take a **Minimalist** approach to delivery of core services as the community expects Council to provide safe, compliant and reliable services that reflect the needs of the community in a cost effective and efficient way. This means that risks will be accepted only when essential to the core outcome, and limited possibility/extent of failure exists particularly with regard to Safety or Compliance.

Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
Safety					
<i>Performance</i>	Fewer than 10 medical attention or lost time injuries to Council workers (staff and contractors) per month (<i>refer Health & Safety Reports</i>).				
Financial					
<i>Variation</i>	Spend between \$83.6M (-5%) and \$92.4M (+5%) for all operations (<i>Aligns with Chief Executive Objectives</i>).				
Service Delivery					
<i>Standard</i>	No more than 10% variation from the LTP target levels of service. No decision reversed upon review.				
Compliance					
<i>Outcomes</i>	No legal challenges upheld for unsound Resource Consent or Building Consent decisions. All services provided meet regulatory requirements for safe operation.				
Reputation					
<i>Outcomes</i>	Interest of local groups or individuals may occur, but events within Council's control should not result in adverse regional or national media coverage. Positive media attention up to national level is desirable for innovative service.				

Example:

- It is important that the decisions made when issuing a consent, permit or licence are technically correct, even if that means there is a slight delay in issuing the decision.

Ref: PMD-03-81-19-187

V3.4

REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: RISK ASSURANCE ADVISOR
DEAN FERGUSON

SUBJECT: RISK ASSURANCE INSURANCE REVIEW

1.0 PURPOSE AND SUMMARY - *TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA*

- 1.1 The purpose of this report is to provide an update to the Committee in regards to the Risk Assurance review of Council's Insurance programme.
- 1.2 The purpose of this review was to assess and evaluate the effectiveness of insurance as a control for a number of strategic risks. The review found that that the insurance programme is well managed and insurance as a control is fully effective.
- 1.3 The review also took into consideration the changing landscape around insurance to establish whether Council was prepared for future risks to the insurance industry. This included considering what insurance cover may look like going forward, and options around alternate forms of mitigation i.e. self-insuring.
- 1.4 The main points are:
- Insurance is one of the key mitigations to manage the risk of assets not being available in the future to provide services.
 - Council has an open and transparent relationship with their insurance brokerage firm, Marsh. An officer is assigned to manage the insurance portfolio who in turn works with the various business units to ensure their needs are accounted for.
 - The insurance market has changed since the recent earthquake events and an increase in significant weather events, not just in New Zealand but globally.
 - Insurance companies are now looking at risk profiling regions opposed to taking a holistic view of the country.
 - Loss modelling now plays a significant role in how insurance is applied, what type of cover is suitable and how much that insurance will cost (and then pay out).
 - Lloyds recently undertook a survey which named New Zealand as the second riskiest country in major global insurance report, behind Bangladesh.

- Hawke's Bay region's risk profile has increased in recent years due to the risk around the Hikurangi Subduction Zone, Coastal Erosion and an increase in significant weather events.
- Council is not currently covered for any cyber-attack related incidents. Due to cyber security continually being reported as a top 10 risk to an organisation, the need for some form of cover will be discussed at the next insurance renewal discussions between Council and their broker, Marsh.

2.0 Review Findings

- 2.1 Based on the work performed, it was found that the overall management control environment around insurance was fully effective.
- 2.2 However, as set out in 1.4, there are a number of factors that will have an impact on the effectiveness of those controls in the future. Council will need to be in a position to be adaptable to change and review options around how insurance is applied, what type of cover is suitable and how much certain insurance will cost before the premiums outweigh the value or likelihood of a claim.
- 2.3 The below strategic risks were identified as having insurance as either a mitigation or prevention. Each of the controls were reviewed against their respective strategic risk and the insurance type they best aligned with. The overall rating was fully effective.

Strategic Risks Reviewed	Findings Summary			
	None or largely ineffective	Partially Effective	Substantially Effective	Full Effective
Water Supply Contamination	---	---	---	5
Health & Safety Incident	---	---	---	1
Infrastructure Service Failure	---	---	---	2
Ineffective Regulatory Oversight	---	---	---	1
Information Security Failure	---	---	---	4
Procurement Failure	---	---	---	3
Corruption & Fraud Incidents	---	---	---	3
Business Interruption	---	---	---	2
Loss of Key Staff	---	---	---	1
Officer Error/ Omission	---	---	---	2
Failure to meet regulatory requirements	---	---	---	3
Legislative change	---	---	---	1
Facility failure	---	---	---	1
Failure to achieve business as usual performance	---	---	---	1
Total	---	---	---	30

3.0 Emerging issues – 5 year view

- 3.1 Reduced market access – insurers either pulling out of high risk countries or raising premiums to a level where they will become unaffordable.
- 3.2 Contract Insurance (third party liability limitation) – specified or tagged insurance putting the onus on Council to compromise on types of contract insurance.
- 3.3 Loss modelling becoming business as usual – understanding the risk from a micro level.

- 3.4 Climate change – more frequent weather events, coastal erosion and inundation zones.
- 3.5 Cyber risk – a greater reliance on cloud hosted and artificial intelligence systems.
- 3.6 Business Continuity – a greater reliance on being resilient and having a strong business continuity framework and culture to support insurable assets.

4.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA*

- A) **That the Committee receives the report titled Risk Assurance Insurance Review**

Attachments:

There are no attachments for this report.

REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

FROM: RISK AND CORPORATE SERVICES MANAGER
REGAN SMITH

SUBJECT: RISK ASSURANCE ACTION STATUS

1.0 EXECUTIVE SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to provide the Committee with assurance that improvement opportunities raised during Risk Assurance Reviews are being progressed.
- 1.2 This report contributes to the purpose of local government by primarily promoting effective operation of the Council.
- 1.3 The main points are:
- The majority of risk assurance tasks are being satisfactorily progressed.
 - The only overdue action relates to finalising a Cash Handling Policy. This work is substantially complete waiting final amendments and approval.
 - 93 Resource Consents with which Council must comply have been loaded in to Lutra Infrastructure Data (ID) system for management.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) **That the Committee receives the report titled Risk Assurance Action Status**

3.0 BACKGROUND – TE HOROPAKI

- 3.1 The Risk Assurance Review programme involve assessing how well the critical controls identified for each of the Council's strategic risk are working.
- 3.2 As a result of these assessments improvement opportunities may be identified, which are raised as Tasks for business unit managers to implement.
- 3.3 This report provides a status summary for Tasks from all Assurance Reviews.

4.0 DISCUSSION - TE MATAPAKITANGA

4.1 Risk Assurance Task Summary:

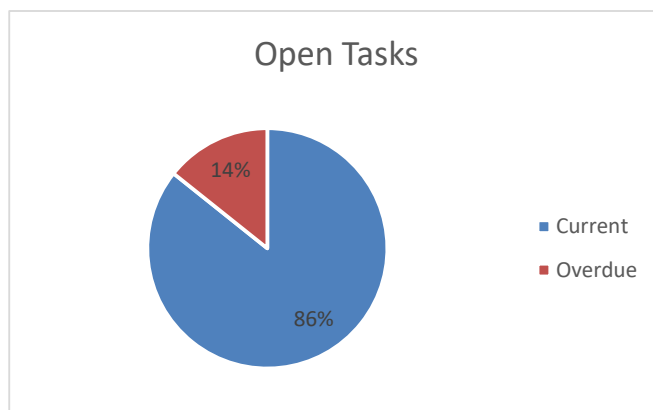
- Completed Tasks.

Previous Quarter	Current Quarter
2	4

- Open Tasks

In Progress	Count
Current	6
Overdue	1
Total	7

Refer to Appendix 1 for a full list of tasks.



- Overdue Tasks.

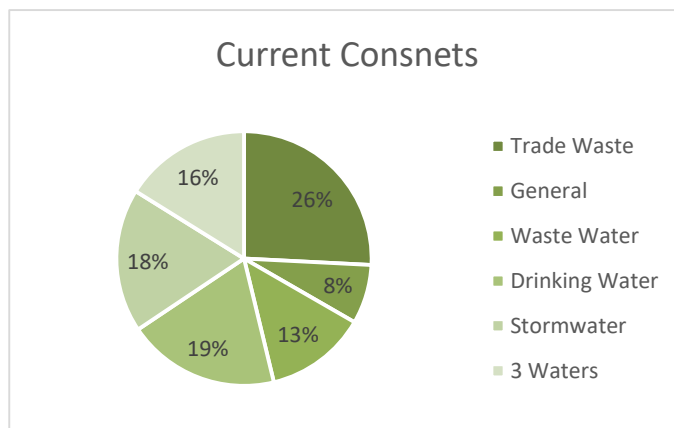
Team	Task	Due Date	Strategic Risk
Finance	Draft and finalise the Cash Handling Policy ready for sign-off	27/9/19	10. Corruption and Fraud Incidents
Comment: The policy is substantially complete. Minor amendments are required so the policy can be approved and then implemented.			

4.2 Resource Consent Compliance Summary:

- The following table lists consents issued by other authorities to HDC that have conditions with which Council must comply.

Team	Number
3 Waters	15
Drinking Water	18
Waste Water	12
Stormwater	17

Trade Waste	24
General	7
Total	93



5.0 NEXT STEPS - *TE ANGA WHAKAMUA*

- 5.1 A work programme is being developed with Finance to support implementation of the cash handling policy.
- 5.2 Work is underway to capture Resource Consent compliance data to support compliance monitoring and reporting.

Attachments:

- 1 [Strategic Risk Task Performance December 2019](#) PMD-9-3-19-7

SUMMARY OF CONSIDERATIONS - *HE WHAKARĀPOPOTO WHAIWHAKAARO*

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

This report contributes to the purpose of local government by supporting effective operation of the Council.

Link to the Council's Community Outcomes - *E noho hāngai pū ai ki te rautaki matua*

There is no specific contribution to Community Outcomes

Māori Impact Statement - <i>Te Tauākī Kaupapa Māori</i> There are no known impacts for Tangata Whenua.
Sustainability - <i>Te Toitūtanga</i> There are no implications for sustainability.
Financial considerations - <i>Ngā Whaiwhakaaro Ahumoni</i> There are no financial implications.
Significance and Engagement - <i>Te Hiranga me te Tūhonotanga</i> This decision/report has been assessed under the Council's Significance and Engagement Policy as being of low significance.
Consultation – internal and/or external - <i>Whakawhiti Whakaaro-ā-roto, ā-waho</i> There has been no external engagement.
Risks: Legal/ Health and Safety - <i>Ngā Tūrarū: Ngā Ture / Hauora me te Haumarū</i> Failure to implement risk control improvements leaves Council open to criticism should a risk event materialise.
Rural Community Board - <i>Ngā Poari-ā-hapori</i> There are no implications for Community Boards.

