NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

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AUDIT AND RISK COMMITTEE
Open Agenda

Meeting Date:	Wednesday 29 June 2022
Time:	1.00pm
Venue:	Ikatere Room Level 2, Capeview Building Marine Parade Napier
	Livestreamed via Council's Facebook site

Committee Members	**Chair:** John Palairet **Members:** Mayor Kirsten Wise, David Pearson, Councillor Nigel Simpson and Councillor Graeme Taylor
Officer Responsible	Deputy Chief Executive / Executive Director Corporate Services (Adele Henderson)
Administration	Governance Team
	Next Audit and Risk Committee Meeting **Friday 5 August 2022**

ORDER OF BUSINESS

Karakia

Apologies

John Palairet

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Announcements by the Chairperson including notification of minor matters not on the agenda

Note: re minor matters only - refer LGOIMA s46A(7A) and Standing Orders s9.13

A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.

Announcements by the management

Confirmation of minutes

Agenda items

Minor matters not on the agenda – discussion (if any)

AGENDA ITEMS

1. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

Type of Report:	Procedural
Legal Reference:	N/A
Document ID:	1452457
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

1.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

Officer's Recommendation

The Audit and Risk Committee:

a. **Receive** the 31 March 2022 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.

1.2 Background Summary

The Sensitive Expenditure requires a report of all sensitive expenditure by the Chief Executive and by the Mayor to Audit and Risk Committee meetings (clauses 6.3 and 6.4). The policy also states that the expenditure items will be reviewed by the Chairperson or the Deputy Chairperson of the Audit and Risk Committee for compliance with this policy.

1.3 Issues

No issues

1.4 Significance and Engagement

N/A

1.5 Implications

Financial

N/A

Social & Policy

All sensitive expenditure transactions for the quarter ended 31 March 2022 are compliant with Council's Sensitive Expenditure Policy.

Risk

N/A

1.6 Attachments

1 Mayor Sensitive Exp report to Audit Risk Q3 2022 (Doc Id 1468965) ⇩
2 CE Sensitive Expenditure Report (Doc Id 1468964) ⇩

Mayor Sensitive Expenditure

Attachment B

Report for Audit and Risk Committee Meeting

Transactions processed from 1 January 2022 to 31 March 2022

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
Entertainment					
No transactions in this quarter					n/a
Total Entertainment			$ -		
Mayor's Travel & Accommodation					
No transactions in this quarter					n/a
Total Travel & Accommodation			$ -		
Conferences					
No transactions in this quarter					n/a
Total Conferences			$ -		
Total For Quarter			$ -		

Transaction Source key:

EC	Transaction approved through expense claim process
CC	Transaction processed through NCC's corporate card
AP	Transaction approved through normal purchasing & payables process

Chief Executive Sensitive Expenditure

Report for Audit and Risk Committee Meeting

Transactions processed from 1 January 2022 to 31 March 2022

Transaction Date	Transaction Source	Supplier	Value	Details in Ledger	Compliant with Policy
Entertainment					
17/01/2022	**EC**	FG Smith Eatery	$ 39.57	Breakfast meeting with Tania Eden, CEO Te Taiwhenau o Te Whanganui a Orotu	✔
Total Entertainment			**$ 39.57**		
Travel & Accommodation					
No transactions in this quarter					n/a
Total Travel & Accommodation			$ -		
Conferences					
No transactions in this quarter					n/a
Total Conferences			$ -		
Total For Quarter			**$ 39.57**		

Transaction Source key:	
EC	Transaction approved through expense claim process
CC	Transaction processed through NCC's corporate card
AP	Transaction approved through normal purchasing & payables process

2. HEALTH AND SAFETY REPORT - Q3

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1467610
Reporting Officer/s & Unit:	Michelle Warren, Health and Safety Lead Adele Henderson, Deputy Chief Executive / Director Corporate Services

2.1 Purpose of Report

The purpose of this paper is to provide the Audit & Risk Committee with an overview of Health & Safety activity for the period Quarter 3 FY22.

Officer's Recommendation

The Audit and Risk Committee:

a. **Receive** the Quarter 3 Health and Safety report.

2.2 Background Summary

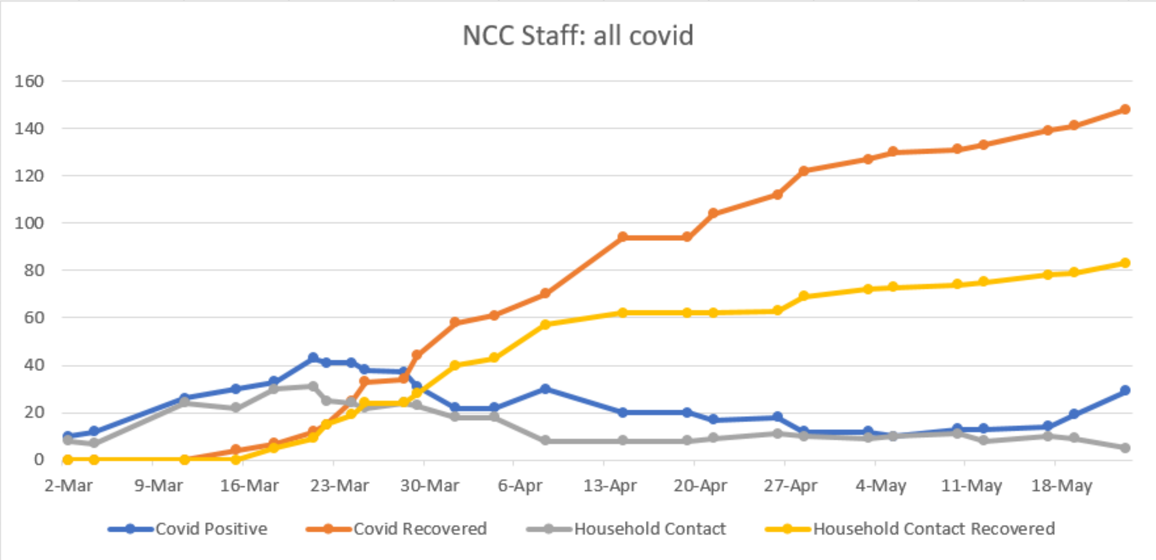
Health and Safety have developed a new report which now contains trend data and detailed analysis on a number of leading and lagging Health and Safety indicators. This report is attached.

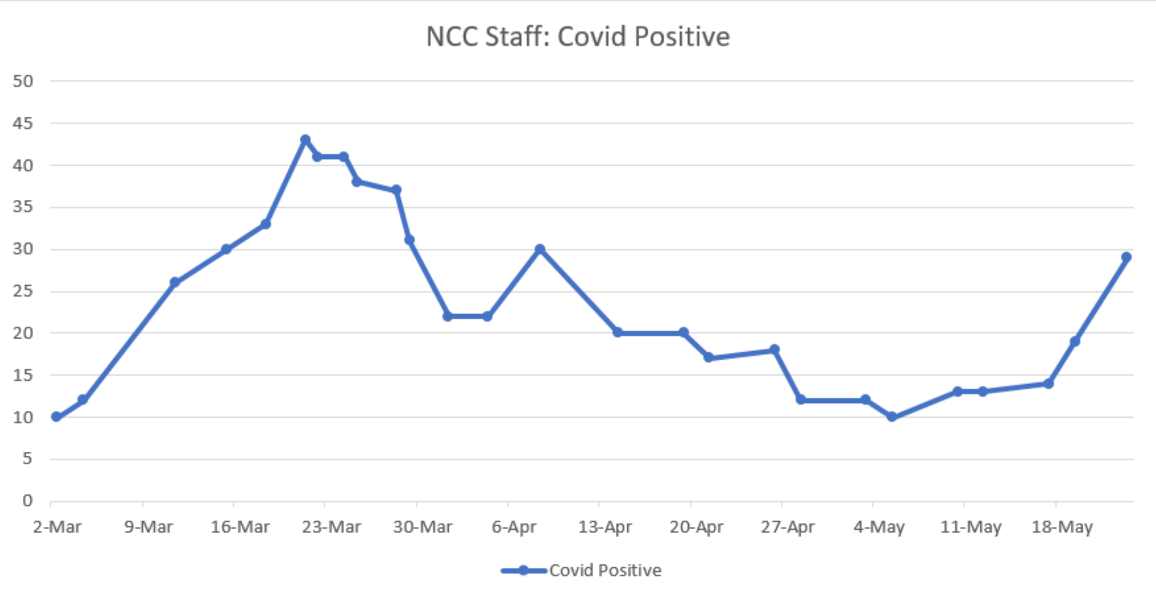
Key points to note for the January – March quarter are:

- ACC costs are significantly down for the ACC financial year (1 April 2021 – 31 March 2022)
- One lost time injury
- Trend charts for injury management have been added to the report for 12 month periods and each Directorate
- Exposure and health monitoring in relation to the general risk and workplace management regulations
- 281 employees took up the free mole map offer from NCC. One skin cancer was found.

COVID-19

The following graphs show the current Covid cases and situations for Council. There has been a noticeable spike in positive Covid cases in the past week. All staff are receiving a second pack of RATs kits.





Status	Reporting (all NCC)
(active) Covid Positive	29
(closed) Covid Recovered	148
(active) Household Contact	5
(closed) Household Contact Recovered	83

2.3 Attachments

1 Health and Safety Report - Quarter 3 Doc Id 1472572) ⇩

Health and Safety Quarterly Report

Jan, Feb, Mar 2022

1 Lost Time Injury	66 Events in Total, with 22 related actions
16 Audits conducted by the HS Team	52 Safety Observations over NCC Business Units
10 Accidents, which includes the 1 LTI	25 Minor events
21 Near Misses	10 Pain and Discomfort
30 Events in progress, awaiting an action, timeframe or close off	153 Investigations were managed and completed in the Quarter
79% of Actions completed within the timeframe	14 Actions are in place and planned for the future
3 Actions overdue, and are being discussed with the Team Leader	16 Actions completed

Employees - Lagging Indicators

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Lost Time Injuries	0	0	0	1	0	0	0	0	1	0	**2**
Medically Treated	4	0	4	2	3	2	4	3	2	0	**24**
First Aid	0	0	0	1	0	1	0	0	0	0	**2**
Near Miss	11	7	6	4	6	8	6	6	7	4	**65**
Property Damage	0	0	0	3	0	0	0	1	1	0	**5**

Public / Customers - Lagging Indicators

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Medically Treated	2	0	0	0	0	0	0	0	1 0	(3	**2**
First Aid	0	0	0	0	0	0	0	0	0	0	**0**
Significant Incidents	0	0	0	0	0	0	0	0	0	0	**0**
Insignificant	0	0	0	0	0	0	0	0	0	0	**0**
Near Miss	0	0	0	0	0	0	0	1	0	0	**1**
Property Damage	0	0	0	0	0	0	0	0	0	0	**0**

Contractors - Lagging Indicators

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Significant Incidents	0	0	0	0	0	0	0	0	0	0	**0**
Property Damage	0	0	0	0	0	0	0	0	0	0	**0**

There was 1 lost time injury for March.

City Strategy: Aggressive member of the public causing stress to employee. Employee had 3 days off work as per medical certificate.

There was 1 medically treated injury to the public. A person fell through the platform at the transfer Station. The platform has now been removed / eliminated.

There were no recorded injuries contractors.

There has been no significant incidents or property damage from our contractors.

Employees - Leading Indicator Tables

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Pain and Discomfort	5	2	4	4	7	6	3	4	5	2	**42**
New Hazards	1	0	0	2	7	1	3	3	9	1	**27**
Hazards Reviewed	0	0	0	0	2	0	0	0	1	0	**3**
Workstation Assess.	10	4	1	15	3	3	6	9	6	1	**58**
Inductions	13	6	6	13	9	11	6	16	7	1	**88**
Rehabilitation Req.	4	0	4	3	3	3	2	1	2	0	**22**
Competencies - Other	67	199	223	9	29	29	122	0	40	8	**726**

Audits

	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Audits - Contractor	5	3	4	2	6	1	3	1	1	0	**26**
Audits - Internal	15	4	12	3	7	0	6	1	0	0	**48**

Safety Observations

Observation_Type	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
Safe Practice	0	0	0	3	2	0	0	1	5	0	**11**
Suggestion	2	0	2	0	2	0	0	5	7	0	**18**
Unsafe Conditions	11	6	3	7	13	5	5	9	11	0	**70**
Unsafe Practice	10	5	5	8	9	4	4	5	0	0	**50**

For Q3

- **12 Pain and Discomfort**
- **21 Workstation Assesmnt**
- **29 HS Inductions**
- **5 Return to Works**
- **162 Compliance Trainings**

- **5 Contractor Audits**
- **7 Internal Audits (NCC)**
- **Actions from the audits are followed up**

- **6 Safe Work Practices**
- **12 Suggestions**
- **25 Unsafe Conditions**
- **9 Unsafe Work Practices**

- **All are followed up.**

Lost Time Injuries

Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	**Total**
0	0	0	1	0	0	0	0	1	0	**2**

DisplayID	Event Type	Date	State	Severity of Injury	Days Medically Unfit	Brief_Description
14656	Accident	4/03/2022	Complete	Moderate	1	Injuries sustained to both palms and left knee
13174	Accident	6/10/2021	Complete	Major	7	Very deep cut in to the shin area and in to the muscle

There was 1 lost time injury for Q3, in March.

City Strategy: Aggressive member of the public causing stress to employee. Employee retreated and fell over.

Back

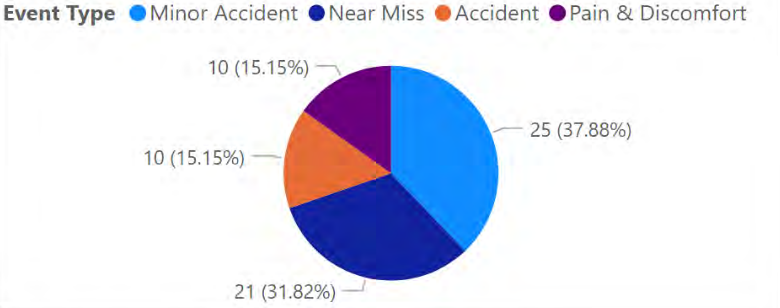
Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

66

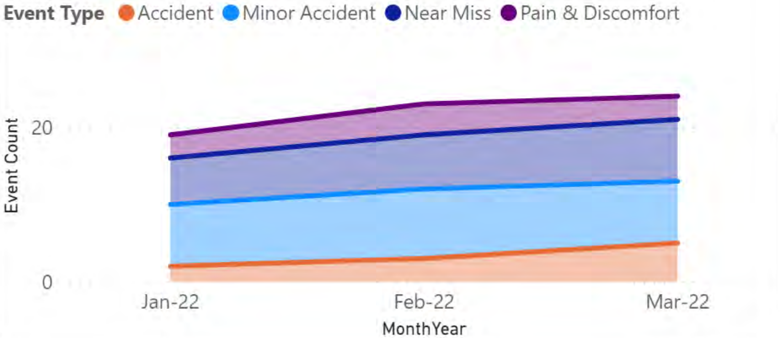
9

Investigation | Complete

Event Count by Event Type



Event Count by MonthYear and Event Type



Event ID	State	Date	Event Type	Brief_Description	Link
14227	Investigation	18/01/2022	Minor Accident	A girl injured her finger outside female toilet	
14382	Complete	13/01/2022	Near Miss	Abuse and threats towards staff	
14536	Complete	10/02/2022	Near Miss	Abuse of staff over telephone	
14453	Complete	23/01/2022	Near Miss	Air BP tanker hit the pipe crossing the entry road	
14455	Complete	27/01/2022	Minor Accident	Bang chest	
14954	Complete	24/03/2022	Minor Accident	Banged head	
14100	Complete	8/01/2022	Minor Accident	Bent wrist too far	
14606	Complete	23/02/2022	Minor Accident	Bumped head on metal beam	
14483	Investigation	3/02/2022	Minor Accident	Burn from Deep Fryer	
14945	Complete	15/03/2022	Near Miss	Car driven into pound fence	
14936	Investigation	7/03/2022	Near Miss	Child climbing on unsafe object	
14635	Complete	1/03/2022	Accident	Customer fainted	

Action ID	State	Planned Date	Completed On	Description
14631	Complete	7/03/2022	7/03/2022	I would request greater access to RAT testing for Animal Control due to risk of working in the community
14515	Complete	8/02/2022	8/02/2022	JD's and Jackson from NCC to carry our risk assessment of the area.
14493	Complete	8/02/2022	8/02/2022	Member of the Public - Injury
14473	Complete	1/02/2022	1/02/2022	Refer previous

Home | NCC

CE & Mayor | City Services | City Strategy | Communic... | Community | Corporate | Infrastructure | NCC | People & C... | Programme... | Public Places

Back

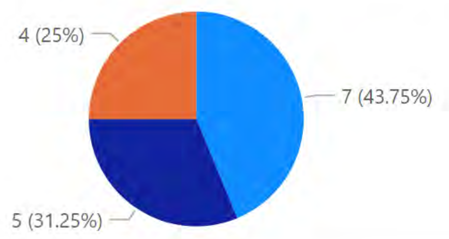
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

16

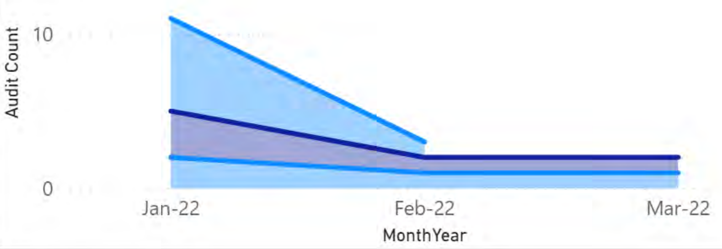
2

Closed

Audit Count by Audit Type



Audit Count by MonthYear and Audit_Type



Audit ID	State	Date	Audit Type	Outcome_Summary	Link
14825	Closed	14/03/2022	Audit - Contractor		
14654	Closed	4/03/2022	Area Review	Team Leaders reviewed staff in their area and confirmed correct staff members requiring them. Email list to Jarrod Lance and Justine to arrange with Teams Leaders fit testing of staff with Jarrod	
14599	Closed	23/02/2022	Audit - Internal	Botanical Gardens - Tree removal risk assessment Area cleared, public toilets open, some areas cordoned off from public Great work by Shelley and her Team ensuring the area is safe after this event.	
14580	Closed	22/02/2022	Area Review	Multi lane equipment / people - gardening Must have 1m safety zone	

Action ID	State	Planned By	Completed On	Description
14432	Complete	4/02/2022	31/01/2022	Ian and Sue to discuss best way to hold toolbox meetings
14579	Complete	21/02/2022	21/02/2022	Arrange a meeting with Charles Weir (Higgins), Pasty and Sue to understand the best practice of managing safety zones while gardening on state highways

Home | NCC

CE & Mayor | City Services | City Strategy | Communic... | Community | Corporate | Infrastructure | NCC | People & C... | Programme... | Public Places

Back

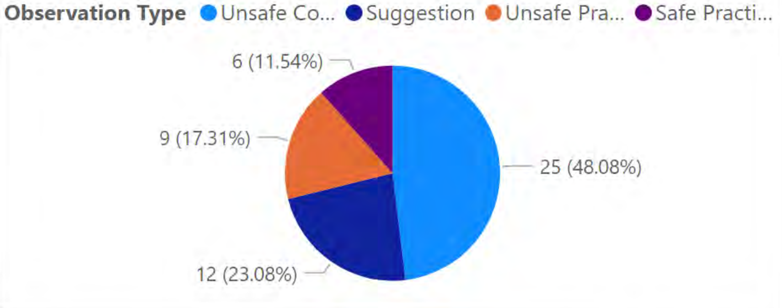
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