Strategic Risk Task Performance as at December 2019

ID	Description	Inherent risk	Residual risk	Controls	Level of control	Treatment tasks
1	Water Supply Contamination	Extreme	High	Policy and Procedure: Substantially Effective Asset Management Plan: Substantially Effective Insurance: Substantially Effective	Sufficient	1: Council's insurance program offers an adequate level of assurance cover in the event of a claim - Public & Professional Liability - Environmental Impairment Task: Review Council's insurance program - follow up to the Insurance Review to ensure Council has the right cover and is scanning the market for changes, potential impacts on cover, loss modelling results, opportunities i.e. self-insuring. Assigned to: Jeff Tieman Due: 26 Mar 2020 Status: In progress
2	Civil Defence Emergency	Extreme	Extreme	Policy and Procedure, Response plans: Partially Effective Asset Management Plan: Substantially Effective Land use planning, Avoid use of flood prone or poor land for housing and infrastructure: Substantially Effective Building Act and Code, Application of Building Act and Building Code requirements to construction in the district: Substantially Effective Response and Business Continuity Planning: Largely Ineffective Insurance: Substantially Effective Contingency funds: Partially Effective	Sufficient	
3	People Safety	Extreme	High	Insurance, Insurance Review (08/19) - Ensuring there is appropriate cover in place in the event of prosecution or financial fines: Fully Effective Education, Training, Coaching, Aquatics Review (06/19) - A training and competency register will need to be established across all sites. Suitably qualified and competent staff can be utilised across all sites. Incident and Hazard Reporting, Aquatics Review (06/19) - Ensuring all staff are trained on using Risk Manager including frequent refresher training for permanent and seasonal staff: Partially Effective Monitoring and Compliance, Aquatics Review (06/19) - Rostering suitably qualified personnel to cover all facilities in the event of staff shortage to ensure coverage and give personnel the opportunity to work at multiple sites: Substantially Effective	Sufficient	

ID	Description	Inherent risk	Residual risk	Controls	Level of control	Treatment tasks
				Security Measures, Details: Aquatics Review (06/19) - Project Management best practice and risk assessment against all sites followed by action plan rollout: Substantially Effective		
4	Adverse Environmental Change	Extreme	High			
5	Infrastructure Service Failure	Extreme	High	Insurance, Insurance review - 08/10 - appropriate insurance in place: Fully Effective		
6	Information Security Failure	Extreme	High	Insurance, Insurance review 08/10 - appropriate level of insurance in place: Fully Effective		1: Cyber security review Task: Ensure Cyber Security is considered as part of the insurance review in March Assigned to: Dean Ferguson Due: 19 Mar 2020 Status: In progress
7	Ineffective Regulatory Oversight	Extreme	Medium	Insurance, Insurance review - 08/10 - appropriate level of insurance: Fully Effective		
8	Inadequate Available Funds	Extreme	Low			
9	Procurement Failure	Extreme	Medium	Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective Appropriate Relationship Management, Aquatics Review (06/19) Recording and monitoring contract management and supplier engagement. Ensuring there is direct engagement with the supplier and an understanding of the key deliverable's to successfully manage a contract: Partially Effective Contract Register, Aquatics Review (06/19) - All contracts to be identified and added to the contracts register detailing contract owner, value and expiry date: Largely Ineffective Skilled Contract Managers, Aquatics Review (06/19) - Contract Management training to be delivered to key personnel who have a responsibility for managing a contract or part of - incorporate the lifecycle of a contract: Substantially Effective	Limited	2: Contract register Task: Updating of all contracts onto a centralised register - to provide feedback on progress Assigned to: Wendy Beeke Due: 14 Jan 2020 Findings: Status: In progress
10	Corruption and Fraud Incidents	Extreme	Medium	Policy and Procedure, Aquatics Review (06/19) - Cash Handling Framework - Policy, Guidance Procedures and Standard Operating Procedures. Ensuring continuity across all sites to ensure there is a level of monitoring and measuring:	Limited	1: Develop a robust cash handling policy to ensure continuity across Council Task: Draft and finalise the Cash Handling Policy ready for sign-off Assigned to: Richard Elgie