52

10

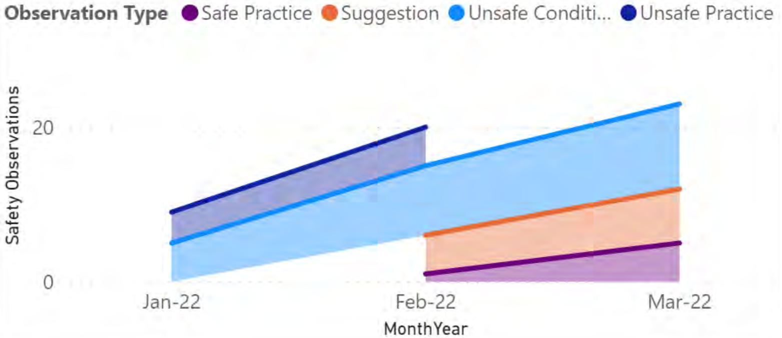
Investigate Resolved

Safety Observations by Observation Type



S-Obs ID	State	Date	Observation Type	Brief_Description	Link
14112	Resolved	11/01/2022	Unsafe Practice	Listening to music while operating plant	
14118	Resolved	11/01/2022	Unsafe Conditions	Two large holes in the ground	
14189	Resolved	14/01/2022	Unsafe Conditions	Member of Public	
14190	Resolved	14/01/2022	Unsafe Conditions	Possible sighting of Member of Public	
14191	Resolved	14/01/2022	Unsafe Conditions	Member of Public	
14194	Resolved	15/01/2022	Unsafe Practice	Customers said they were putting staff names on social media	
14216	Resolved	18/01/2022	Unsafe Conditions	Vagrant lying at entrance obstructing the doorway.	
14329	Resolved	19/01/2022	Unsafe Practice	Handling used cups	
14401	Resolved	24/01/2022	Unsafe Practice	Non-compliance issues with this Downer Truck working on Kennedy Road reseals	
14469	Resolved	1/02/2022	Unsafe Conditions	Customer yelling at staff member	

Safety Observations by MonthYear and Observation Type



Action ID	State	Planned By	Completed On	Description
14113	Complete	11/01/2022	11/01/2022	Discuss with Staff he is listening to music while operating a tractor (bad practice)
14124	Complete	11/01/2022	11/01/2022	Ian and Sue to visit site to see were the hole is and what could be done about it.
14520	Complete	10/02/2022	10/02/2022	Sercure area from public / staff walking under the tree
14535	Complete	21/02/2022	4/03/2022	IT ordered replacement cameras model 3
14562	Complete	16/02/2022	16/02/2022	Discuss options with Andrew around getting a suitable chair

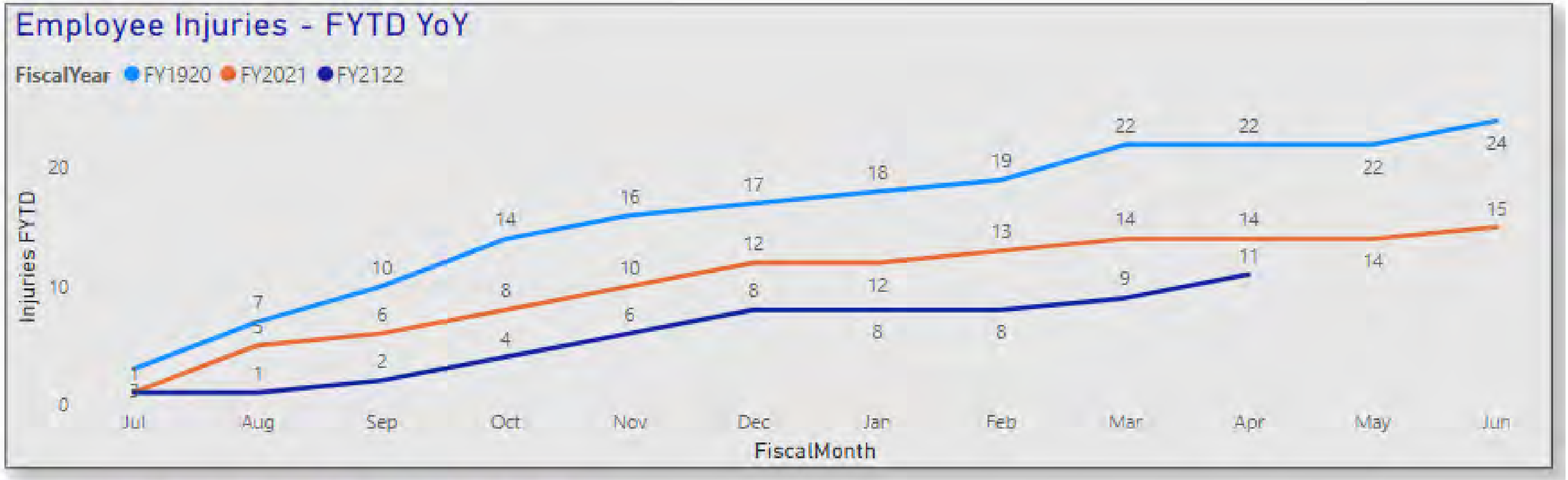
Home NCC

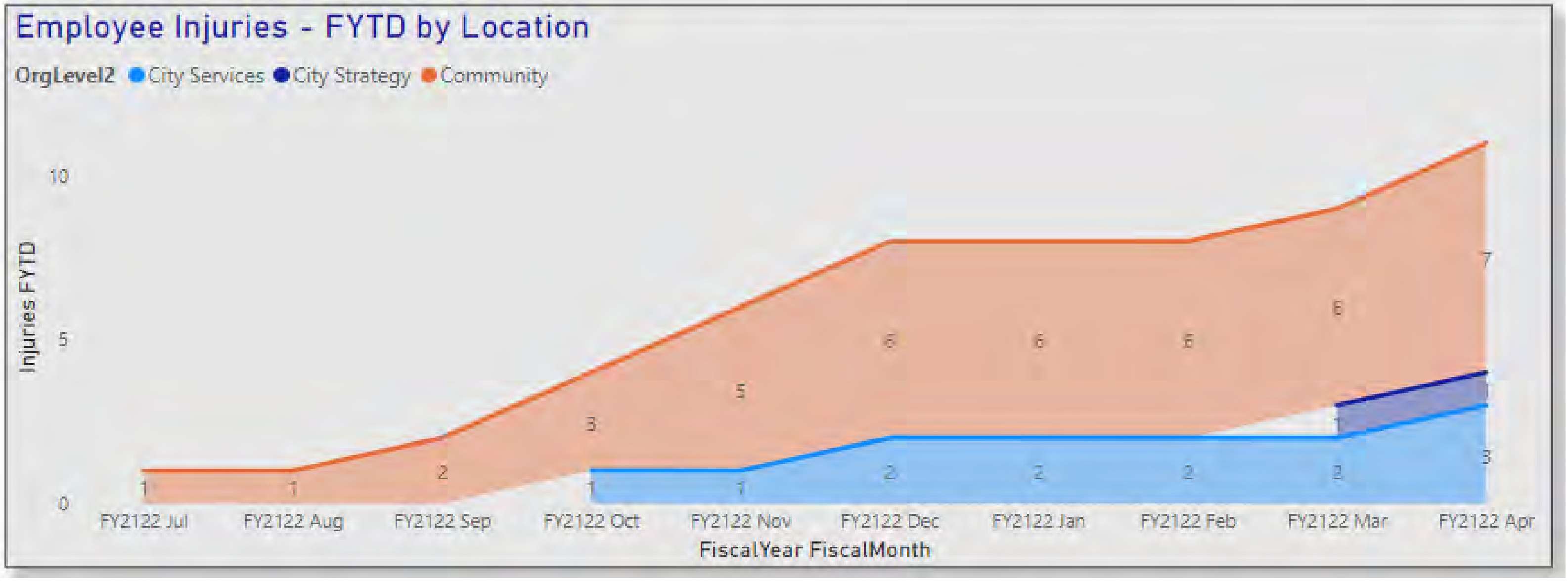
CE & Mayor | City Services | City Strategy | Communic... | Community | Corporate | Infrastructure | NCC | People & C... | Programme... | Public Places

Assura Charts Trends

12 Months

The MySafety system (HS System) is monitored daily. If an injury or incident is of urgent or significance, the 'gatekeeper' will inform the HS Lead immediately. The event will be investigated and progressed to the appropriate person(s).





Fiscal Year Injury graph.

You can see that the injuries to employee's is decreasing.

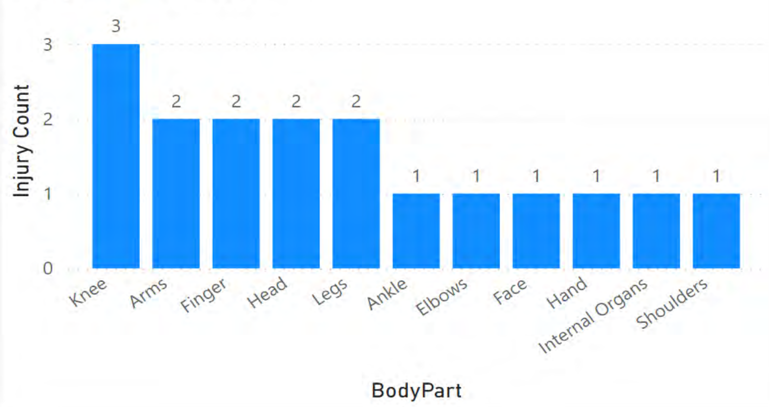
Light blue line is 2020
Orange line is 2021
Dark blue line is 2022

Location Trend

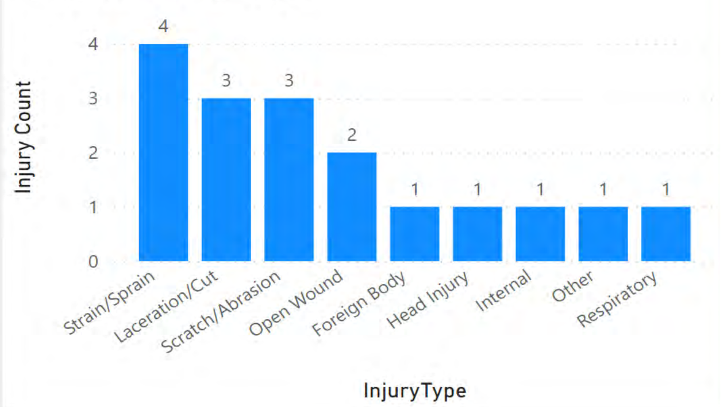
11 Injuries
7 for Community Services
3 for City Services
1 for City Strategy

BodyPart	Foreign Body	Head Injury	Internal	Laceration/Cut	Open Wound	Other	Respiratory	Scratch/Abrasion	Strain/Sprain
Ankle									1
Arms								1	1
Elbows								1	
Face				1				1	
Finger				1				1	1
Hand				1	1				
Head		1				1			
Internal Organs			1				1		1
Knee				2	1			2	
Legs	1			1	1			1	
Shoulders									1
Total	**1**	**1**	**1**	**3**	**2**	**1**	**1**	**3**	**4**

Injury Count by BodyPart



Injury Count by InjuryType



Body Part and Injury Type

The knees is slightly higher than other body parts

Sprains or Strains is slightly higher than Cuts, wounds.

Then trends for the past 3 years is we are not injuring our staff as much. Covid may have played a small part in the scenario.

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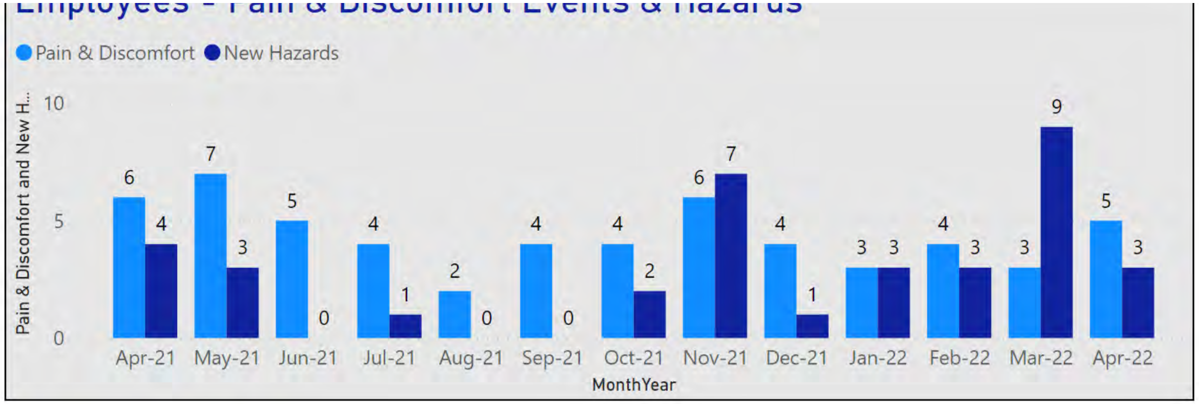
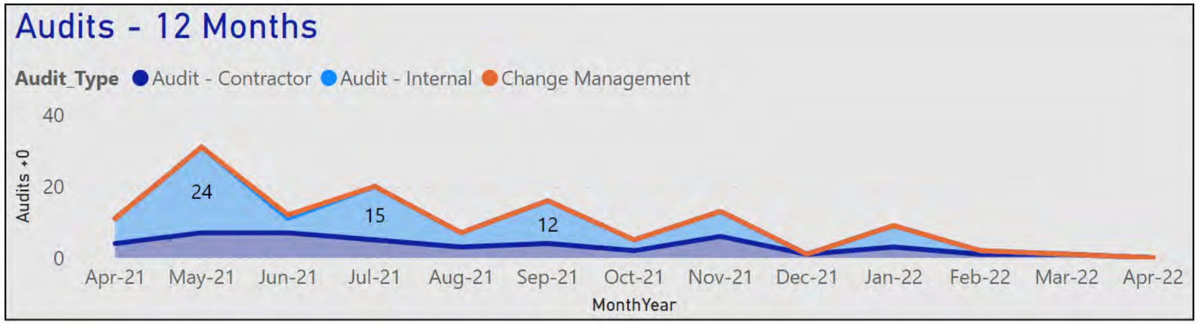


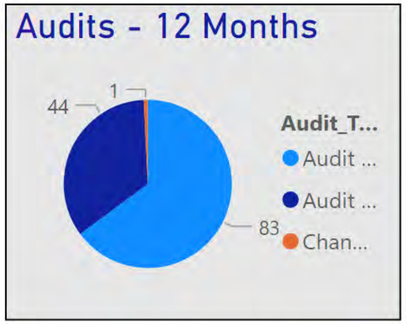
Employees - Pain & Discomfort Events

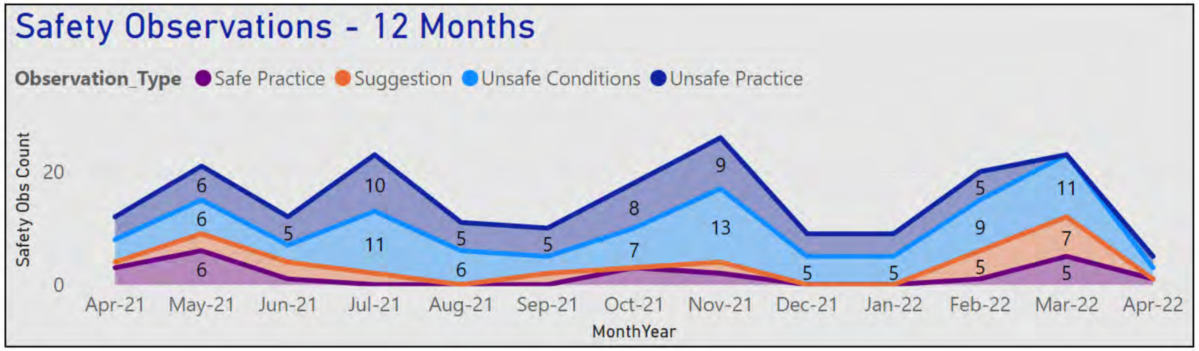
57

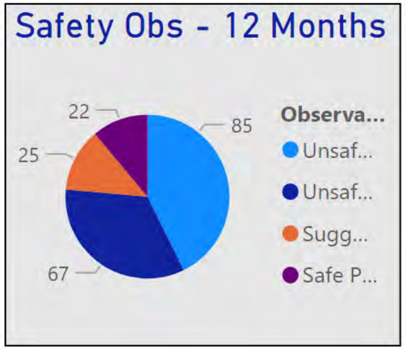
Employees - Hazards

36



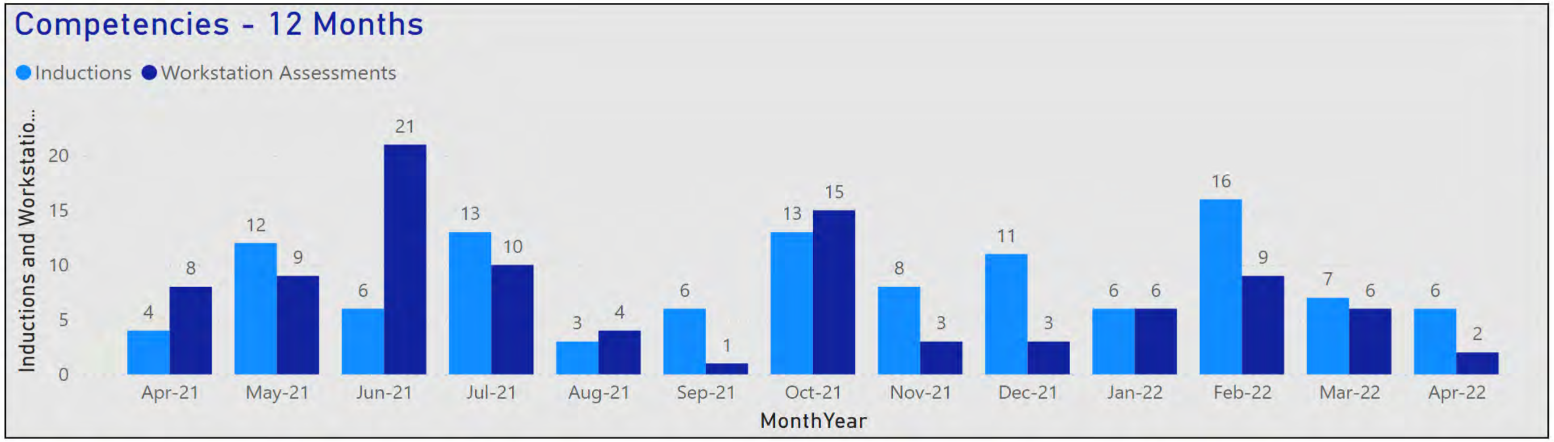


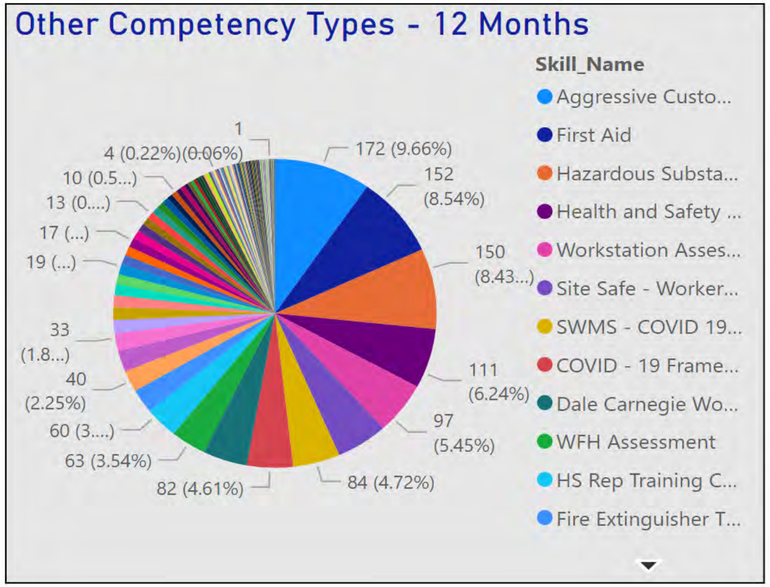


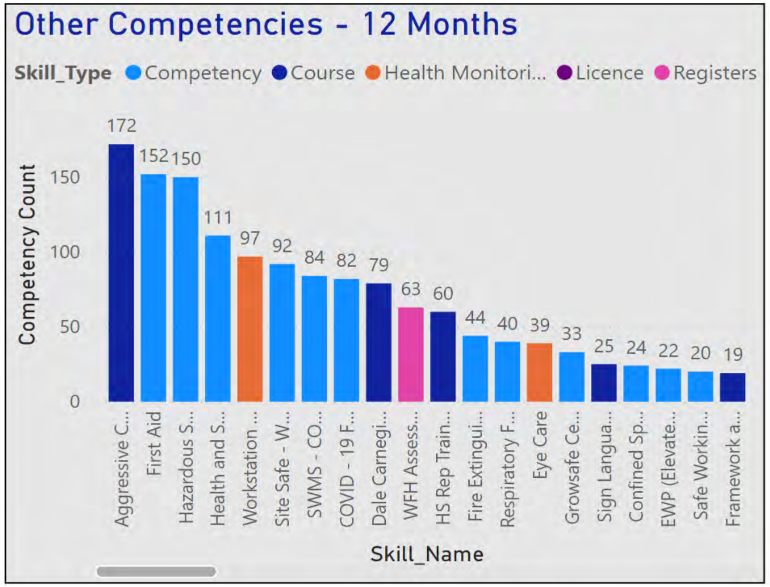


Location

- Home
  - Home
- NCC
  - CE & Mayor
  - City Services
  - City Strategy
  - Communications
  - Community
    - Com Strategies
    - Community
    - Halls
    - Sports & Rec
    - Visitor
  - Corporate
  - Infrastructure
  - NCC
  - People & Capability
  - Programme Deliv...
  - Public Places