ID	Description	Inherent risk	Residual risk	Controls	Level of control	Treatment tasks
				<p>Substantially Effective</p> <p>Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective</p> <p>Daily Banking Reconciliation, Daily banking should be checked by management and then finance through actual banking: Partially Effective</p> <p>Physical Barriers, Strong safe controls and restricted access to prevent a breach or the misappropriation of cash/ documentation: Substantially Effective</p> <p>Separation of Duties, Aquatics Review (06/19) - Maintaining a level of control around the cash handling - from till handling to banking reconciliation: Substantially Effective</p> <p>Education, Training, Coaching, Limited fraud awareness and/ or cash handling awareness training - requirement to understand the guiding principles and controls which link into the procedures: Partially Effective</p> <p>Organisation Culture, Aquatics Review (06/19) - Ensuring all employees feel part of the organisation - engage and working in collaboration around initiatives and regular contact: Partially Effective</p> <p>Accountability and Traceability of Transactions, Aquatics Review (06/19) - Adequate level of oversight and reviewing transactions through system audits and Financial control methodology: Partially Effective</p> <p>Organisational Culture, Aquatics Review (06/19) - Inclusive workforce - open and transparent:</p>		<p>Due: 27 Sep 2019</p> <p>Findings: This is sitting with Aaron to get final document amended and signed by Bruce.</p> <p>Status: In progress</p> <p>Task: Cascade and socialise the Cash Handling Procedural Guidance flip charts to all the operations that handle cash. Spot audit against current practices to ensure they meet the HDC's cash handling principles set out in the document. Assigned to: Aaron Wilson</p> <p>Due: 10 Jan 2020</p> <p>Status: In progress</p> <p>2: Procedural guidance and audit against council standards</p> <p>Task: To carry out an audit on the sites that handle cash (initially a spot check on two or three) applying the newly introduced principles (Cash handling procedural guidance flip chart) and Cash Handling Policy - identify how effective the roll out of the policy and procedural documents were and review SOP's to ensure they have been amended to align with the changes.</p> <p>Assigned to: Aaron Wilson</p> <p>Due: 10 Feb 2020</p> <p>Status: In progress</p>
11	Business Interruption	Extreme	Medium	<p>Insurance, Insurance review 08/10 - appropriate insurance in place: Substantially Effective</p> <p>Define and Maintain Procedures, Business Continuity Plans to support the escalation of an incident/ event: Partially Effective</p>	Limited	
12	Loss of Key Staff	Extreme	Medium	<p>Insurance: Insurance review 08/10 - appropriate insurance in place: Substantially Effective</p> <p>Avoid single point of knowledge, Knowledge sharing and rotation of key staff across relevant facilities/ business areas. Clearly defined roles and responsibilities within business units: Substantially Effective</p> <p>Manageable Workloads, Managing workloads appropriate to the</p>	Sufficient	

ID	Description	Inherent risk	Residual risk	Controls	Level of control	Treatment tasks
				roles and responsibilities. Pulling on key personnel to assist with meeting objectives of role: Partially Effective Separation of Duties, Clearly defined objectives and supported by management to deliver on objectives: Partially Effective Roles and Responsibilities, Roles and responsibilities to be clearly defined and communicated to key staff. Positions need to be backed up with clear objectives: Partially Effective		
13	Officer Error/Omission	Extreme	Medium	Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective		
14	Governance Failure	Extreme	Medium			
15	Economic Downturn	High	Medium			
16	Demographic Change	High	Medium			
17	Failure to Meet Regulatory Requirements	High	Medium	Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective		
18	Legislative Change	High	Medium	Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective		
19	Facility Failure	High	Medium	Asset Management Plan, Strategic approach to be taken to develop AMP's for the business areas which includes coordination with the Property Assets Team and Finance: Partially Effective Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective Adequate Resources, [Organisational Culture] Creating continuity where skill sets are transferable in the event of a facility failure - the upskilling of staff: Substantially Effective Working alone policy, Robust policy and ongoing training to new and existing staff - incorporated into the Security Manual (under development): Substantially Effective	Sufficient	
20	Failure to Achieve Business as Usual Performance	High	Low	Insurance, Insurance review 08/10 - appropriate insurance in place: Fully Effective		

REPORT TO: RISK AND ASSURANCE COMMITTEE

MEETING DATE: MONDAY 3 FEBRUARY 2020

**FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN**

SUBJECT: CHIEF FINANCIAL OFFICER UPDATE

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to provide the subcommittee with updates on other initiatives that are currently underway and to provide an update on outstanding actions from previous meetings.

Electronic Purchase Order Project (Procure to Pay (P2P))

- 1.2 The P2P module has now been implemented into the financial system, and has been fully rolled out across Council. This roll out was staged group by group, and was a significant logistical exercise, involving a total of four finance staff operating as trainers, and involved around 200 staff members being trained over a three month period.
- 1.3 The new electronic purchase order system has now gone fully live across Council and has generally been well received. Where issues have arisen, these are being resolved both with the users and the finance team.
- 1.4 Ongoing adjustments and improvements are expected and will be part of the long term business improvement strategy. One of the outcomes of the new purchase order system will see finance working to reduce the number of working days before close off.

Audit Report for the financial year ended 30 June 2019

- 1.5 The report to Council from Audit New Zealand on the audit of Hastings District Council and the group for the year ended 30 June 2019 has been received and is attached as **Attachment 1**.
- 1.6 Audit New Zealand have issued an unmodified opinion, and were pleased to note continued improvement in the delivery of the draft Annual Report and the progress that Council have made in clearing previous recommendations. Of the previous 15 open recommendations 7 have now been implemented and closed, with another 4 likely to be closed off at the interim audit in 2020. The remaining 4 open recommendations include two that will be resolved due to the implementation of the new EPO system and one that relates to the implementation of a contract management system which has a project underway.

- 1.7 There were three new recommendations that were raised, none of which were of an urgent priority. These can be viewed as part of the audit action sheet attached as **Attachment 2**.
- 1.8 Audit New Zealand state that the financial statements are free from material misstatements, including omissions. During the audit any misstatements other than those which were clearly trivial, that were found were discussed with officers. There were no significant misstatements identified during the audit that were not corrected.

Internal Audit

- 1.9 As per the 2019/20 internal audit plan, an audit of payroll compliance covering procedures and practices to assess whether the controls and processes ensured complete, accurate and timely processing of payroll information has been completed in December 2019.
- 1.10 Currently the report is being drafted by Crowe (formally Crowe Horwath) with an update of findings to be reported to the next risk and assurance committee meeting.
- 1.11 The audit action sheet **Attachment 2** is an update from both external and internal audit recommendations, with updated comments on progress.

Risk Assurance Update

- 1.12 Over the last six months the Risk Assurance team has established a firm foundation as a centre of expertise and support for risk management activities across Council. The team successes include provision of risk management support to the following strategic projects:
- WMMP Project (Kerbside collection)
 - Procurement manual update project
 - 10 year water strategy project
 - Cape Kidnappers
 - Karamu Master Plan
- 1.13 In addition, the Risk Assurance Advisor has been the lead officer in the following special projects:
- Landfill review
 - Forestry slash management
 - Caroline Rd cool store response
 - Civil Defence Emergency Management Controller activities
- 1.14 Due to this proactive risk management workload, there has been an impact on the review programme previously reported to the committee in July 2019. The programme originally set out to complete eight reviews by the end of the

2019/2020 Financial Year (FY). At present one of those reviews on Strategic Risk Critical Controls, has been completed and it is unlikely the remaining planned reviews can be completed by the original target date. As a result, the intention is to focus on two areas of material risk in the current FY programme, which are reviews on Transportation and Policies, Procedures and Training. A revised review programme for the 2020/2021 FY will be provided at the next Risk Assurance Committee meeting.

Enterprise Risk Management Framework

- 1.15 The HDC Enterprise Risk Management Framework was due for review in January 2020. With the agreement of the Chair for the Risk Assurance Committee, the review has been delayed until the Council risk appetite statement has been adopted so this can be incorporated in to the next revision of the Framework.

Forestry Slash Management

- 1.16 Over the last eighteen months the Risk Assurance team have been reviewing and assessing the risk and potential impacts to our assets and communities through the forestry activity and slash management. As a result, HBRC have recently recruited a Compliance Monitoring Officer in which HDC jointly funds 50% FTE. As part of the joint funding and providing assurance to Council, Risk Assurance have led the discussions around setting up an action plan and refining KPI's to ensure the proper monitoring of forestry harvesting (pre, during and post) is carried out and to ensure Council's key objectives are met. This has included producing an interactive risk based map detailing all forestry locations, key lifeline roads, bridges and culverts, MPI erosion susceptibility heat map, archaeological sites, flood risk areas, consented bore locations to name a few.
- 1.17 Other initiatives to provide assurance around forestry activity include ensuring the new FTE has access to certain Council records and systems pertaining to notifications and/ or known forestry activity, access to key Council officers (Environmental Consents, Transportation, and Compliance) and is fully apprised of the risk profile of the district. A reporting suite has been generated in order to capture key information and inform relevant staff of any breaches or observations.
- 1.18 Further to that, an audit will be conducted on the last ten forestry harvest plan notifications that have been submitted to both HBRC and HDC to identify gaps and ensure full compliance between the TA and Regional.

Three Waters Update

- 1.19 The water safety plan (WSP) for the main Hastings urban supply has been updated using the latest Ministry of Health guidance. This was submitted for Drinking Water Assessor (DWA) assessment on the 8th November 2019. Prior to submission it underwent various internal and external reviews. The DWA are currently progressing their adequacy assessment of this new plan. If

approved officers understand it would be the first WSP approved under the new framework.

- 1.20 As part of the urban supply upgrade programme an assessment has been undertaken to consider whether there were any interim upgrades works required. The focus was to consider whether there were any interim works that would deliver fully compliant water in a shorter timeframe. The assessment concluded that any interim works would add circa \$1m of cost to the programme and would not substantially reduce the time to provide compliant water. The monitoring and assessments of protozoa risks at Frimley are considered to be very low, therefore this option provides little benefit and the focus should remain on the final solution.

Review of Aquatics Delivery Model

- 1.21 The Group Manager of Community Facilities and Programmes has undertaken an internal review of the delivery model for Council's aquatics facilities including formalising the roles and responsibilities between Councils Assets Group and the facility operators. The review has also utilised the skills and expertise of an external aquatics facility operator in improving practices at our facilities.

Appointment of Independent member of Risk and Assurance Committee

- 1.22 The Finance and Risk Committee on 17 September 2019 received a report recommending that Council follow best practice and appoint a second independent member of the Audit and Assurance Committee, the resolutions of that meeting are detailed below.

“That the Committee receives the report titled “Appointment of Independent member to the Risk & Audit Subcommittee”.

That the Committee recommend to the incoming Council following the 2019 triennial elections that:

- i. Mr Jon Nichols be reappointed as the independent chair of the Risk & Audit Subcommittee for a further three years.***
- ii. A second independent member of the Risk & Audit Subcommittee be appointed for a period of three years with a preference for that member to have asset management experience.”***

- 1.23 Guidance is sought from the Committee members on the recommended approach to identifying and recommending a preferred candidate to Council.

Action List

- 1.24 Attached as **Attachment 3**, is the updated action list.

2.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA*

A) That the Committee receives the report titled Chief Financial Officer Update.