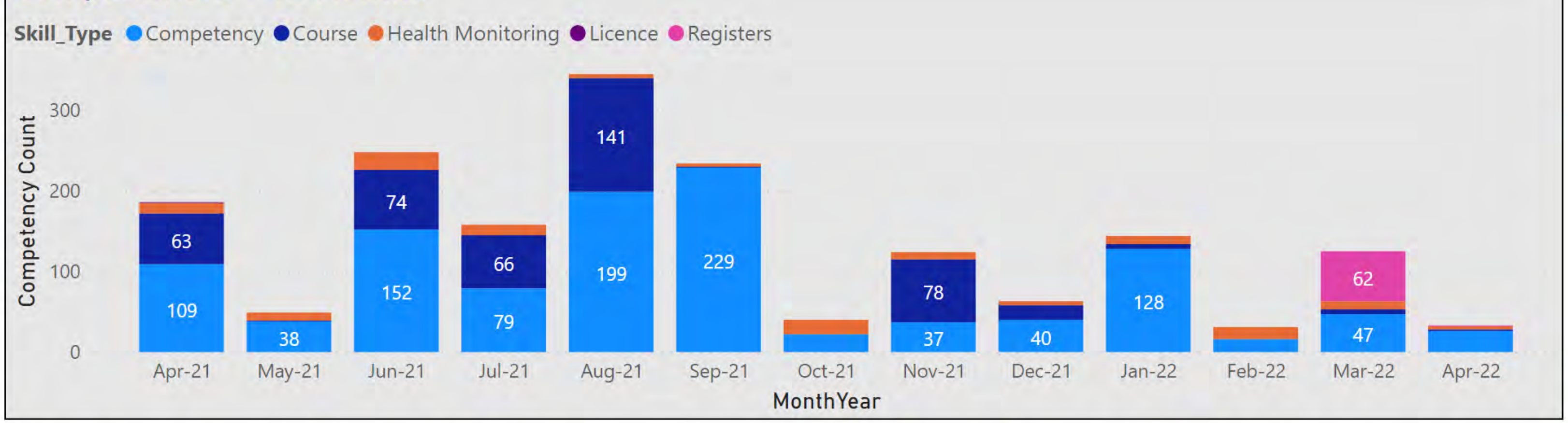




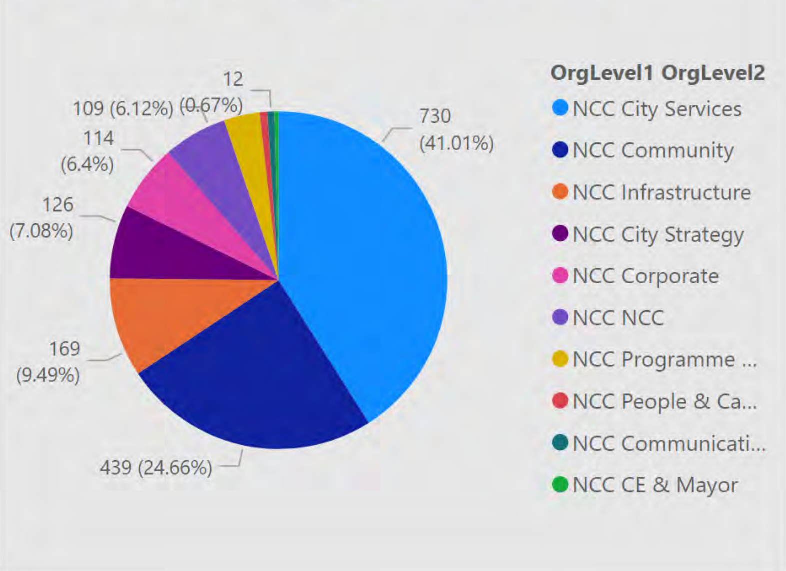


Compliance HS Trainings

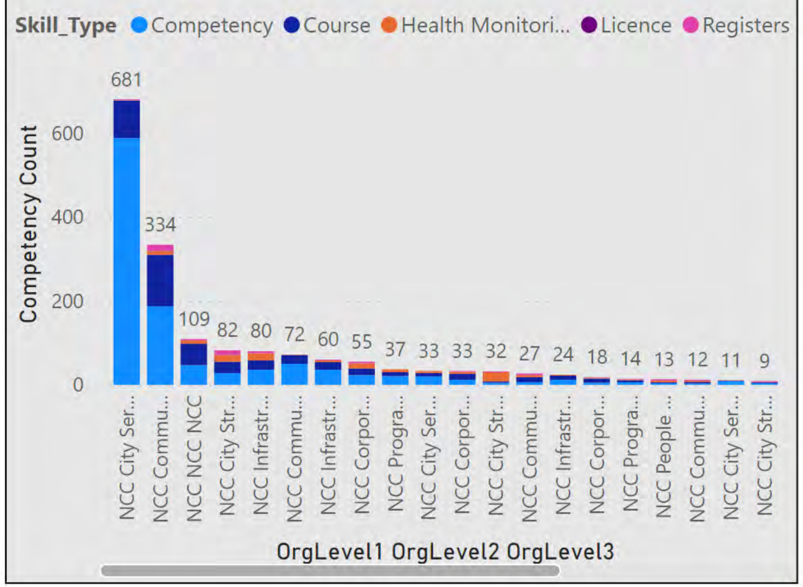
- **Aggressive Customer training features highest on our list for trainings.**
- **Feedback from the course is always of a high standard for delivery from our supplier.**
- **First aid and Hazardous Substances trainings is high on our list.**
- **We must ensure hazardous substances training for staff if we use haz subs. This is completed by Loop Health and Safety professional. We are looking in the near future to complete the training in-house by the HS Team.**



Other Competency Types - 12 Months



Other Competencies - 12 Months



Location

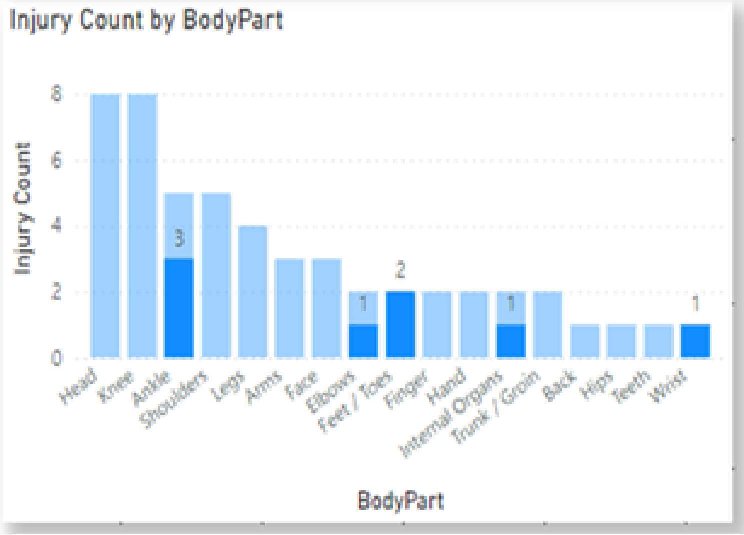
- Home
  - Home
- NCC
  - CE & Mayor
  - City Services
  - City Strategy
  - Communications
  - Community
  - Corporate
  - Infrastructure
  - NCC
  - People & Capability
  - Programme Deliv...
  - Public Places

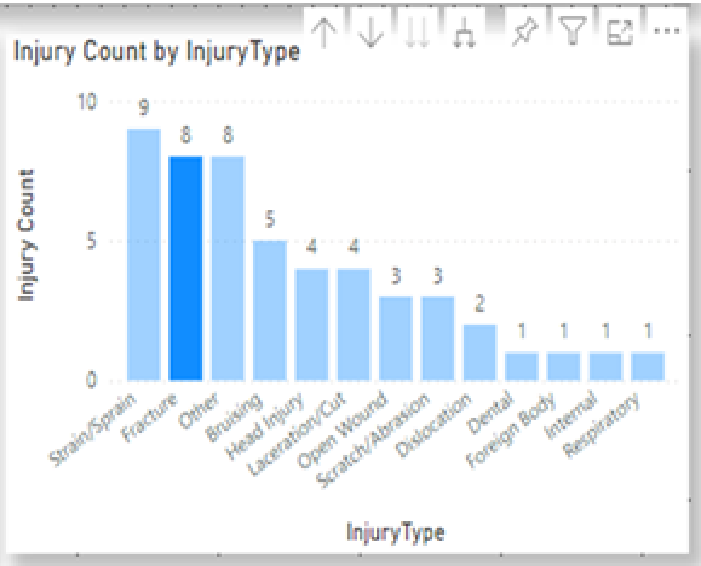
Assura Charts Trends

By Business Unit

If there are is not a report for a particular Business Unit, that means there are no injuries reported in that BU

OrgLevel1	Home	NCC		
OrgLevel2	Home	Community	Corporate	Infrastructure
BodyPart	Home	Sports & Rec	Information Services	Asset Strategy
Ankle	1	2		
Elbows				1
Feet / Toes	2			
Internal Organs				1
Wrist			1	
Total	**3**	**2**	**1**	**2**





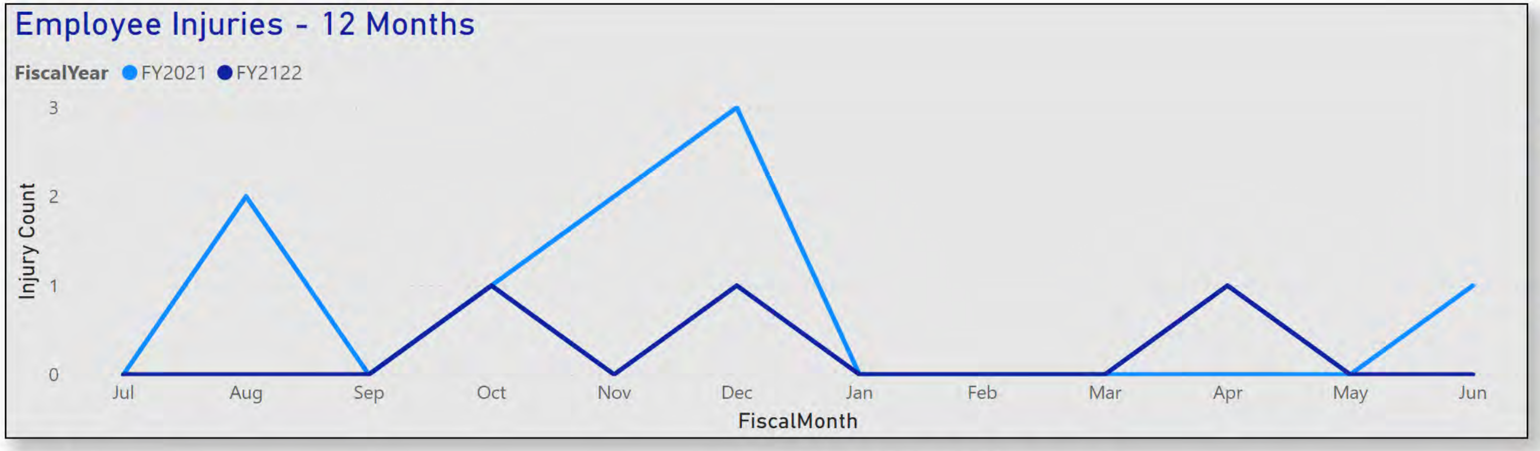
Injuries to Employees are tracking lower than the previous fiscal year.

Top 6 Injuries and Mechanism of Injury

Due to Manual Handling issues we have put in place support from professionals to come and help with strains and sprains.

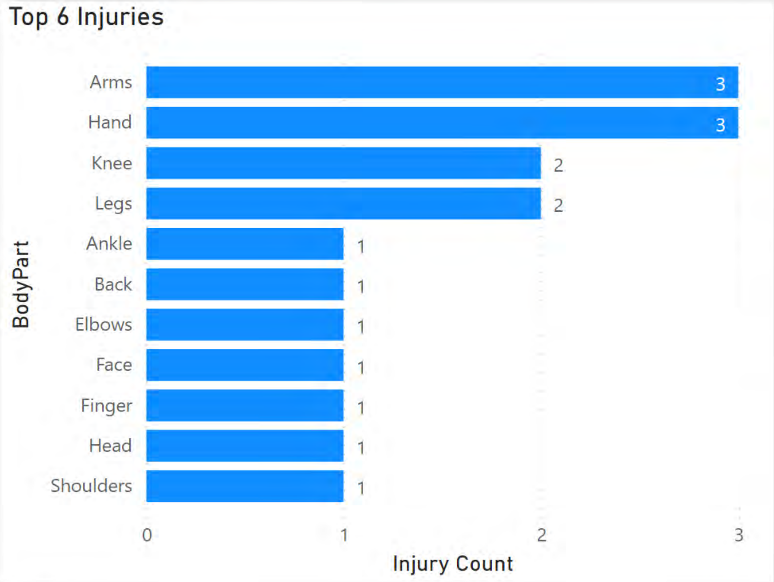
Programs to Improve on Injuries in past have been:

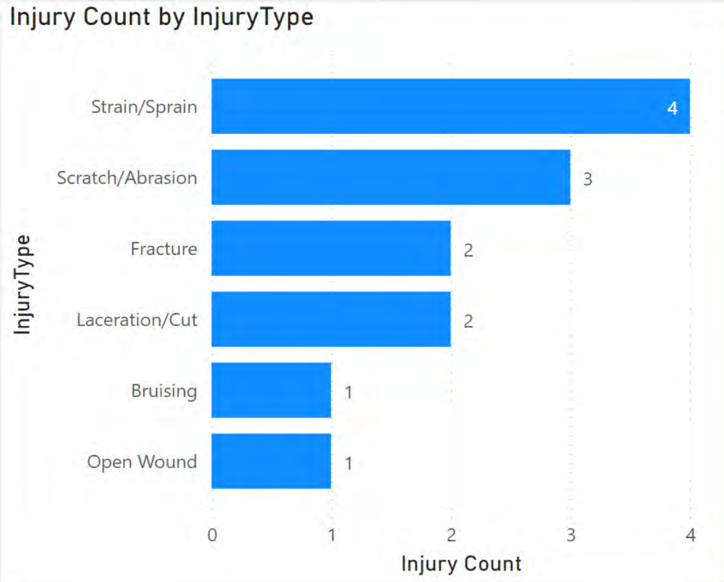
- **Lifting for sprains and strains, back injuries – Precious McKenzie 3 times**
- **Lifting techniques for Library and MTG – ACC professional - specific to their needs**
- **Pain and Discomfort – ACC professional**
- **Sport HB – for exercises pre starting work, during work (found people where a little ‘shy’ but those who engaged really did enjoy it) giving the right tools for them to keep exercising before, during work**
- **Our HSW weeks always have an aspect of injury prevention, coaching and information based data**
- **Return to Work Processes**



CITY SERVICES

Injuries to Employees are tracking lower than the previous fiscal year.





Top 6 Injuries by Body part and Mechanism

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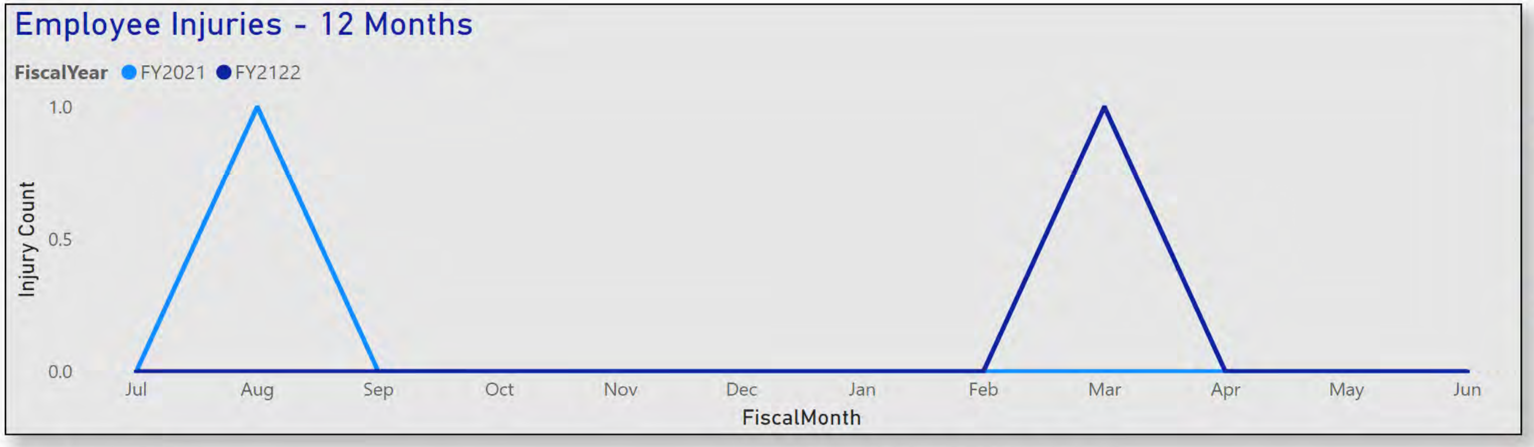
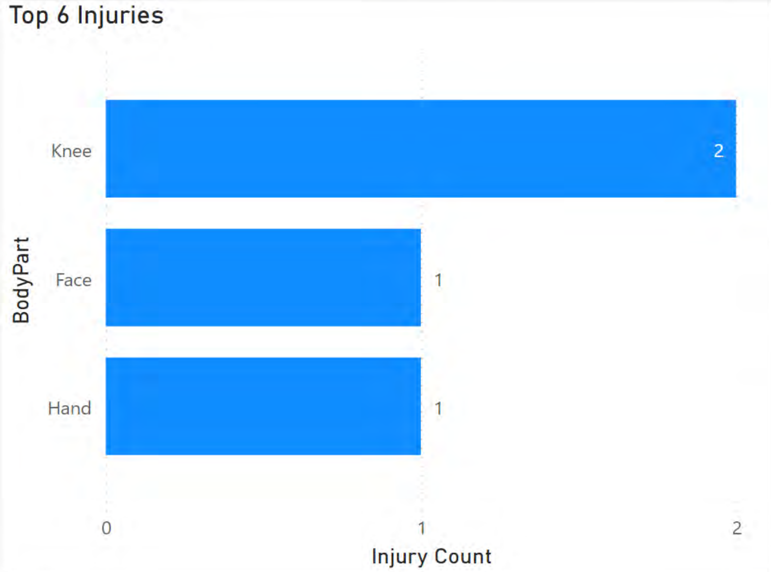
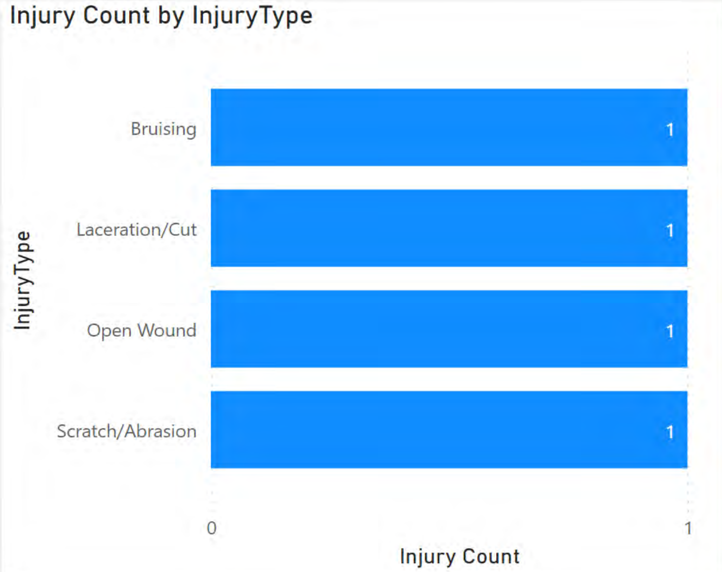






CITY STRATEGY

Very low level of injuries to this Business Unit.