Attachments:

- | | | |
|---------------------|---|------------------|
| 1 ↓ | Financial Management - Audits - External audit - Audit NZ's Summary Letter to Audit and Risk Committee 2019 | FIN-07-01-20-440 |
| 2 ↓ | Audit Action Sheet as at 3 Feb 2020 | FIN-07-02-20-109 |
| 3 ↓ | Status of Actions Sheet | CG-14-118 |



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

23 January 2020

Level 2, 100 Molesworth Street
Thorndon
PO Box 99, Wellington 6140

Jon Nichols
Chair – Risk and Audit Subcommittee
Hastings District Council
Private Bag 9002
Hastings 4156

Dear Jon

Report to Council: Audit of Hastings District Council for the year ended 30 June 2019

We have completed our final audit of the Hastings District Council (the District Council) and group for the year ended 30 June 2019.

This letter provides a summary of the key findings arising from our audit.

We also refer you to:

- Our report to the Council dated 18 December 2019 which sets out the full findings from our audit; and
- Our interim management letter to the Chief Executive dated 23 August 2019.

Audit opinion

We issued an unmodified audit opinion dated 10 October 2019 on both the full annual report and the summary annual report.

Matters identified during the audit

- We reviewed, and are satisfied with, the robustness of the District Council's revaluations undertaken this year. Given their significance as a proportion of the District Council's assets, the focus of our work was on the revaluations of:
 - roading infrastructure assets; and
 - parks and reserves.
- We reviewed, and are satisfied with, the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of land and buildings.

A business unit of the Controller and Auditor-General | www.auditnz.govt.nz

- We are satisfied that there is no material difference between the fair value and the carrying value of water infrastructure assets (the remaining major asset class not revalued this year). However we have raised a recommendation in regards to the robustness of management's assessment. Section 4.3 of our full report to Council sets out further detail.
- We are satisfied that the reporting of mandatory measures, as required by the Non-Financial Performance Rules 2013 (the rules), fairly represented the District Council's performance and complied with the intentions of the rules. We were also satisfied with the explanations and commentary that were included in the Annual Report in relation to measures that had not been achieved.

We are pleased to note that there has been further improvement in the delivery of the draft Annual Report and the supporting work papers in the current year. More stringent internal quality assurance processes could strengthen the year end process even further; specifically ensuring presentation of the Annual Report is in line with the 2018-28 Long Term Plan. However nothing identified in our quality assurance over the Annual Report delayed the audit process significantly.

It is pleasing to note the District Council's progress in clearing previous recommendations.

Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

Mandatory disclosures

Our full report to the Council set out a number of mandatory disclosures, which we have replicated in the Appendix to this letter.

The only matter from those disclosures that we wish to highlight is one that we've previously disclosed to the Committee and Council. The Audit Manager responsible for the audit has not undertaken any work related to the internal auditors (as her sister is a Crowe Horwath employee). The audit supervisor has reported directly to me on any of our work relating to internal audit.

Thank you

We would like to thank the Council, management and staff for their assistance during the audit.

Yours sincerely



Stephen Lucy
Director

Appendix 1: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit we have carried out an engagement in the area of performing a limited assurance engagement related to the District Council's debenture trust deed, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the District Council or its subsidiaries.</p>
Fees	<p>The audit fee for the year is \$113,000, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$4,200 for the limited assurance engagement related to the District Council's debenture trust deed.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council or its subsidiaries that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council or its subsidiaries during or since the end of the financial year.</p> <p>The Audit Manager responsible for the audit has not undertaken any work related to the internal auditors (as her sister is a Crowe Horwath employee). The audit supervisor has reported directly to the Appointed Auditor on any of our work relating to internal audit.</p>