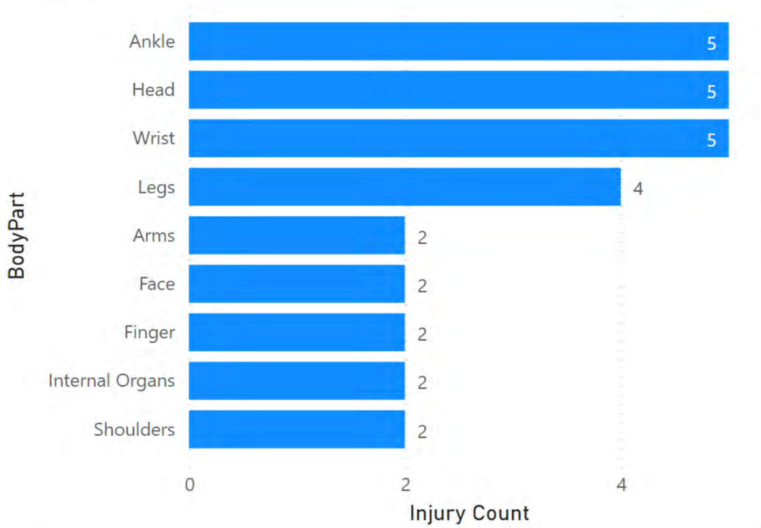
Top Injuries by Body part and Mechanism

Employee Injuries - 12 Months

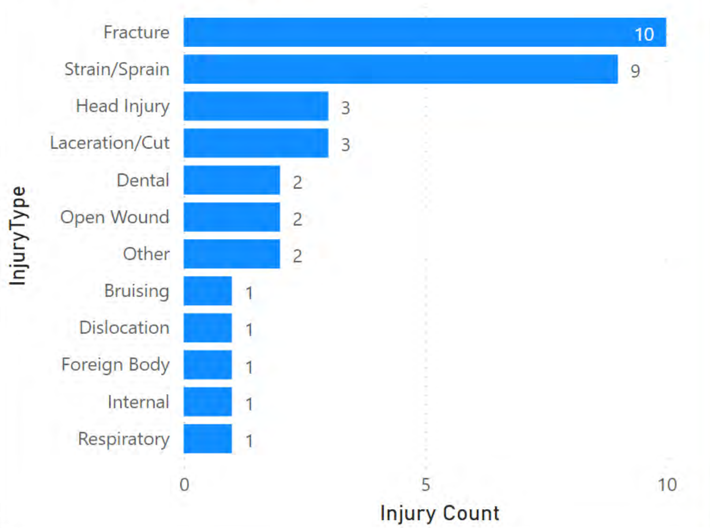
COMMUNITY SERVICES

Injuries to Employees are tracking lower than the previous fiscal year.

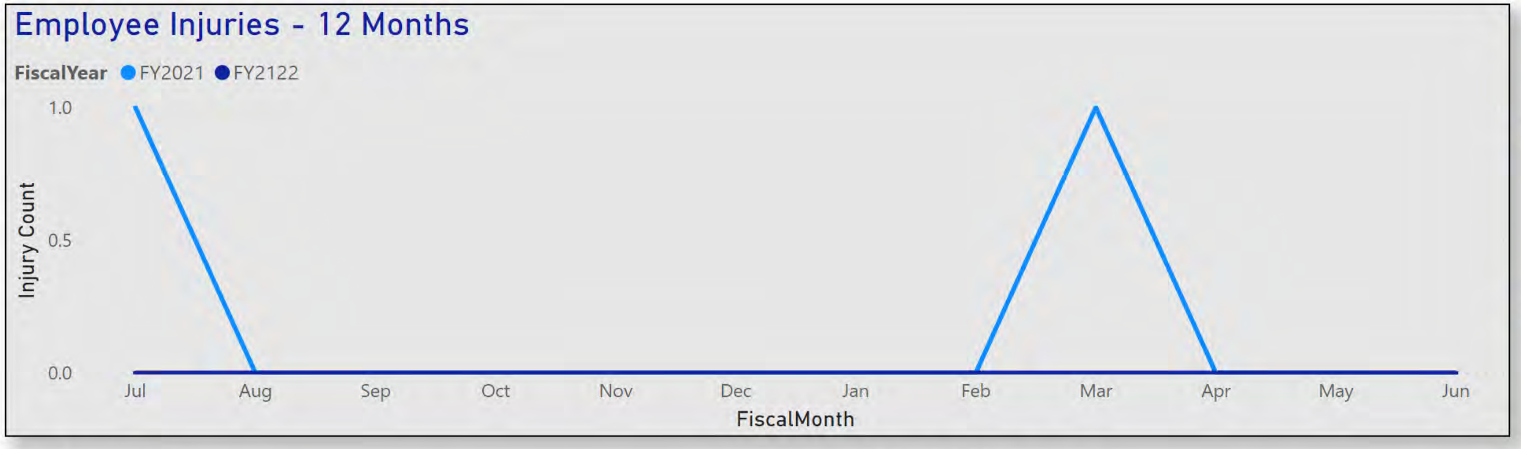
Top 6 Injuries



Injury Count by InjuryType

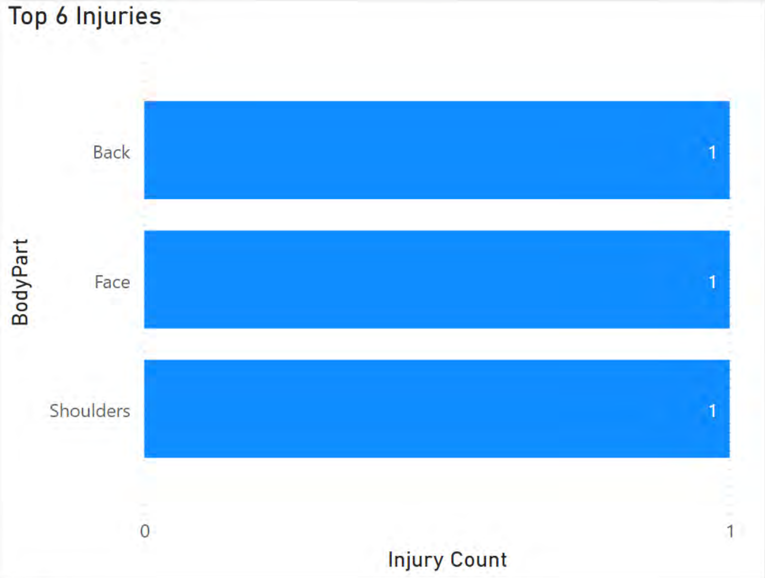


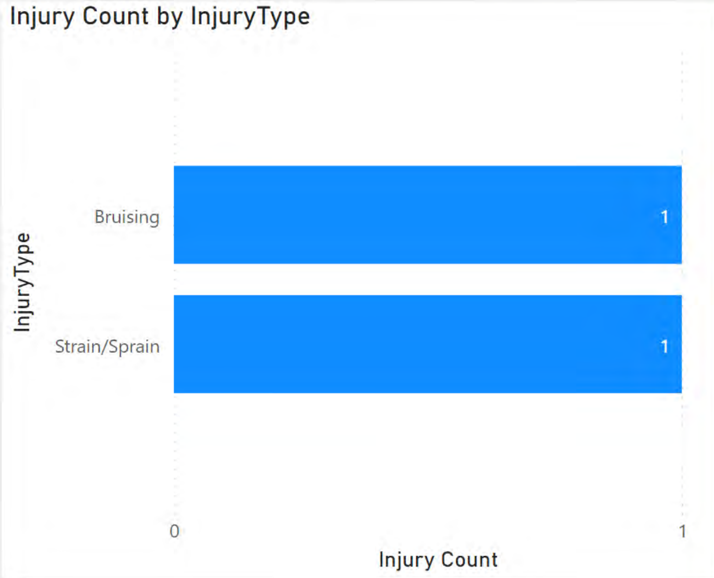
Top 6 Injuries by Body part and Mechanism



CORPORATE SERVICES

There are not many injuries for this Business Unit.





Injuries by Body part and Mechanism

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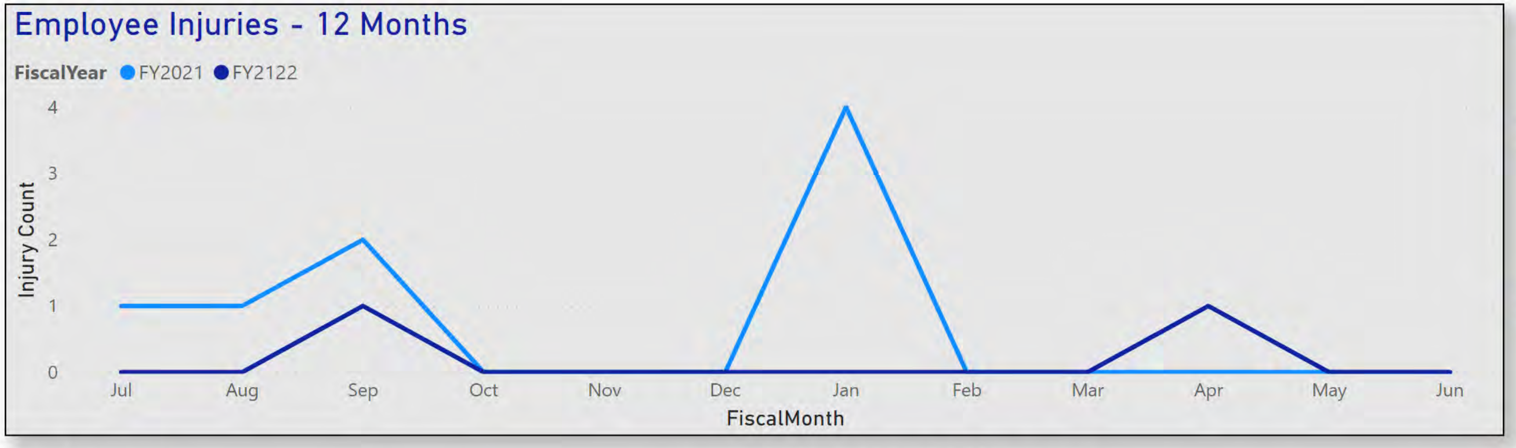
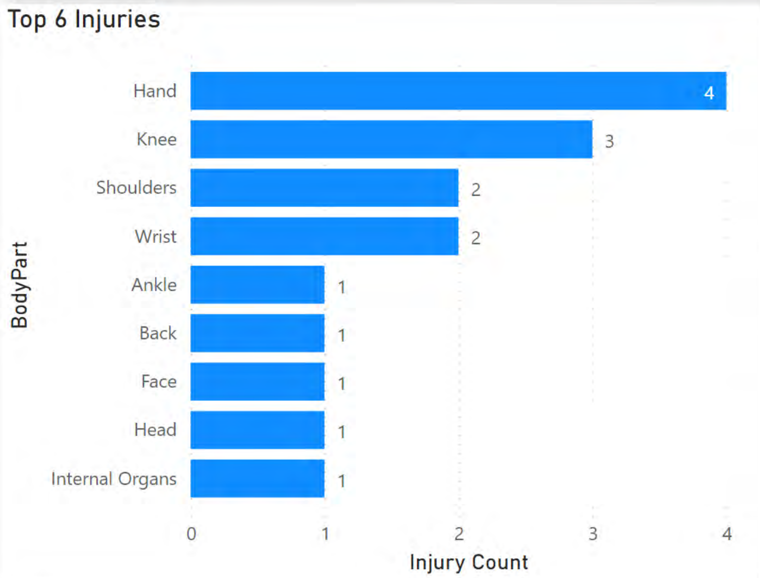
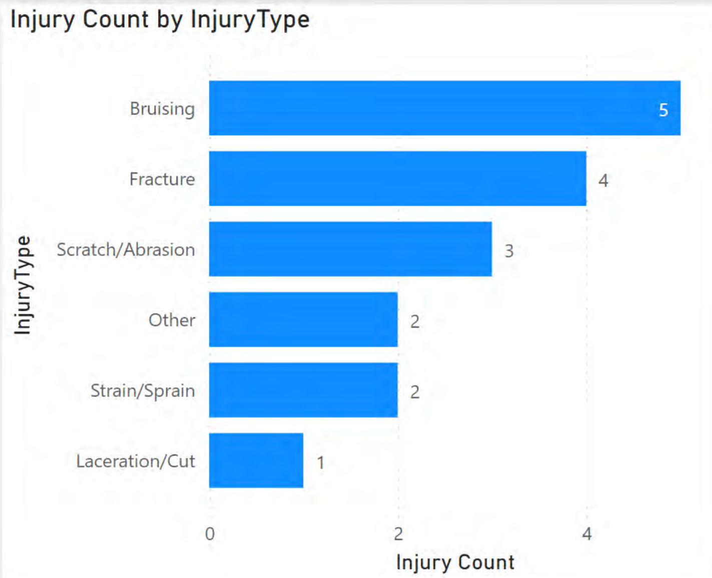


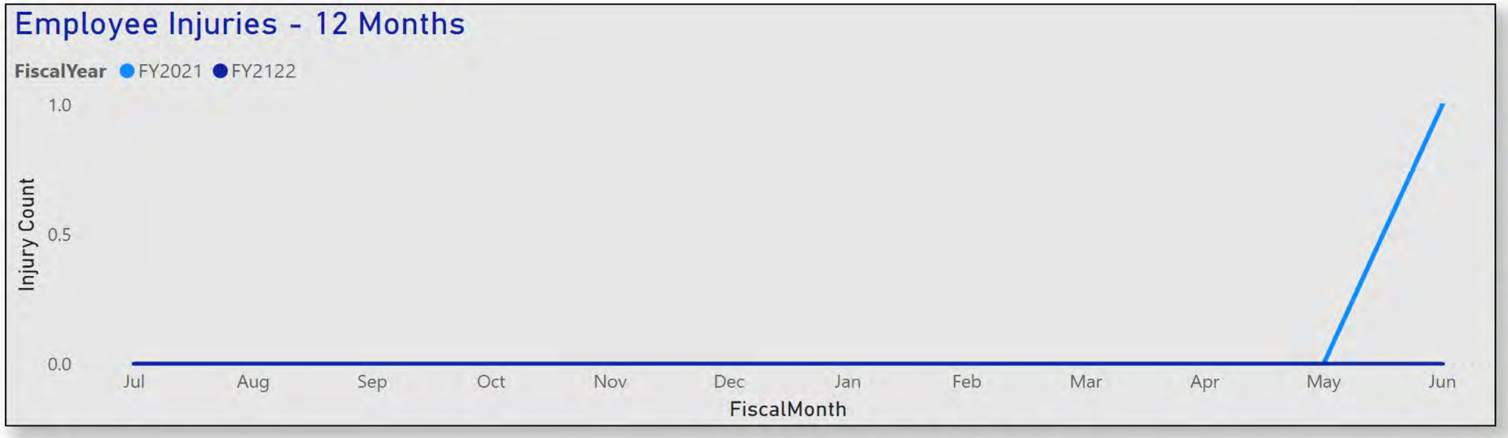
INFRASTRUCTURE SERVICES

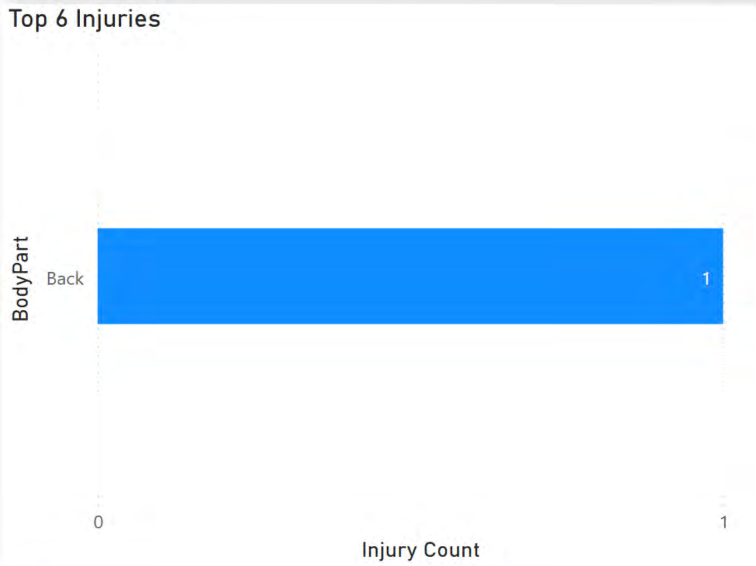
Injuries to Employees are tracking similar to the previous fiscal year.

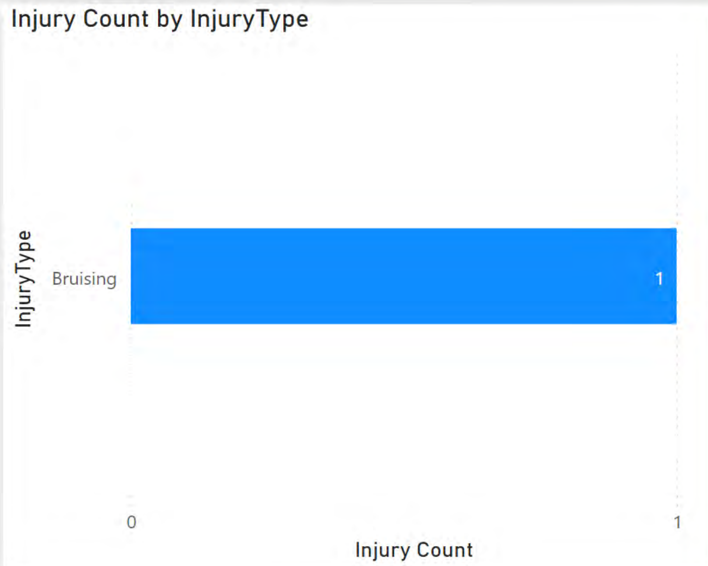




Top 6 Injuries by Body part and Mechanism







PROGRAM DELIVERY

There are not many injuries to this Business Unit.

Injury by Body part and Mechanism

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Health, Safety and Wellbeing Initiatives

Jan	Mental Health Awareness Week - Quizzes - Facts - Surveys - Challenges - Statistics - General Information Men's Health Week - Activities - Statistics - Challenges - Quizzes - General Information
Feb	Heart Health Awareness Month - Mindful Monday - Tasty Tuesday - Wellness Wednesday - Self-care Thursday - Selfie Friday - Statistics around Men's Health World Cancer Day Bike Challenge Molemap Checks February and March
Mar	Molemap Checks – Month 2 International Women's Day - Posted information on Yammer, statistics about woman who inspirational - Flu Vaccinations – Over 220 staff had the jab and more have vouchers to arrange their own day/time 30 staff - Mates4Life course – Suicide prevention program

Wellbeing

Molemap

This was our key focus for February and March.

The Aim

- **Identify and review the incidence of skin cancer for NCC staff**
- **Highlight the benefits of running an early detection program**
- **Identify strategies to improve employees skin cancer knowledge and encourage sun safe behaviours in and out of the workplace**
- **Identify potential organisational risk.**

Each employee attended a consultation with a Molemap Melanographer, which consisted of the following:

- **Full Body Skin Check**
- **Digital Imaging of any concerning lesions**
- **Individual Risk Assessment**
- **Educational handouts on skin cancer/self checking**
- **One on one education**
- **Dermatologist diagnosis of all imaged lesions**

Post consultation, every employee that had lesions imaged has received a personalized report outlining their skin cancer risk factors and giving the Dermatologist diagnosis for any lesions of concern. Molemap actively follows up with all employees who have a potential melanoma requiring treatment.