Audit Action Sheet as at 24/01/20					FIN-07-02-18-100	24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment	
Audit New Zealand Recommendations						
Classification of Fault Response and Resolution Times	Ashley Dunstan	low	Apr-19	Jun-19	Asset management accept and support the comment. This will be sent to City Care as a Notice to Contractor, to further enhance accurate reporting. Progress will be reviewed once interim has been completed.	✓
Development Contribution invoice review	Richard Elgie	low	Apr-19	Jun-19	Where invoices for DCs are concerned accounts receivable will generate all the transactions for the month, with the operations manager then selecting from that list and checking against the relevant policy. A control process has been developed with audit to complete testing at 20/20 interim with an expectation that this recommendation will be closed.	✓
Rate Masterfile review	Aaron Wilson	low	Apr-19	Jun-19	Management will look into the possibility of a report for all RID changes; however it is likely that with the checks on the named types, these would be the types more likely to have potential issues. We consider the risk to be very small as it is on an individual basis. A masterfile change report has been deveoped with Audit to complete testing at the 2020 interim with an expectation that this recommendation will be closed.	✓
Implement Contract Management System	Ange Hirst	low	1/07/2017	Oct-20	A spreadsheet based contract management system has been established with ongoing refinement. A internal audit by Crowe Horwath of contract management has been has been completed with a number of recommendations made, these have been addressed in the internal audit report. A project has been established to investigate system options.	⚠
Purchase Card Use	Aaron Wilson	medium	1/05/2017	Mar-19	The management and oversight of Council's pCards has been allocated to a new staff member that will allow for greater oversight and compliance with policies. Staff have been reminded about what is appropriate pCard expenditure. The purchase of the Chief Executive's Koru Club membership is deemed to be a valid business expense and the operational policy is being updated to reflect this. Mangement expect this will not be an issue going forward. Audit are expecting to close this once interim has been completed for 2020.	✓
Improvements to financial systems and processes following Opal Taylor fraud	Aaron Wilson	medium	28/11/2018	Jun-19	With the EPO system going live, Audit will review progress at interim 2020, with this recommendation likely to be resolved.	✓
Expenditure approvals not in line with DFA policy	Aaron Wilson	medium			Monthly report is reviewed with any issues addressed. Management expect this to be closed at year end. With the EPO system going live, Audit will review progress at interim 2020, with this recommendation likely to be resolved.	✓
Rates Assessment Notice - description of "factor" be included as a separate column to value to ensure sufficient information is given to meet legislative requirements	Richard Elgie	medium		Jun-20	This will be reviewed with appropriate staff in the new year.	⚠
Rates resolution - greater care taken in development the rates resolution to ensure that all dates included within in are accurate.	Ashley Humphries	medium		Jul-20	A robust review process is undertaken annually of the rates resolution which includes an annual legal review to ensure compliance and best practice. Officers will review the review process to ensure mistakes of this nature do not occur again.	⚠
Fair value assessment o nnon-revalued asseets are made more robust	Aaron Wilson	medium		Aug-20	Officers will review how fair value assessments are undertaken for non-revalued assets.	⚠
Crowe Horwath Fraud Risk Management Review						
Incomplete contract mangement policies and procedures	Ange Hirst	Medium		2020	New Policy and Strategy in draft form waiting for approval. Operational Manual being scoped due for completion June 2020. Introduction to procurement and contract management sessions were run in May 2019. Contract management training delivered in November to key staff - 39 attended.	⚠
Lack of contract management planning	Ange Hirst	Medium		2020	The Mbie contract management plan template was introduced as being an available tool as part of the introduction to procurement and contracts management sessions held in May 2019. Contract management sessions held in May 2019. Investigating contract management systems in marketplace. Contract Management training delivered November 2019 to 39 staff. To further improve Hastings District Council's contract evaluation processes additional management resources are required.	⚠
Lack of governance and management oversight	Bruce Allan	Medium		Jun-20	To further improve Hastings District Council's contract evaluation processes additional management resources are required, this will be enhanced with a contract management system	⚠
Unclear management capabilities	Ange Hirst	Medium		Jun-20	An introduction to procurement and contract management session was run with 29 staff attending. Contract Management training held November 2019. More detailed one on one training is occurring with the procurement staff as required. Working with HR on procurement capabilities when new staff arrive.	⚠
Contracts not assessed for risk	Bruce Allan	Medium		Jun-20	The implementation of a new contract register is being scoped for approval.	⚠
Contracts register incomplete	Ange Hirst	Medium		Jun-20	There is a working group set up to look at contract management systems out in the market.	⚠

Audit Action Sheet as at 24/01/20FIN-07-02-18-100						24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment	
Lack of records management policies and procedures	Regan Smith	Medium		TBC	A wider review of Councils records management system is being undertaken which could ultimately lead to either a new system being identified or enhancements adopted for the existing systems.	⚠
Develop in house training programme for fraud and corruption awareness and line manager responsibilty for invoice approvals	Bruce Allan	high		May-20	Training programme to be developed - With the new onboarding induction for new employees, this is now being covered. A wider programme of internal training has been underway with regards approval of invoices with the implementation of the new electronic purchase order system. In addition financial training programme is to be developed in which fraud awareness will be incorporated for managers and team leaders with budget responsibilities.	✓
Review Protected Disclosures Policy	Bruce Allan	high	23/05/2017	Feb-20	This will now be put formally to the Lead team for adoption.	⚠
Intemal Control - review cash collection method from remote sites	Regan Smith	medium	23/05/2017	Apr-20	Cash handling is now being rolled up into a wider project, where a revenue cash handling policy and procedure are being updated. This will cover all cash handling sites and will help mitigate risk.	⚠