Results

- **281 employees examined**
- **236 lesions were imaged for Dermatologist review. These lesions showed features of skin cancers or had the potential to change over time**

Findings

- **1x Melanoma (Skin Cancer)**
- **10x Basal Cell Carcinoma (Skin Cancer)**
- **1x Squamous Cell Carcinoma (Skin Cancer)**
- **183x Melanocytic Lesion**
- **41x Keratosis**

	• 1 worker referred to the Audiologist, screening indicated hearing loss. • 1 worker screened as mild hearing loss in 1 frequency, to be rescreened in 2022.
Respiratory screening questionnaire	• 3 workers completed the questionnaire there were no referrals to GP
Hepatitis A & B vaccinations	• 19 workers have hepatitis vaccinations due to the tasks they do. • 15 of the above workers next vaccination is their last dose. • The Occupational Health Nurse will arrange a blood test one month after this dose to confirm the worker has immunity. There are an additional 14 workers waiting on a blood test to check they have immunity to Hepatitis A & B.
Annual Whole blood lead level	• The painters have had their blood lead studies completed for 2021. • Reference range (less than 0.24 umol/L) • 1 x worker was 0.24 umol/L (blood taken in October 2021). Repeat bloods have been taken in November 2021, results were within acceptable level.
Toxoplasma	Annual blood screening for Animal Control Workers: screening for Animal to Human (zoonotic) transmission illness/diseases. • 4 workers lab result for Toxoplasma Antibodies have been above the reference range for Toxoplasma IgG. • Workers have been to their GP. • The Pathologist at Southern Community Laboratory has provided the following communication. – Workers could be exposed periodically due to the job they do – Toxoplasma antibodies go up and down. – If the antibodies stay the same or decrease it appears that's fine. – If it increases, then it is considered an active infection. The 4 workers had bloods repeated in November 2021. • 2 x workers the Toxoplasma IgG has decreased • 1 x worker the Toxoplasma IgG was the same • 1 x worker the Toxoplasma IgG increased; this worker

The Health and Safety (General Risk and Workplace Management – GRWM) Regulations 2016 require NCC to monitor worker health.

In the Health and Safety Framework, Tier 2, is the Standard on Health Monitoring.

NCC has a primary duty to monitor worker exposure as far as is reasonably practicable if exposure to a particular health risk warrants it.

Exposure monitoring is:

(a) Means the measurement and evaluation of exposure to a health hazard experienced by a person; and

(b) Includes – (i) monitoring of the conditions at the workplace; and (ii) biological monitoring of people at the workplace (GRWM Regulations)

Examples

- **Monitoring the level of noise a worker is exposed to**
- **Monitoring the air a worker breathes**
- **Testing workers' blood or urine for the presence of harmful substance or the by-products of a substance.**

Responsible Persons

- **Recruitment – ensuring baseline**
- **testing levels before person starts working at NCC**
- **Health and Safety Lead – engaging a professional to complete the monitoring (Loop H&S)**
- **The Occupational Professional – keeping records and ensuring results are monitored**
- **Manager / Team Leader – ensuring staff are made available for the testing**

Post Critical Event

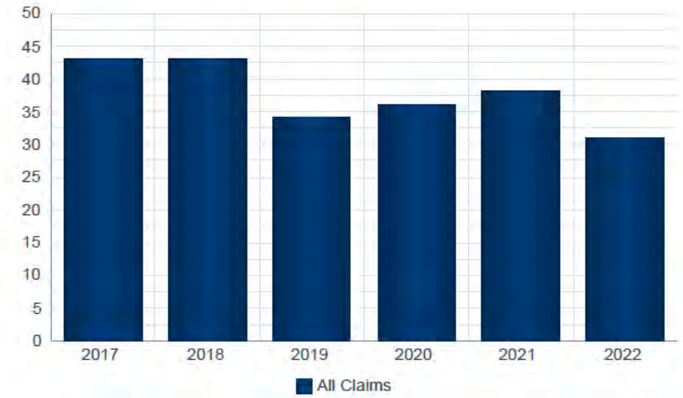
This process will be used when one of the existing reporting systems in inadequate to meet the needs of the NCC or an event. It will ensure the appropriate management after any critical event, gradual process or incident involving exposure to an actual or potential health risk, for example an adverse chemical exposure.

Process

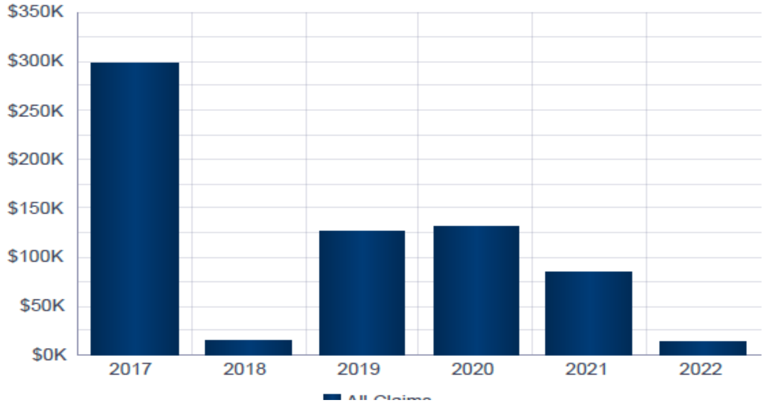
- **Refer exposed employee for medical / rehabilitation assessment**
- **Conduct an investigation, seek specialist advice as appropriate**
- **Review the hazards and any risk associated with the incident e.g. hazard register, controls, health and environmental monitoring**
- **Review any sub-optimal results relating to the medical assessment. Give consideration to the medical and vocational needs of the injured employee and identify actions arising. Establish a plan for rehabilitation if relevant**
- **Update the hazard register and/or relevant documentation or processes**
- **Feedback findings to the Manager People and Capability, and ELT.**

Claim Profile

	Claim Count	Levy Year					
Total		2017	2018	2019	2020	2021	2022
All Claims	225	43	43	34	36	38	31
Grand Total	225	43	43	34	36	38	31



	Claim Count	Levy Year					
Total		2017	2018	2019	2020	2021	2022
All Claims	$665,327	$296,682	$14,902	$125,592	$131,712	$83,079	$13,360
Grand Total	$665,327	$296,682	$14,902	$125,592	$131,712	$83,079	$13,360



ACC

ACC financial year is 1st April to 31st March.

The claim count is slightly down from previous years.

Claim Levy
The injuries sustained have been less severe e.g. not required an operation.

These claims are all workplace injuries.

The main cost was an injury to an employee who had a seizure (non work event) and fell and hid the ground. Because his head hit the ground he was off work for a long period of time. This happened in the previous year, but his costs had been ongoing. (He is fine now)

A Return to Work program has been in place for 14 years and works well with the employees.

A recent update through the ACC process, is that Occupational Therapists are now able to work with the Health and Safety Team directly when there is a RTW.

	Claiid Count	Levy Year					
Primary Diagnosis		2.017	2018	2019	20'20	2021	2022
Dental Injury	$554		$,207	$207		$146	
Foreign Body Oriifice/eye	$314	$71					$244
Fract1.:1reldislocatio11	$1,08,681	$60,,003	$4,235	$43,467	$436	$331;	$208
Gradual Process- Local Inflam.	$102	$,10·2					$0
1/non-i Laceration,pu11ctuire, sting	$:60,155	$3,826,	$7:88	$477	$1,730	$52,784	$550
Industrial Deafness	$7,148,			$3.167	$3,9'81		
None	$210,204	$,188,937	$325,		$0	$.20,838	$1,03
Other	$63		$163				
Pain syndromes	$1,017		$892			$1.26	
Soft Tissue inJ1{contu,str,spr,1illl:	$277,0·89'	$43,743	$8,392	$78,274	$1.25,564	$8,86,1.	$12,254
Grand Total	$665,327	$.296,682	$14,1902.	$1!25,59'2	$131,,712:	$'83,079	$13,,360

	ci.arm Count	Levy Year					
Primary Injury Site Group		2017	2018	201'9	2020	2021	2022
Ankle	$'9,368	$468,		$4,796,	$3,4'93	$5,2	$559
Arm	$133,2,83	$3,324	$241	$43,467	$84,628	$1,367	$256
Backfspine	$33,858	$735	$2,3'64	$7,434	$21,000	$9'90	$,1,334
Hiip/1:eg	$66,,770	$59,'909	$,102	$0	$158	$524	$6,0,78
Kknee	$23,046	$8,880,	$2,391	$9!,718	$841	$9r34	$2,82
!Neck	$2,470	$9891	$,176	$84	$,1,110	$111	
Otlher	$81,779	$4,671	$4,315	$6,488	$8,220	$54,284	$3,8,02
Shm.1lder	$102,992	$,28,666	$4,'917	$53,so,5,	$1.2,26,1	$2,596	$947
Unkl.lown	$211,761	$189,0391	$396		$0	$22,223	$103
Grandi Tota.l	$665,,3.27	$2,96,682	$14,''902:	$,125,59r2	$131,712	$83,079	$13,3,60

	C,laim Count	Levy Year					
Injury ;cause		2017	2018	2019	2020	2021	2.022
comston/Knoclked over Dy Obj	$1,,061:	$90		$239	$453	$71	$208
Electricall Shock/Short Circuit	$212	$1184				$27	
Folding/Co11:apse	$8.5,,2,47				$84,6113	$t95	$439
Uffingll"CalT)llng1/Stra:in	$5,1,668	$28,935	$8,897	$8,5;8	$1,478	$1,633	$2,207
Loss Ba'.lance/Personali Contl1	$37,,804	$3,366	$34	$5,340	$19,099	$1,916	$8,050
Loss of Consieiousne.s:s/Slee,p,	$5,1,2,34					$51,234	
Medilcal TreabTient	$18						$118
None	$410		$270			$140	
Object COmi ng Loose/Shifting	$194,,698	$192,849	$200			$1,373	$277
Punoture	$4,,3·96			$22'3	$4,·126	$46	
Pushedi or Pulled'	$20,2.33	$356	$816	$3,994	$12, 1·15	$2,660	$292
Sl:ipptng, Ski:dding on Foot	$4,.223	$468	$231	$1,3011	$2,223		
Something Giving, :la'J Underfoot	$342						$342
Struclk by Hel:di Too!l/Implement	$21.2		$94	$32	$0	$53	$33
Struclk by Per.son/Alllimali	$4!'97	$0	$270	$131i		$,95	
Tripp,ing1 or Stumbling,	$109,.338	$56,9-24	$32	$4"9,569	$1,903	$524	$387
Twisting Movement	$27,340	$11,868	$2,391	$9,530	$1.,564	$967	$11,021
Wk Property or Oharacteristi:cs	$76,,3,95	$1,642	$1,'666	$46,715	$4,139	$22,146	$87
Grand Total	$665,,327	$296,6:82	$1.4,902	$,125.,59:2	$1311,712	$83,0,79	$13.,360

3. INVESTMENT PROPERTY PORTFOLIO REVIEW

Type of Report:	Information
Legal Reference:	N/A
Document ID:	1473140
Reporting Officer/s & Unit:	Bryan Faulknor, Manager Property

3.1 Purpose of Report

To update the Committee on the performance of the Napier City Council's Investment Property Portfolio (Leasehold Land).

Officer's Recommendation

The Audit and Risk Committee:

a. **Receive** the report prepared by PwC reviewing the Napier City Council's Investment Property Portfolio

3.2 Background Summary

The Investment Property Portfolio consists of 61 remaining leases.

These are perpetually renewable ground leases. Council owns the land and the lessees own the improvements. The properties are predominantly located in the Onekawa Industrial area, Pandora Industrial area, and Ahuriri.

The sites in the portfolio are typically commercial and industrial in nature; however, there is also some high-density residential property as a result of changing land use over time and new apartment developments occurring on former commercial/industrial land.

3.3 Issues

Following public consultation as part of the Long Term Plan 2018-2028, Council resolved to allow freeholding of non-strategic land on a case- by- case basis.

An Investment Property Portfolio Policy was adopted in 2018 which sets out the terms and conditions on which Council may sell the land. Amongst the conditions is the requirement for Officers to make a recommendation to Audit and Risk who make a recommendation to Prosperous Napier who in turn report to Council.

The ground rents fund the net cost of the Inner Harbour and the maintenance of certain foreshore reserves.

Since the adoption of the policy, 10 properties have been freeholded. Further freeholding was put on hold pending identification of suitable new replacement investments.

A separate report from Council's Investment and Funding Manager is being presented to the Committee outlining reinvestment issues.

3.4 Significance and Engagement

N/A

3.5 Implications

Financial

Council engaged PWC to review the portfolio and in particular its performance in terms of historical and forecast returns. The report is attached and highlights:

- Value at 30.6.21 - $73.68 million
- Annual ground rents - $2.02 million
- Rental yield of 2.74% at 30 June 2021, however rental yields fluctuate depending on growth in land values e.g. between 2014 and 2016 yields were in excess of 5%
- Total returns being both rent and capital growth has been attractive and has outperformed the NZX50 index and the NZ 10yr Gov't Bond Yield.
- Portfolio is a low risk passive investment.
- Represents an intergenerational 'store' of wealth where relatively low cash returns are traded off against strong capital growth and low risk.
- Conversely, the portfolio is not diversified by asset type or geography.

Table: Historical returns

Analysed period	Leasehold Portfolio - Total Return (IRR)	NZX50 Index*	NZ 10Yr Govt. Bond Yield**
5 years (Jun 21 - Jun 17)	32.0%	12.9%	2.3%
10 years (Jun 21 - Jun 12)	14.3%	13.9%	5.0%
15 years (Jun 21 - Jun 07)	8.0%	8.8%	5.9%
20 years (Jun 21 - Jun 02)	18.8%	9.8%	6.8%

**Compound annual growth over the analysed period*

***Bond yield is the yield to maturity at the start of the analysed period*

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Annual Rental (m)	$0.43	$0.83	$0.99	$1.07	$1.23	$1.34	$1.37	$1.46	$1.53	$1.54	$1.54	$1.80	$1.89	$1.97	$2.02
Total Valuation Amount (m)	$37.70	$41.88	$31.69	$30.69	$31.23	$31.63	$28.49	$28.76	$29.38	$29.79	$31.55	$36.59	$49.67	$52.61	$73.68
Rental Yield*	**1.13%**	1.99%	3.11%	3.47%	3.94%	4.24%	4.79%	5.07%	**5.20%**	5.17%	4.89%	4.91%	3.81%	3.75%	2.74%
Annual Capital Return %	3.00%	11.09%	**-24.34%**	-3.13%	1.76%	1.29%	-9.93%	0.93%	2.16%	1.40%	5.93%	15.95%	35.75%	5.93%	**40.05%**
Total Return (annualised)**	4.16%	13.30%	**-21.99%**	0.23%	5.76%	5.58%	-5.62%	6.05%	7.47%	6.64%	11.11%	21.64%	40.92%	9.90%	**43.89%**

** Annual income yield (relative to the value in the respective year)*

***Sum of capital growth and net income over a single period expressed as a %, with income reinvested*

Table: Potential Forecast Returns:

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Lessor's interest (m)	$73.68	$97.79	$102.68	$107.82	$113.21	$118.87	$124.81	$131.05	$137.60	$144.48	$151.71	$159.29
Total Annual Rental (m)	$2.02	$2.27	$2.59	$2.62	$2.73	$2.90	$2.97	$3.69	$4.11	$4.24	$4.45	$4.86
Rental Yield*	2.74%	2.32%	2.52%	2.43%	2.41%	2.44%	2.38%	2.81%	2.99%	2.94%	2.94%	3.05%
Total Return (annualised)**	43.89%	35.80%	7.65%	7.55%	7.53%	7.56%	7.50%	7.95%	8.14%	8.08%	8.08%	8.20%

** Annual income yield (relative to the value in the respective year)*

***Sum of capital growth and net income over a single period expressed as a %, with income reinvested*

Effect of leasehold tenure on investment in Napier

A negative market sentiment towards leasehold assets is present in the local market.

Many lessees display a negative sentiment towards leasehold property and are of the view that ground rent obligations affect their investment decisions.

Leasehold tenure is generally perceived as an unattractive ownership option that can result in under-investment in leasehold land.

Social & Policy

N/A

Risk

N/A

3.6 Options

The options available to Council are as follows:

a. To receive the report prepared by PwC reviewing the Investment Property Portfolio

3.7 Development of Preferred Option

To receive the report prepared by PwC reviewing the Investment Property Portfolio

3.8 Attachments

1 PwC review of the Investment Property Portfolio (Doc Id 1473267) ⇩

DRAFT

Napier City Council

Leasehold investment portfolio review

May 2022

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23 May 2022

Re: Napier City Council's Leasehold Investment Portfolio Review

This is a draft report. The comments in this draft report are subject to amendment or withdrawal: our definitive findings and conclusions will be those set out in the final report.

Dear Garry and Bryan,

Napier City Council (NCC) has a lessor's interest portfolio which comprises 61 perpetually renewable leases (excluding the residential leasehold portfolio) which are predominantly located in the Napier suburbs of Onekawa, Ahuriri and Pandora. NCC is reviewing its capital structure and nature of its investments and is seeking to understand the characteristics of the Leasehold Portfolio.

In accordance with your instructions as confirmed in our engagement letter dated 24 February 2022 (the Contract), we are pleased to provide you with our report, which includes:

- review and analysis of the historical asset values and long term portfolio returns (capital and income), including our view on potential forecast returns, and the volatility of the returns;
- a summary of the legal nature of the portfolio (including lease structures and review profiles);
- commentary on market sentiment / market impact on leasehold tenure and investment in land and buildings/businesses that might be associated with the tenure; and
- commentary in relation to the issues and opportunities associated with freeholding of the Leasehold Portfolio.

This report is strictly confidential. You may not make copies of this report available to other persons except as described in the Contract, and subject to the conditions described therein. We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than you, except under the arrangements described in the Contract.

Yours sincerely,

John Schellekens
Partner

Important notice

This report is issued pursuant to the terms and conditions set out in our engagement letter, dated 24 February 2022, and the Terms of Business referenced thereto.

This Report is addressed to you, NCC, and should not be reproduced or supplied to any other party without first obtaining our (PwC) written consent. We accept no responsibility for any reliance that may be placed on our Report should it be used for any purpose other than that set out below and in any event we will accept no liability to any party other than you in respect of the contents.

This Report does not constitute formal valuation advice and can not be used as such; our report does not comply with the minimum valuation reporting requirements referenced in local and international valuation standards.

This Report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

This Report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared. This Report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

We have not independently verified the accuracy of any information provided to us and on which we have relied. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied and accept no responsibility for any errors which that information may contain.

The statements and opinions expressed in this report are based on information available as at the date of the report. We reserve the right (but will be under no obligation) to review our analysis and if we consider it necessary, to revise our opinion in the light of any information existing at the date of this Report which becomes known to us after that date.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

In addition, the following should be noted:

- Certain numbers included in tables throughout this document have been rounded and therefore do not add exactly.
- Unless otherwise stated all amounts are stated in New Zealand dollars and are inclusive of GST.
- Our analysis and commentary is indicative in nature. We reiterate that this report does not constitute a formal valuation advice and can not be used as such.

At the date of issuing this report, the COVID-19 pandemic continues to evolve and while many parts of the world, including New Zealand, are to a large extent moving on from the initial pandemic impacts, Omicron (and other variants) continue to linger and impact government policy and wider activity. What has become clear at this juncture is that the effects have been and continue to be sector specific, with tourism, retail and in some instances development assets the most impacted. In contrast, residential and industrial property has shown strong resilience to the crisis.

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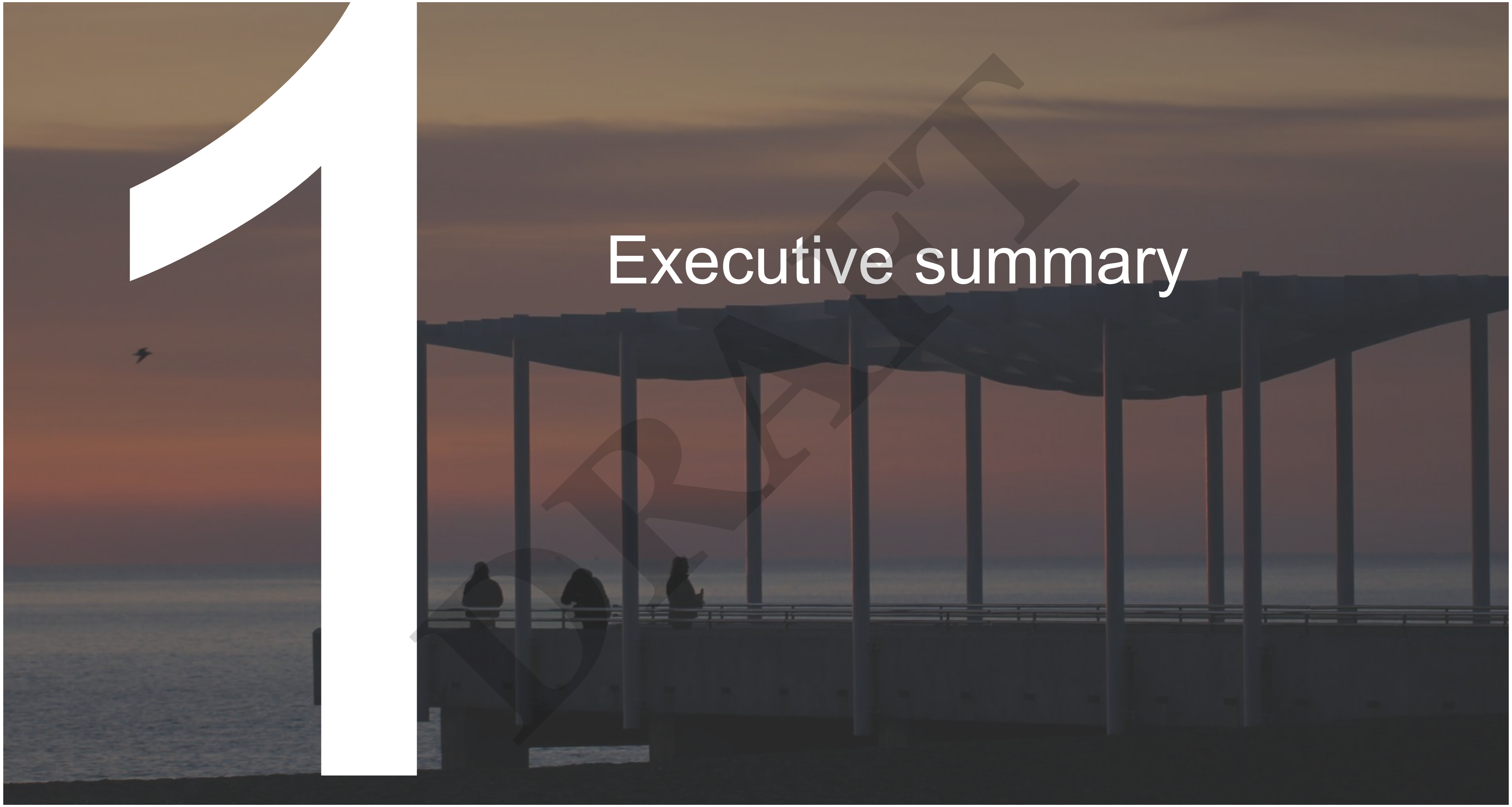
1 Executive summary



1.0 Executive Summary

Introduction and background

NCC owns a lessor's Interest portfolio (Leasehold Portfolio) which comprises 61 perpetually renewable leases (most follow 21 yearly review cycles) which are predominantly located in Onekawa, Ahuriri and Pandora, in Napier.

NCC is seeking to understand the characteristics of the Leasehold Portfolio (including lease structure composition and historical & forecast returns) as a part of its capital structure review. In addition, NCC wish to understand if the leasehold tenure is having a negative impact on investment decisions and inhibits new development in the area. We also comment on the issues and opportunities associated with freeholding of the Leasehold Portfolio (which is already occurring on a case by case basis for 'non-strategic' assets).

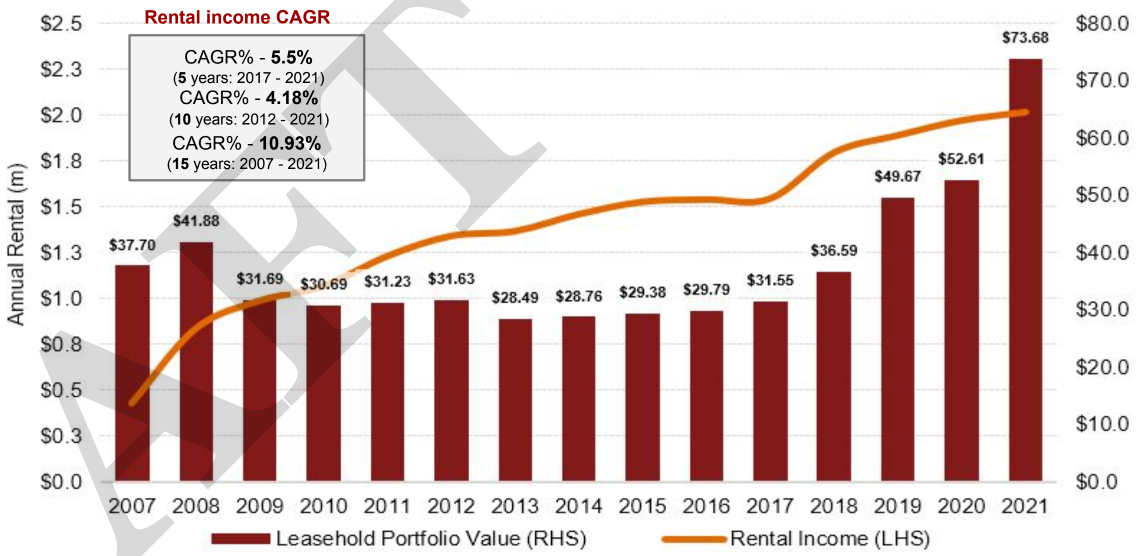
As at 30 June 2021, the Leasehold Portfolio was is valued at **$73.68m** and is generating an annual income of **$2.02m** (reflecting a rental yield of **2.74%**).

Historical values and returns

Overall, the value of the Leasehold Portfolio grew substantially over the past five years after a period of stagnation post the Global Financial Crisis(GFC) events. The commercial / industrial land market in Napier experienced a period of rapid land value growth post 2017 significantly boosted investment activity. The growth in underlying land values is almost directly correlated to growth in lessor's interests.

Rental return for the portfolio generally remained low (between 1.13% to 5.20%) and declined progressively (relative to value) as the value of NCC's Leasehold Portfolio improved. The compounding average growth rate (CAGR) in rent has varied over time, but been consistently solid.

Chart: Historical passing rental and the value of the Leasehold Portfolio



Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Total Annual Rental (m)	$1.34	$1.37	$1.46	$1.53	$1.54	$1.54	$1.80	$1.89	$1.97	$
Total Valuation Amount (m)	$31.63	$28.49	$28.76	$29.38	$29.79	$31.55	$36.59	$49.67	$52.61	$
Rental Yield*	4.24%	4.79%	5.07%	5.20%	5.17%	4.89%	4.91%	3.81%	3.75%	2
Annual Capital Return %	1.29%	-9.93%	0.93%	2.16%	1.40%	5.93%	15.95%	35.75%	5.93%	40
Total Return (annualised)**	5.58%	-5.62%	6.05%	7.47%	6.64%	11.11%	21.64%	40.92%	9.90%	43

** Annual income yield (relative to the value in the respective year)*

***Sum of capital growth and net income over a single period expressed as a %, with income reinvested*

By virtue of the predominantly 21 year review cycles, rent reviews are 'lumpy' and therefore rental and total returns may vary considerable at any one time when analysis is undertaken across shorter investment horizons.

1.0 Executive Summary (cont.)

Total returns, being rental return and capital growth and as measured by internal rate of return (IRR) and summarised in the adjacent table, has been attractive by any measure, over the short and long term, and has typically materially outperformed, by way of example, the NZX50 index.

Table: Historical returns

Analysed period	Leasehold Portfolio - Total Return (IRR)	NZX50 Index*	NZ 10Yr Govt. Bond Yield**
5 years (Jun 21 - Jun 17)	32.0%	12.9%	2.3%
10 years (Jun 21 - Jun 12)	14.3%	13.9%	5.0%
15 years (Jun 21 - Jun 07)	8.0%	8.8%	5.9%
20 years (Jun 21 - Jun 02)	18.8%	9.8%	6.8%

**Compound annual growth over the analysed period*

***Bond yield is the yield to maturity at the start of the analysed period*

Impact of leasehold tenure on Napier's industrial sector

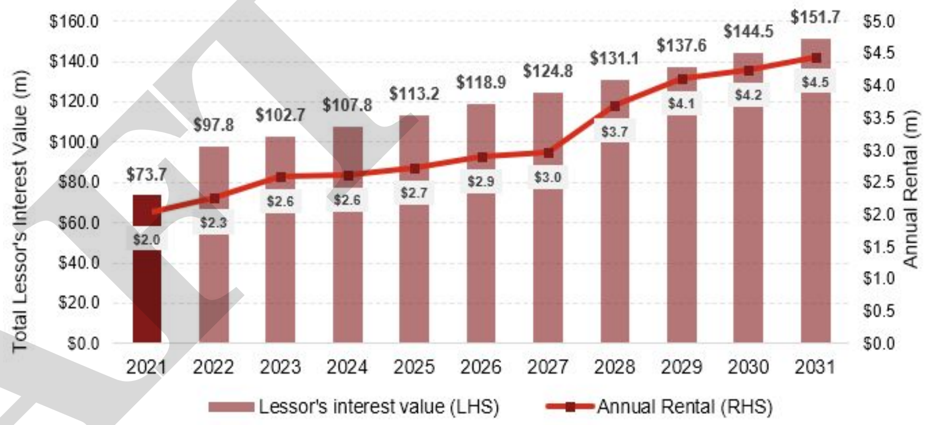
Leasehold tenure (the lessee's interest) is generally an unattractive ownership option that can result in under-investment in leasehold land.

There is no observable difference in the extent of investment and quality of improvements between the leasehold and freehold assets and we note that previous analysis undertaken by CBRE in 2016 did not provide any conclusive evidence that leasehold tenure was having a material adverse impact on investment levels in Napier industrial / commercial land. This, in our view, will likely change in the near future as improvements age (and require progressive and, in some cases, considerable capital expenditure) and ground leases undergo reviews and the significant increases in land values and therefore ground rent crystallise.

Forecast returns

To assist you with framing a view on future performance of the Leasehold potential capital and income growth profiles based on some key assumptions and our discussions with (and the information provided by) your Valuer.

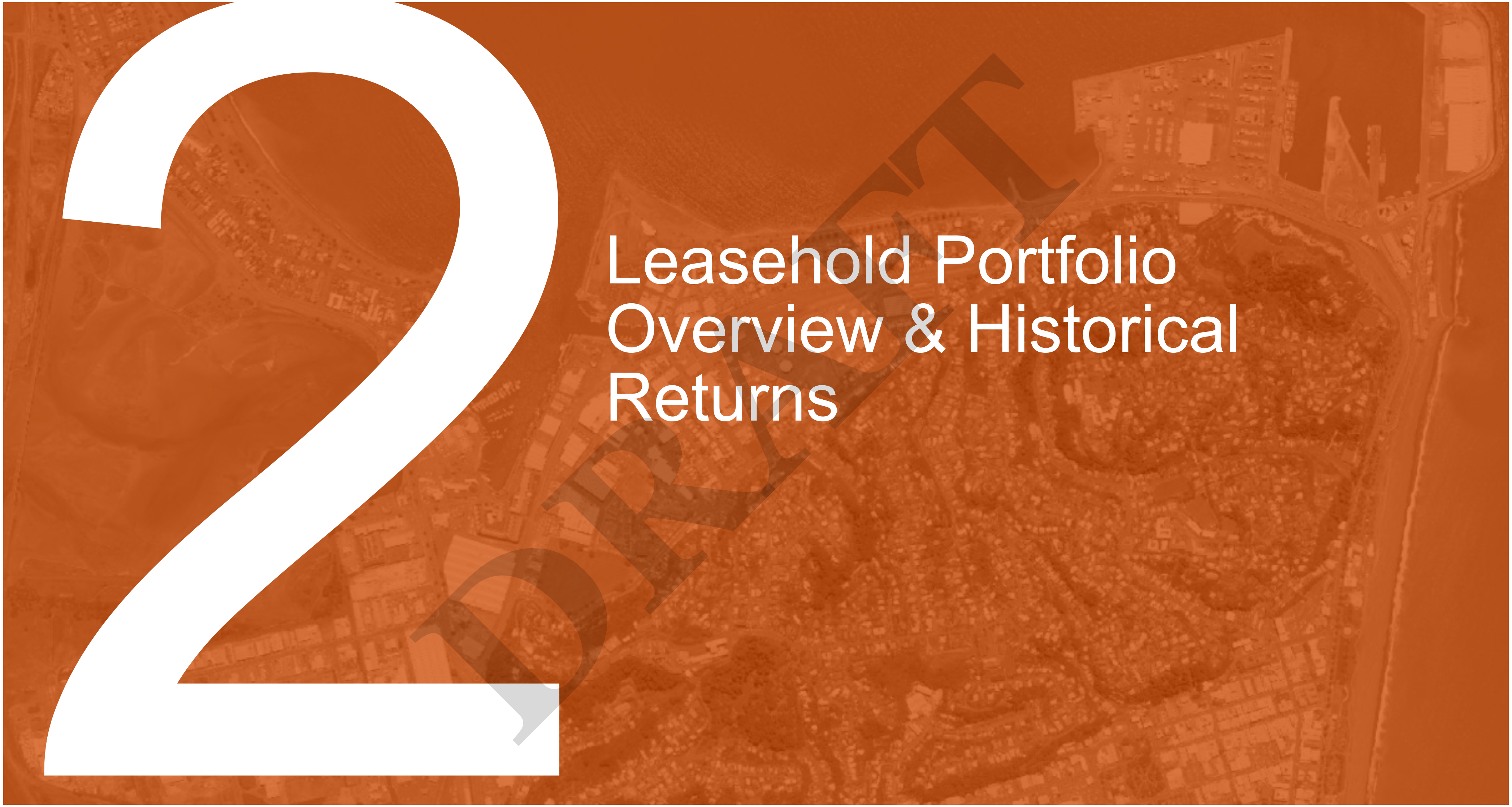
Chart: Leasehold Portfolio performance forecast (high level, indicative analysis only)



Overall, based on the assumptions modelled (which are highly indicative only), the portfolio has the potential to continue experiencing capital appreciation with the rental levels increasing over time as more ground rental reviews take place. The rental yield, however, is projected to remain comparatively low (relative to value), generally below **3.0%** in any given year.

We have also undertaken a sensitivity analysis to test the impact the underlying growth in land values might have on the value of the portfolio and income yields. Assuming that growth in the first year crystallises being largely the known growth in the market since the June 2021 valuation, the analysis indicates that:

- if land values continue to appreciate at a level close to an average rate of **5%** per annum, the Leasehold Portfolio value might further appreciate by circa **55% (CAGR 6.96%)** over the next 10 years;
- if land value growth is subdued at say **2.5%** per annum the increase in value might be in the region of **25% (CAGR 5.78%)**.
- under a high scenario, if the land value growth averages say circa **7.5%** per



2

Leasehold Portfolio Overview & Historical Returns

2.0 Leasehold Portfolio Overview & Historical Returns

2.1 Introduction and background

NCC owns a Lessor's interest portfolio of 61 perpetually renewable leases which are predominantly located in the Napier suburbs of Onekawa, Ahuriri and Pandora. The cash flow generated from this investment is used to offset the cost associated with the maintenance and upkeep of the Napier inner harbour and foreshore reserves.

For the sake of clarity, the value of the NCC's Lessor's Interests has been determined broadly in line with the underlying freehold values and not using the traditional Lessor's Interest model whereby the sum of future cash flows is considered. This is the approach undertaken by your Valuer as the traditional way of calculating Lessor's Interest results in a value in excess of the freehold land value.

NCC's Leasehold Portfolio is extensive. We completed a roadside inspection of the majority of the properties with you on 14 March 2021.

The sites in the portfolio are typically commercial and industrial in nature, albeit we understand that there is also some high density residential property as a result of changing land use over time and new apartment developments occurring on former commercial / industrial land. For clarity, NCC has a residential leasehold portfolio which does not form part of the Leasehold Portfolio referenced in this report. Also, as per your instructions, our analysis includes endowment land but excludes recently freeholded properties as well as vacant (40 - 52 Thames Street) and improved (13 Husheer Place) properties.

The Leasehold Portfolio was valued by TelferYoung at **$73.68m** plus GST (if any) as at 30 June 2021. The total passing rental of **$2.02m** per annum reflected a passing rental yield of **2.74%** (as at June 2021).

Overall, the Leasehold Portfolio experienced exceptionally strong capital growth between 2017 and 2021 growing from $31.55m to $73.68m (reflecting a **134%** increase over a five year period). This increase was primarily fuelled by a strong level of industrial / commercial land value appreciation in Napier, and particularly post mid 2020 after the immediate impact of COVID-19 (which was experienced across many land markets nationwide).

2.2 Portfolio overview

The Leasehold Portfolio includes properties that are geographically located in the following Napier suburbs Ahuriri (Seafront), Pandora, Onekawa and other

Map: Geographical location of the properties included in the Leasehold Portfolio

2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

The following table details the breakdown of the portfolio value by location:

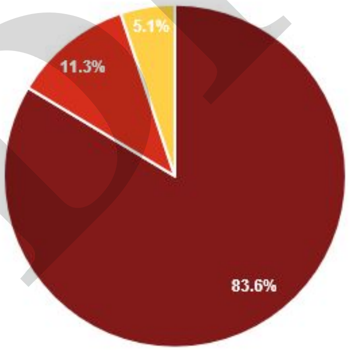
Table: Portfolio value by location (as per 30 June 2021 registered valuation)

Location	No. of leases	Lessor's interest ($m)	% of total	Rental ($m pa)	Income yield %
Seafront	11	$40.95	55.6%	$1.12	2.73%
Ahuriri Other	5	$4.03	5.5%	$0.09	2.23%
Pandora	16	$11.64	15.8%	$0.35	2.97%
Onekawa	27	$15.27	20.7%	$0.41	2.67%
Other	2	$1.79	2.4%	$0.05	3.04%
Total	**61**	**$73.68**	**100.0%**	**$2.02**	**2.74%**

The majority of portfolio value (as at 30 June 2021) lies with the Seafront assets (**55.6%** of portfolio value) followed by assets located in Onekawa (**20.7%**) and Pandora (**15.8%**).

The ground leases are perpetually renewable in nature with the vast majority (**80%+**) of the leases (by total value) following a **21** year review cycle, **11.3%** of the portfolio has seven yearly reviews with **5.1%** having five yearly reviews. The fact that a large portion of the portfolio has 21 yearly reviews and therefore long periods between reviews reflects the total passing yield currently achieved (relative to the valuation) of **2.74%**.