Audit Action Sheet as at 24/01/20					FIN-07-02-18-100	24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment	
CLOSED and COMPLETED						
Review of invoices approved by Super-users	Aaron Wilson	low	Apr-19	Jun-19	Superusers now no longer have DFA for approving invoices removing the opportunity for this to occur in the future.	✓
Appropriate review of the RID reconciliation	Aaron Wilson	low	Apr-19	Jun-19	This has occurred due to a change of personnel in the operations manager role. What will happen going forward is that it will be prepared by Richard Elgie (Finance Operations Manager) and reviewed by Aaron Wilson (Financial Controller). This is now in place. Audit have reviewed and now CLOSED.	✓
Review of suspense accounts	Aaron Wilson	low	Apr-19	Jun-19	This is partly due to a change in personnel preparing this reconciliation. Going forward the correct supporting documentation will be attached and reviewed. Audit have reviewed and now CLOSED.	✓
Review IT Policies and Procedures	Andrew Smith	medium	1/07/2017	Jun-19	HDC uses the 'Kaon' developed IS Security Policy suite. HDC has a subscription with Kaon to provide annual updates to the security policies and the latest update to the policy framework is expected in the latter part of 2018. During the current period the Council information security policies have been reviewed by the IM Team. When the updated policy framework from Kaon is published it will be considered for potential updates. The target date for completing, approving and publishing the updated policy was 30 June 2018 but was ongoing at the time of our final audit. IT Policies have now been released based on greatest business risk. These polices are now available and accessible online and have been reinforced with strong internal staff communications. Policy awareness and understanding will be progressively communicated over the coming Months via a change communications program. Polices published and communicated to date include: Password Management and Authentication: This Policy describes the authentication requirements for accessing internal computers and networks and includes those working in-house as well as those connecting remotely. Email: The purpose of the Email Policy is to document how electronic mail systems and services are to be used. Access Control: The purpose of the Access Control Policy is to ensure that information systems resources and electronic information assets owned or managed by Hastings District Council are available only to authorised personnel. This Policy also deals with the prevention of unauthorised access through managed controls to create a secure computing environment. Additional IT Polices under review and in the process of being finalised include: <ul style="list-style-type: none">• Mobile Phones & BYOD• Internet Usage• Laptops & Tablets• Information Privacy Target completion to have all IT Polices finalised and issued / communicated is June 2019. Management expect this to be conduded at the year end audit. Audit have reviewed and now CLOSED.	✓
Reduce number of Staff have Local Administration Rights	Kevin Dresser	medium	1/07/2017	Mar-19	Council has adopted and complied with this recommendation, removing all users from the local PC admin group. The IM team have been progressively working to remove this capability over the past year. However, the remaining workstations in Marketing and Communications (approximately 10) have experienced difficulties in font availability and are yet to be changed. In order to be able to complete their jobs in relation to fonts changes these 10 workstations continue to have local administration rights. Audit have reviewed and now CLOSED.	✓
Bank reconciliations	Aaron Wilson	medium	28/11/2018	Apr-19	A year to date calculation has now been built into the reconciliation process. The system issue has been rectified by a Tech1 consultant. Management expect this issue to be closed at the year end audit Audit have now CLOSED this recommendation.	✓
Supporting documentation	Aaron Wilson	medium	28/11/2018	Jun-19	Management has confidence in the accuracy of our FMIS information. Throughout the audit process, changes will be made which will create discrepancies. Staff will work more closely with audit to ensure they understand what has changed. Now CLOSED.	✓
<u>PWC Accounts Payable & Electronic Bank Transfer Internal Audit</u>						
Electronic Purchase Order (EPO) System Implementation	Bruce Allan	medium	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.	✓
Goods Receipted not Recorded when received (requires EPO)	Bruce Allan	low	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.	✓
Review PO / Invoice approval DFAs (requires EPO)	Bruce Allan	medium	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.	✓

Hastings District Council Risk and Audit Subcommittee Status of Actions Sheet – 3 February 2020

Item 10

Attachment 3

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 22 October 2019	Complete
1	19/6/17	<u>Building Control Liability Issues</u> <ul style="list-style-type: none"> The Subcommittee would take a watching brief and 1. Officers would report back regularly in order to update the Subcommittee. 	Building Control Manager	Ongoing, last update provided at 2/7/19 meeting	
2	15/11/18	<u>Performance of Contract Post Tender</u> <ul style="list-style-type: none"> Need to develop a mechanism to monitor contract performance post implementation 	Chair/CFO	Chair to supply CFO an example of how this monitored in other industries	
3	06/05/19	<u>Review of Aquatics delivery model</u> <ul style="list-style-type: none"> Mayor asked for a review of service delivery model 	GM CF&P	Review of Resourcing and Management Structure underway. Cover off with CFO overview.	
4	06/05/19	<u>Electronic Purchase Order Project</u> <ul style="list-style-type: none"> FC to take Jon Nichols, Crs Kerr and Travers through the P2P process once it is ready to be implemented 	FC	Completed 31 January 2020.	
5	02/07/19	<u>Governance Oversight of Finances</u> <ul style="list-style-type: none"> Finance to develop a inhouse training package 	CFO	Programmed with Induction First tranche to be delivered 13/2/20	
6	16/09/19	<u>Risk Appetite Statement</u> <ul style="list-style-type: none"> Draft Risk Appetite Statement to be modified and circulated to Risk and Audit 	CFO/Regan Smith	On agenda	
7	02/07/19	<u>Internal Audit</u> <ul style="list-style-type: none"> Summary of progress to be presented to next Risk and Audit Meeting 	FC	Included in CFO update report	

8	02/07/19	<u>Closed Landfills</u> <ul style="list-style-type: none"> A report to be developed to Risk and Audit on the locations and integrity of closed landfills within HDC boundaries and other areas required. 	GM:AM CT	Ongoing	
9	16/09/19	<u>Treasury Activity and Funding</u> <ul style="list-style-type: none"> Invite Bancorp Treasury advisors to subcommittee Convey options if interest rates go below zero Advise savings by using swaps 	BC	Invited to 3/2/20 meeting Bnacorp to discuss TBC	
10	16/09/19	<u>Risk Assurance Reviews</u> <ul style="list-style-type: none"> Update to Council Transportation review 	DF	Proposed fo 2 nd qtr of 2020 Programme for 2 nd qt of 2020	
11	16/09/10	<u>Health & Safety Risk Management</u> <ul style="list-style-type: none"> Next report to committee to incorporae traffic light reporting Dashboard reporting to be developed – include contractor performance 	JK	Reporting updated	
12	16/09/19	<u>General Action Review</u> <ul style="list-style-type: none"> CFO and Chair to review actions outstanding. 	BA	Completed	

Item 10

Attachment 3