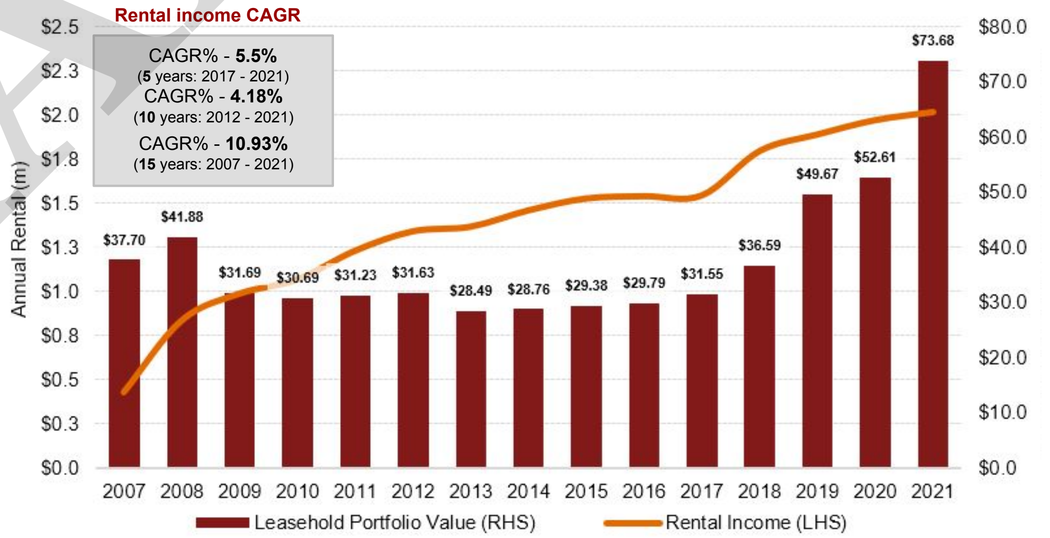
Chart: Review frequency (by value)



The absence of more frequent ground rental reviews coupled with the strong growth in the underlying land values results in the ground rental income constantly 'lagging' relative to what would be considered market attractive returns. Historically, continuous appreciation in land values led to income returns progressively declining (relative to the capital value) post years where there are a high volume of reviews.

Despite the low income returns, the Leasehold Portfolio has experienced strong capital value growth, particularly since 2017 (as depicted in the chart below).

Chart: Historical passing rental and the value of the Leasehold Portfolio

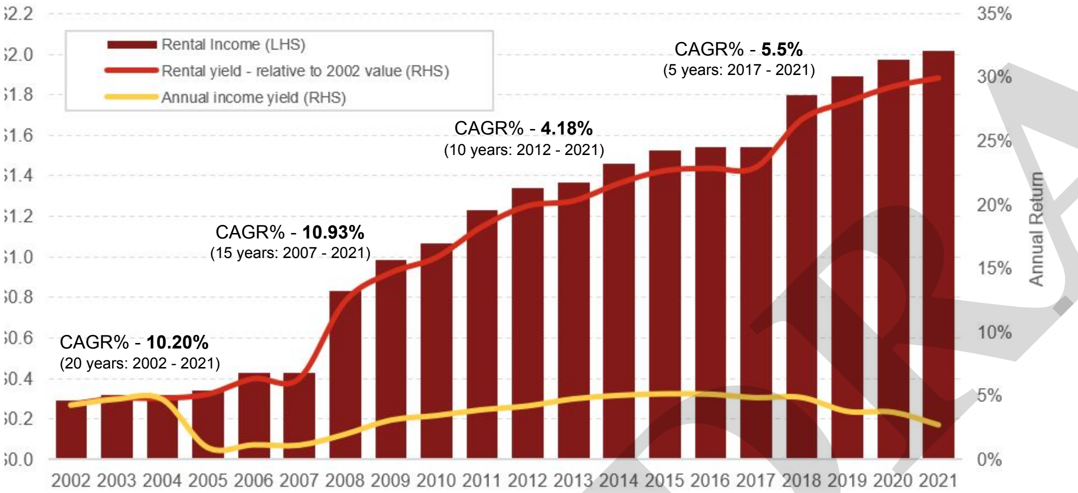


2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

2.3 Historical returns

Historical returns dating from 2002 (and reflecting a 20 year investment timeframe) are depicted below:

Chart: Portfolio's rental income and rental yields (2002 - 2021)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
l Annual Rental (m)	$0.43	$0.83	$0.99	$1.07	$1.23	$1.34	$1.37	$1.46	$1.53	$1.54	$1.54	$1.80	$1.89	$1.97	$2.02
l Valuation Amount (m)	$37.70	$41.88	$31.69	$30.69	$31.23	$31.63	$28.49	$28.76	$29.38	$29.79	$31.55	$36.59	$49.67	$52.61	$73.68
al Yield*	1.13%	1.99%	3.11%	3.47%	3.94%	4.24%	4.79%	5.07%	5.20%	5.17%	4.89%	4.91%	3.81%	3.75%	2.74%

nual income yield (relative to the value in the respective year)

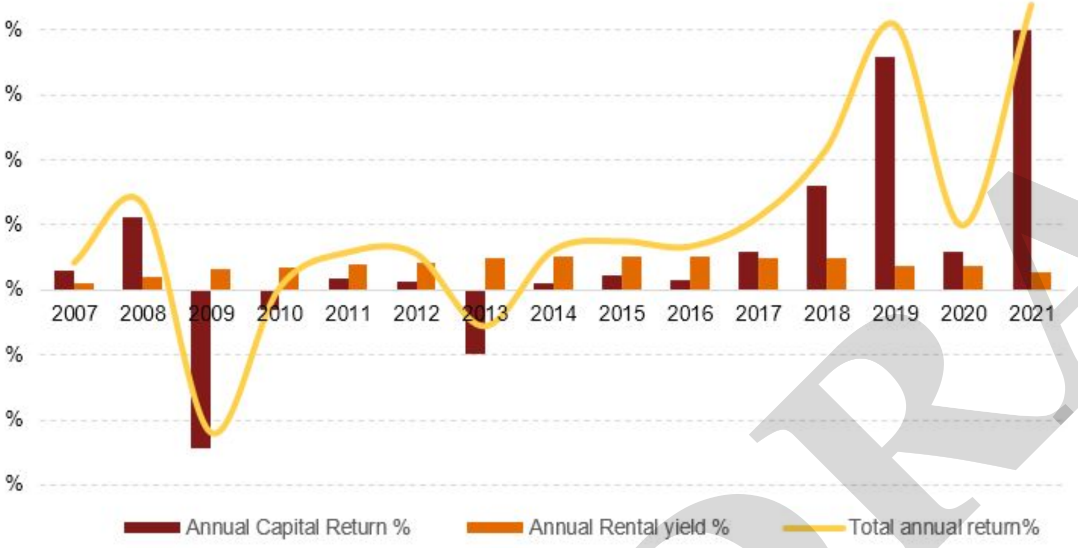
The rental yield (red line) reflects the actual cash return achieved and is calcul as a function of annual rental income in the respective year relative to the 200 portfolio value. The annual income yield (yellow line) is calculated by dividing e year's income by that year's value. We summarise the key findings as follows:

- Annual income returns experienced fluctuation and more recently started to progressively decline post 2017 as land valued grew significantly. As at 202 the annual income yield was **2.74%** (by way of comparison, between 2014 2016 rental yields were in excess of 5.0%). The annual income yields decli due to the rapid increase in capital values in recent years (as shown in the graph on the previous page). Meanwhile, rental levels continue to 'lag' behi underlying land values and Lessor's interest value.
- We note that whilst rental yields have declined, the rental income generate from the Leasehold Portfolio progressively increased from 2002 (yields declined as a percentage of value but the actual rental roll did not reduce).
- Passing yield (re-based to the 2002 value) is strong at **c.30%**. This metric h limited, if any, relevance to evaluating portfolio performance but it is of gene interest. It is primarily driven by the increase in rental levels as a result of strong growth in land values (measure of a 2002 reference point).

2.0 Leasehold Portfolio Overview & Historical Returns

The Portfolio's capital and income returns experienced considerable volatility over the past 15 years, as depicted on the chart below:

Chart: Capital, income and total returns



The Leasehold Portfolio experienced a substantial (**24%**) drop in capital value in 2009 as a result of the GFC. Post 2009, annual capital returns stayed mostly subdued for the period between 2010 and 2017. From 2017, portfolio value starte to appreciate (which was driven by the growth in the underlying land values) with considerable year-on-year uplifts experienced in 2018, 2019 and more recently ir 2021.

Annual income returns since 2007 ranged between **1.13%** to **5.20%**, peaking in 2015 and gradually declining since as capital growth intensified. We reiterate tha income returns reflect the 21 year review cycle and, depending on the level of growth in land values over the medium term, income returns will likely continue tc remain low.

The total annual return also experienced fluctuations following the year on year changes in the total portfolio value. Year 2009 saw a sharp decline of **-21.99%** wi total returns peaking in 2019 and 2021 at **40.92%** and **43.89%** respectively (in lig of the considerable land value uplifts).

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Annual Rental (m)	$0.43	$0.83	$0.99	$1.07	$1.23	$1.34	$1.37	$1.46	$1.53	$1.54	$1.54	$1.80	$1.89	$1.97	$2.02
Valuation Amount (m)	$37.70	$41.88	$31.69	$30.69	$31.23	$31.63	$28.49	$28.76	$29.38	$29.79	$31.55	$36.59	$49.67	$52.61	$73.68
al Yield*	1.13%	1.99%	3.11%	3.47%	3.94%	4.24%	4.79%	5.07%	5.20%	5.17%	4.89%	4.91%	3.81%	3.75%	2.74%
al Capital Return %	3.00%	11.09%	-24.34%	-3.13%	1.76%	1.29%	-9.93%	0.93%	2.16%	1.40%	5.93%	15.95%	35.75%	5.93%	40.05%
Return (annualised)**	4.16%	13.30%	-21.99%	0.23%	5.76%	5.58%	-5.62%	6.05%	7.47%	6.64%	11.11%	21.64%	40.92%	9.90%	43.89%

ual income yield (relative to the value in the respective year)

2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

Relative to other investment alternatives, the Leasehold Portfolio has outperformed Government bonds in each of the analysed periods. The portfolio also outperformed NZX50 over the short term and the long term (5 and 20 years) whilst generating generally comparable returns over the 10 year and 15 year timeframes.

Table: Historical returns

Analysed period	Leasehold Portfolio - Total Return (IRR)	NZX50 Index*	NZ 10Yr Govt. Bond Yield**
5 years (Jun 21 - Jun 17)	32.0%	12.9%	2.3%
10 years (Jun 21 - Jun 12)	14.3%	13.9%	5.0%
15 years (Jun 21 - Jun 07)	8.0%	8.8%	5.9%
20 years (Jun 21 - Jun 02)	18.8%	9.8%	6.8%

**Compound annual growth over the analysed period*

***Bond yield is the yield to maturity at the start of the analysed period*

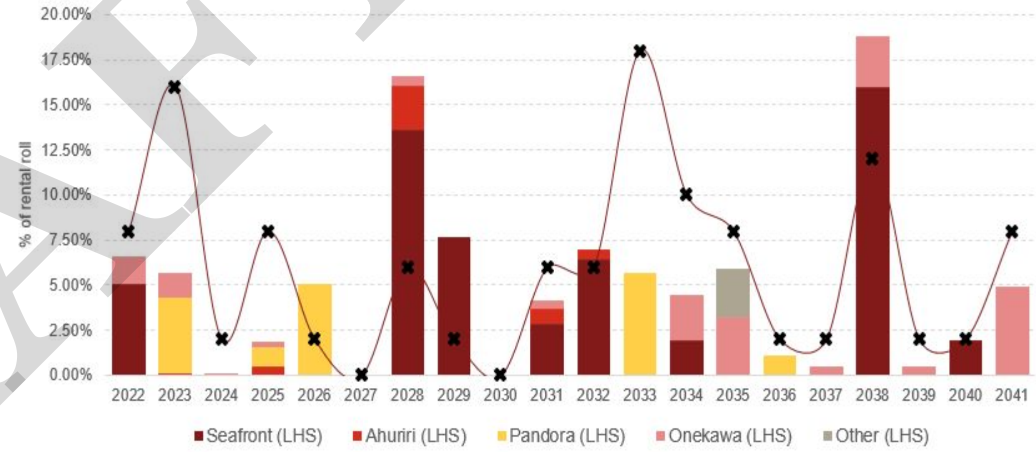
The IRR over the five year period presents as a clear outlier in the above analysis. The IRR of **32%** is due to the portfolio value more than doubling in the past five years and the rental generated increasing by circa **31%** over the same period.

2.4 Future ground rent reviews profile

The upcoming ground rental reviews will directly influence the level of income generated from the Leasehold Portfolio as more reviews occur reflecting higher ground rental payments. The review structure within the portfolio are in part prescribed at fixed ground rental percentages (fixed rental percentage multiplied by land value) and in part set to market.

A breakdown of the rental expiries by location (measured against the June 2021 rental levels) is shown on the right hand side (RHS) in the chart below, and the proportion of rental roll (by count) subject to review on the left hand side (LHS):

Chart: Rent review profile (as % of rental roll as at June 2021)



- Over the next five years **19.30%** of the portfolio (by rental roll) is due for ground rental review (18 leases);
- **47.67%** of the portfolio (by rental roll) is due for a review in the next 10 years (25 leases); and
- **71.81%** having reviews over the next 15 years (47 leases).
- The majority of the 'high value' Seafront leases have reviews in **2028**, **2029**, **2032** and **2038**.

2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

2.5 Leasehold portfolio considerations

From a risk perspective, the Leasehold Portfolio is low risk. It is generating a stable income stream (that would be hard to replicate) whilst having essentially no reversionary risk as in the event of Lessee default the entire asset reverts to NCC.

Lessor's interests are passive assets relative to the more conventional property investments requiring limited ongoing management (however ground rental reviews can be contentious). Conversely, the Leasehold Portfolio is not diversified (by asset type or geography, with most sites located in neighbouring suburbs) exposing it to the specific fluctuations in the land development market in Napier. As an asset class, Lessor's Interests are substantially a 'capital gains play' or intergeneration 'store' of wealth where relatively low cash returns are traded off against strong capital growth and low relative default risk.

As previously detailed, the portfolio experienced considerable capital growth in recent years which was primarily driven by the scarcity of available industrial land in Napier and robust demand for industrial / commercial zoned land. Based on our discussion with your valuer (Mike Penrose of Telfer Young, 'Valuer'), these factors will likely continue to underpin the portfolio's value going forward. We have been advised that very limited land is available for sale within the precincts where the Leasehold Portfolio properties are located and that these locations are generally tightly held (with only a handful of properties transacting annually). As a result, the market view is that there is still 'room' for further appreciation in land values.

While the future outlook for the portfolio is generally optimistic at present, there are certain economic 'headwinds' such as the rapidly rising cost of capital (as interest rates increase) and ongoing supply chain challenges (i.e. rising construction costs and labour / material shortages) that might ultimately have an adverse impact on the land development market. However, as the demand for industrial / commercial land in Napier is underpinned by scarcity of land rather than availability of capital, the impact of these 'headwinds' on pricing might be somewhat subdued.

With almost half of the portfolio (measured against the 2021 rental roll) due for a ground rental review over the next 10 years, more lessee defaults might be expected as ground rentals could become unaffordable to some sitting lessees.

However, even if lessee's defaults do occur, NCC will re-take possession of the land (on a freehold interest basis) and the improvements, noting that in most (but not all) case, the improvements will represent added value.

2.6 Napier industrial market overview

The Napier industrial market has enjoyed a period of strong growth on the back of strong economic conditions and primary sector activity in Hastings District and a global focus on industrial assets. The demand for most industrial assets is strong and largely generated from investors, owner occupiers and developers. Industrial rents are trending upward for most accommodation that is of sound quality and reasonably located, with underlying land values having placed pressure on yard/ground rents. Dated premises that have reduced utility or are situated in secondary locations remain flat or under pressure, or indeed are trending toward redevelopment opportunities.

Napier City's industrial land supply is under pressure, with development becoming scarce. This has resulted in industrial land experiencing significant upward pressure that is unlikely to subside until such time as new land supply is introduced by way of rezoning.

Freehold A, B and C grade improved industrial investment assets are tending to provide the following returns:

- A-grade industrial assets that are occupied by quality tenants under on good lease terms are now attracting yields between **4.50%** and **6.00%**.
- B-grade assets with lesser quality tenants are attracting yields between **6.00%** and **7.00%**.

2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

- C-grade assets that are dated, situated in inferior locations, or subject to inferior lease terms are attracting yields of **7.00%** or greater.

The gap between vacant and leased yields is tight, with reduced interest rate costs and greater risk appetite having translated into firmer yields across the board (albeit this could change as interest rates rise).

In summary, Napier City is an established and somewhat constrained industrial location and tends to generate demand from local investors, owner occupiers and port related activities. In recent years Napier has experienced an increase in investment from non local / institutional parties as a result of its attractive yields relative to other cities or districts.

2.7 Legal nature of the portfolio

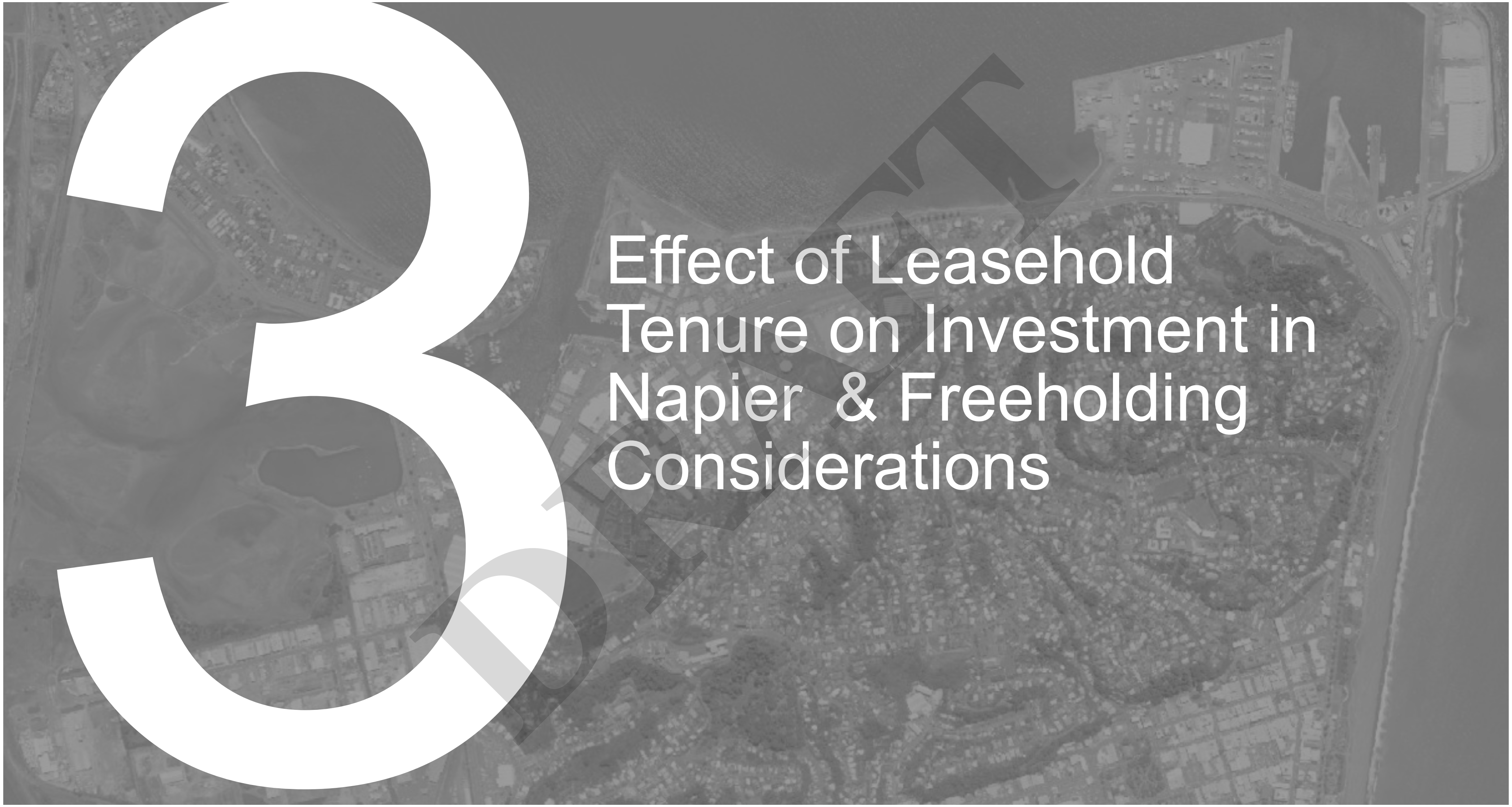
We have been provided with a sample of leases that are representative of the portfolio's legal composition. As discussed previously, the leases are perpetually renewable with the majority of the leases (by value) being subject to a 21 year rent review cycle. A summary detailing the key lease terms for each of the lease types is provided **overleaf**.

We make the following observations based on our review of the leases provided:

- Whilst the sample of leases provided generally include market-linked rent reviews, a considerable portion of the portfolio is subject to a prescribed ground rental percentage on review (being set at 5% of the freehold land value).
- The leases do not appear to incorporate ratchet clauses, meaning that the rental could decrease from the current levels.
- All leases (within the sample provided) include maintenance clauses whereby the Lessee shall keep and maintain the improvements in good repair order and condition.
- In the event of the lease being cancelled, improvements revert to the Lessor free from compensation.

2.0 Leasehold Portfolio Overview & Historical Returns (cont.)

Sample lease type	1	2	3	4
Term	**20 year**	**21 years**	**21 years**	**21 years**
Rent payment frequency	Quarterly	Half yearly	Half yearly	Half yearly
Rent review frequency	5 yearly	7 yearly	21 yearly	21 yearly
Rent review structure	Market (fair annual rental)	Market (fair annual rental)	5.0% of the freehold land value	Market (fair annual rental)
Ratchet clause	Nil	Nil	Nil	Nil
Renewal terms	20 years	21 years	21 years	21 years
Renewal structure	Perpetually renewable	Perpetually renewable	Perpetually renewable	Perpetually renewable
Operating expenses	Net	Net	Net	Net
Permitted activities	Development and operation of a motel together with closely related business activities such as a restaurant and bar.	Not mentioned	Not mentioned	Not mentioned
Maintenance obligations	The lessee shall keep and maintain all buildings, fences, gates, drains and other improvements in good repair order and condition. During the initial seven years of the lease, the lessee shall paint, clean and refurbish the exterior of the premises. During every subsequent seven years the lessee shall paint / clean and generally refurbish the exterior of the premises. Upon expiry or sooner, the lessee shall deliver the buildings, fences, gates, drains and other improvements with fair wear and tear, damage or destruction by fire alone excepted.	The lessee shall keep and maintain all buildings, fences, gates, drains and other improvements in good repair order and condition.	The lessee shall keep and maintain all buildings, fences, gates, drains and other improvements in good repair order and condition. Upon expiry of sooner, the lessee shall deliver the buildings, fences, gates, drains and other improvements with fair wear and tear, damage or destruction by fire alone excepted.	The lessee shall keep and maintain all buildings, fences, gates, drains and other improvements in good repair order and condition. Upon expiry of sooner, the lessee shall deliver the buildings, fences, gates, drains and other improvements with fair wear and tear, damage or destruction by fire alone excepted.
Improvements on expiry	Should the lessee choose not to renew, and the lease be sold, lessee improvements will be sold to new lessee at the lower of valuation or lessee's nomination. Should the lease be cancelled, all improvements, other than those removed by the lessee shall revert to the lessor free from compensation / payment.	Per lease type 1	Per lease type 1	Per lease type 1
Lessee's right to assign/sublet	Not without the lessor's consent which cannot be unreasonably withheld.	Per lease type 1	Per lease type 1	Per lease type 1



3

Effect of Leasehold Tenure on Investment in Napier & Freeholding Considerations

3.0 Effect of leasehold tenure on investment in Napier

3.1 Local market sentiment to leasehold tenure

A negative market sentiment towards leasehold assets is present in the local (and national) market although the period of buoyancy over the past two years has somewhat softened this negative view.

We are also aware that CBRE stated within their Investment Property Portfolio Review report (March 2016), that the lessees that they have met with all displayed negative sentiment towards leasehold property and stated that ground rental obligations affect their investment decisions (albeit noting that they met a small sample of lessees only that were specifically selected due to their strong views).

Anecdotally, we are aware of a recent instance where post a recent ground rental review (subject to a seven yearly review cycle), the ground rental more than doubled and was no longer affordable to the sitting lessee. The lessee made an attempt to sell the Lessee's interest (which was not successful) and then to freehold the site (also unsuccessfully).

Arguably, these instances will likely become more common as circa **50%** of the investment portfolio (by rental roll) will have a ground rental review over the course of the next 10 years and they will be having material ground rent increases. With most leases following a **21** year review cycle, the majority of the rentals currently payable have been established based on significantly dated land values and this will accentuate the adverse impact on lessees of ground rent on review.

3.2 Impact of leasehold tenure on investment decisions

We did not observe a noticeable difference in quality between the leasehold and freehold assets during our inspection in the locations where Leasehold Portfolio properties are located.

This would indicate that the leasehold tenure is not currently having an "obvious" impact on the reinvestment decisions (at least in building improvements), but this observation is likely more a factor of the established nature of Napier's industrial precincts with relatively limited new development (except in specific pockets). CBRE also noted in their report that many properties had been redeveloped or modernised immediately prior to the GFC in the late 2000's (although any investment since the GFC was likely to be minimal).

Photo: 68 Thames Street, Pandora

Photo: 54 Thames Street, Pandora

In addition, CBRE's analysis into the potential impact that the leasehold tenure has on reinvestment decisions in Napier did not provide conclusive results:

- The residual analysis (feasibility analysis solving for affordable land value) undertaken resulted in negative land values under the leasehold scenarios, albeit it was noted that development on freehold land was also challenging as economic rents required for a feasible development were also well below market levels.

3.0 Effect of leasehold tenure on investment in Napier (cont.)

- Analysis of capital value relative to land value (whereby improvements value is expressed as a percentage of capital value based on rating valuations) indicated a slight discount for NCC owned leasehold assets relative to freehold assets, albeit this could be due to a number of properties included in the Leasehold Portfolio being undercapitalised. Overall, there was no material observable difference relative to the freehold sites.
- Analysis of the general age of properties similarly did not produce a conclusive result as, proportionally, properties in the Leasehold Portfolio did not appear to have older onsite improvements relative to the freehold properties in the same locations.

However, in our view the following factors will have an impact on reinvestment decisions going forward:

- The majority of improvements developed on NCC land were built between 1960's to 1980's, meaning that they will either be requiring progressive capital upgrades or have reached a stage where (tenure aside) highest and best use is likely to be for redevelopment.
- Where a ground rental review is also approaching (and a considerable increase in ground rental is anticipated), lessees would be more likely to defer any capital upgrades and / or redevelopment until the ground rental is known/settled.
- In the event the ground rental payments reach unaffordable levels for lessees, lessee default / abandonment is likely, in which case the value/treatment of the improvements will be determined in line with the provisions of the lease and ultimately may result in Lessee's interest reverting to the lessor (NCC) under default provisions.

Overall, whilst to this point leasehold tenure does not appear to have had an observable impact on investment decisions. We expect that the impact of leasehold tenure will become more apparent as upcoming ground rentals are reviewed and the significant increase in underlying value flows through to rental increases.

3.3 Freeholding overview

Disposal of non-strategic assets can ultimately assist with redevelopment / revitalisation of industrial and commercial land in Napier and facilitate private investment into locations currently dominated by leasehold land. The proceeds received from freeholding could be diverted to other, investments with different attributes and provide a level of diversification and balance between income vs capital returns.

At present, the investment portfolio generates low income returns but highly attractive capital returns; capital returns cannot, however be realised until sale of a Lessor's Interest. Also, as land values appreciate, the freehold land that is currently underutilised or underdeveloped will likely attract new development activity that might not otherwise occur on leasehold land

In June 2018, NCC passed a resolution allowing freeholding of 'non-strategic' land. At present, freeholding is undertaken at NCC's full and sole discretion (as per the Investment Property Portfolio Policy document, and is not "a right" to encumbent lessees); under the resolution, the Lessor's Interest can only be sold to the registered lessee. This process is completed on a 'case by case' basis and there is no right of appeal or arbitration. The market value for the property is determined by a registered valuation which provides individual values for the following interests:

3.0 Freeholding considerations

- Freehold land value;
- Lessor's interest value;
- Lessee's interest value;
- Vacant possession value (assuming freehold tenure);
- Marriage value (if any) (which is an arbitrage opportunity that arises from merging Lessor's and Lessee's interests relative to the unencumbered freehold interest value).

The **greater** of the freehold land value or the aggregate of the Lessor's interest value and marriage value is then being used as the market value of the land.

We are aware of a number of freeholdings completed by NCC that have occurred over 2020 and 2021, these are summarised as follows:

Address	Sale Date	Sale Price	Land Area	Rate
9B,9D,9E Riddell St	Mar 21	$652,000	1,879 sqm	$347 psm
29 Austin Street	Jan 21	$350,000	1,004 sqm	$349 psm
34 Austin Street	Nov 20	$450,000	1,224 sqm	$368 psm
31 Cadbury Road	Aug 21	$285,000	766 sqm	$372 psm
30 Austin Street	Nov 20	$540,000	1,532 sqm	$352 psm
25 Cadbury Road	Dec 20	$345,000	1,072 sqm	$322 psm
19 Carnegie Road	Dec 20	$295,000	867 sqm	$340 psm
32 Austin Street	Nov 20	$330,000	938 sqm	$352 psm

Overall, the sale prices achieved upon freeholding were (as expected) in line with the freehold land values in Onekawa (at the time of sale).

In addition, we summarise in the table below a more detailed analysis pertaining to freeholdings occurred that over the past 12-24 months in Napier (NCC freeholdings are highlighted in grey):

Address	Sale Date	Land area	Lessor's interest	Rate $psm	Yield	IRR	%FHLV
97 Austin Street	Feb 19	46,640	$8,220,000	$176	1.05%	3.53%	117%
34 Austin Street	Nov 20	1,224	$450,000	$368	5.98%	7.42%	105%
32 Austin Street	Nov 20	938	$330,000	$352	5.00%	5.99%	100%
30 Austin Street	Nov 20	1,533	$540,000	$352	5.00%	5.99%	100%
96 Austin Street	Nov 20	29,645	$6,200,000	$216	-	-	100%
25 Cadbury Road	Dec 20	1,072	$345,000	$322	5.01%	5.83%	100%
29 Austin Street	Dec 20	1,004	$350,000	$349	5.00%	6.19%	100%
70 Taradale Road	Jan 21	4,067	$1,740,000	$428	-	-	101%

Source: TelferYoung Valuations

This analysis also reflects that freeholding is undertaken at or slightly above freehold land values. Importantly, all of the NCC freeholdings appear to have been undertaken post a recent ground rental review as initial yields are in line with the prescribed ground rental percentage (of 5.0%).

3.0 Freeholding considerations (cont.)

3.4 Freeholding considerations

We summarise pros and cons of the freeholding strategy of Leasehold Portfolio as follows:

Pros

- Leasehold tenure is generally an unattractive ownership option that results in under-investment in leasehold land and in many cases has proven to be not viable for the Lessee's interest owner over a long-term. This is particularly evident in instances where the ground rental is not reviewed frequently (i.e. follows a 21 year review cycle) or where the land value growth is considerable, resulting in unaffordable ground rental payments upon review. Freeholding addresses this challenge.
- Freeholding helps facilitate private investment into the areas dominated by leasehold land (stimulating development in these locations).
- In its current composition, the Leasehold Portfolio lacks diversification (both geographical and asset class) and is highly exposed to fluctuations in underlying land values. Freeholding facilitates diversification of the portfolio and could be viewed as establishing a more market attractive balance between income and capital returns.
- Lessor's interests (generally having low frequency of rent reviews) as an investment class are a substantially a "capital growth play"; the full extent of capital gains can only be realised on sale.
- Freeholding of 'strategic' sites is currently not contemplated in the NCC Investment Policy. NCC's objective is to hold 'strategic' assets until their strategic value can be realised. Once a plan for an area is shaped, NCC may dispose of its lessor's interest (or partner with the incumbent lessee) on the condition that the desired public benefits are achieved from the future use of the land. As such, NCC will not be disposing of the strategic sites until the appropriate time; this is a logical approach.

Cons

- Inherently, the Leasehold Portfolio is low risk. Lessor's interests are a highly sought after investment class due to their passive nature and stable cash flow characteristics with low default risk. They represent substantially a 'growth' play and a safe 'store' of intergenerational wealth.
- We understand that the proceeds from freeholding are required to be reinvested into a suitable alternative investment (creating reinvestment risk) so that NCC can continue to fund maintenance of the Napier's inner harbour and foreshore reserves. The steady and low risk cash flow generated from the Leasehold Portfolio would be hard to replicate albeit investing in assets with slightly higher risk and higher relative cash returns may represent value for money (albeit such a strategy would need to be carefully considered). Other investment classes are generally more volatile, management intensive or higher risk compared to the Lessor's interest assets.
- The returns generated from the Investment portfolio have outperformed NZX50 and Government Bond Yield returns.

3.0 Freeholding considerations (cont.)

- Timing of freeholding. It is likely that lessees would be more inclined to pursue freeholding after (or shortly prior to) a ground rental review (whereby owning land may become a more viable option relative to paying higher ground rental). As such, sale proceeds from freeholding will likely be ‘bumpy’ which may complicate investment decisions.
- The ‘high value’ sites are predominantly located within the Seafront precinct which is a strategic area and freeholding is unlikely to occur until the ‘strategic value’ of the land can be unlocked. As such, freeholding will likely be limited to smaller sites that have lower value (<$1.0m).
- There is sound demand and limited supply of industrial / commercial land in Napier which led to considerable appreciation in land values, particularly over the past five years. Land scarcity is likely to continue driving total return from portfolio into the future.

4 Forecast Returns Analysis

4.0 Potential forecast returns analysis

4.1 Overview

To assist you with framing a view on future performance of the Leasehold Portfolio, we liaised with your Valuer who is familiar with the investment and locational characteristics of the portfolio. We summarise the key findings from our discussion as follows:

- As previously discussed, Napier City's industrial land supply is under pressure, with new development land becoming scarce. Industrial land experienced significant upward pressure that is unlikely to subside until such time as new land supply is introduced by way of rezoning.
- Recent re-sales of industrial / commercial land indicate very strong value uplifts ranging from 28% to 100%+ over the past 12-24 months period. This suggests a further value uplift in the portfolio valuation since the last financial reporting date (being 30 June 2021).
- The strong land value growth experienced over the past years may well have reached a cyclical peak as at the date of this report, however, the local market is driven by scarcity rather than availability of capital, which may underpin future value appreciation (at least for a period).
- Historical, long term, land value growth rates of 1% to 3% that were widely adopted by Valuers in the past for forecasting purposes are no longer believed to be appropriate in the local market context (particularly considering the level of growth experienced in the past five years). Your Valuer is of the opinion that land value growth rates of between 5% to 10% per annum would be more appropriate for indicative, high level forecasting purposes (considering a 10 year investment horizon). We are not convinced this is appropriate to where we are in the market cycle.

4.2 Approach to forecasting returns

Forecasting future performance of any property asset is a highly hypothetical exercise as market conditions that exist at present may change swiftly and unexpectedly. In fact, the property market nationwide is starting to show signs of softening. By way of example, during the GFC the portfolio value experienced a considerable decline that took over 10 years to recover to pre-GFC levels.

Future economic (and asset) performance is impossible to predict with any degree of accuracy. As such, our analysis is indicative and high level only and should be considered in this context. We reiterate that at present there is a high level of market volatility that might have an adverse impact on the Napier property market (and ultimately translate to decline in the underlying industrial land values, being the key determinant of the value of NCC's Leasehold Portfolio).

To frame our view on potential future returns we have considered the following:

- First, to estimate the value of the Leasehold Portfolio as at May 2022 we have indexed the registered valuations of the Lessor's Interests (prepared as at 30 June 2021) for the respective locations. The indexation was informed by the percentage inflation ranges provided by your Valuer. By its nature, these ranges are highly indicative only (and we have been advised to treat them with caution). For the sake of clarity, the value derived using this analysis may be considerably different to the registered valuation for the 2022 financial year that you will procure shortly where valuations are performed at an individual property level. The advised ranges are summarised in the table overleaf.

4.0 Potential forecast returns analysis (cont.)

Table: Indicative land value inflation in various precincts since 30 June 2021

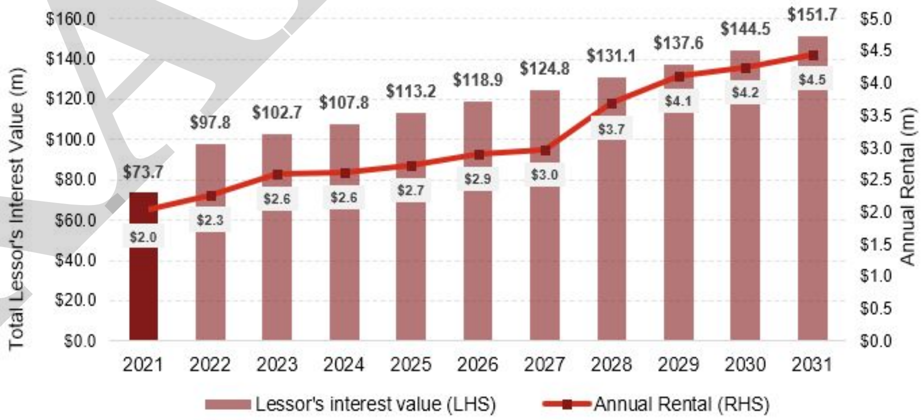
Precinct	Low	High	Adopt
Seafront	20%	30%	**20%**
Ahuriri	40%	100%	**40%**
Pandora	60%	80%	**60%**
Onekawa	45%	65%	**45%**
Other	25%	60%	**25%**

To be pragmatic, we have adopted the lower end of the aforementioned ranges in our analysis.

- Second, we adopted a **long term** land value growth rate of **5%** per annum from year 2023 onwards (again, this is at the lower end of the indicative long term land value growth range indicated by your Valuer).
- To forecast future **rental levels** we have, at a high level, modelled current passing rentals (until the respective review dates for the individual leases) as well as estimated future ground rentals that would be payable post the review date based on the land value growth assumptions made above (and having regard to the prescribed ground rental structure in place). This high level analysis has limitations:
- First, the ground rental increases resulting from the upcoming reviews may become unaffordable for many tenants (reviews over the next 10 years indicate an average ground rent increase of **3.67** times the current passing rental payable). This could lead to lessees defaulting, which will reduce the total rental roll, albeit will allow NCC to essentially have the freehold interest in the land. Our analysis does not account for any potential lessee's defaults.
- Second, where the ground rental structure is not prescribed (and is to be determined based on fair market levels), we have adopted ground rental percentages as assessed in the June 2021 valuations.

The chart below depicts the high level, forecasted, performance of the investment portfolio over a 10 year investment horizon (subject to the assumptions and limitations outlined above):

Chart: Leasehold portfolio performance forecast (high level, indicative analysis only)



Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Lessor's interest (m)	$73.68	$97.79	$102.68	$107.82	$113.21	$118.87	$124.81	$131.05	$137.60	$144.48	$
Total Annual Rental (m)	$2.02	$2.27	$2.59	$2.62	$2.73	$2.90	$2.97	$3.69	$4.11	$4.24	
Rental Yield*	2.74%	2.32%	2.52%	2.43%	2.41%	2.44%	2.38%	2.81%	2.99%	2.94%	
Total Return (annualised)**	43.89%	35.80%	7.65%	7.55%	7.53%	7.56%	7.50%	7.95%	8.14%	8.08%	

4.0 Potential forecast returns analysis (cont.)

We note that the significant increase from 2021 to 2022 reflects a ‘catch up’ on the significant improvement in the industrial market between NCC’s latest valuation (June 2021) and the date of this report.

The portfolio has the potential to continue experiencing capital appreciation with the rental levels increasing over time as more ground rental reviews take place. The rental yield, however, is projected to remain low (relative to value), generally below **3.0%** in any given year, which substantially reflects the review structure of the portfolio, dominated by 21 year reviews.

Notwithstanding, the ‘actual’ (absolute) rental roll is increasing progressively over time. Whilst the rental returns are lower relative to the conventional property assets which attract rental yields in the region of 4.5% to 6.0% for A grade industrial assets, the characteristics of the lessor’s interest portfolio (secure cash flow, passive investment nature and low risk profile) would be hard to replicate.

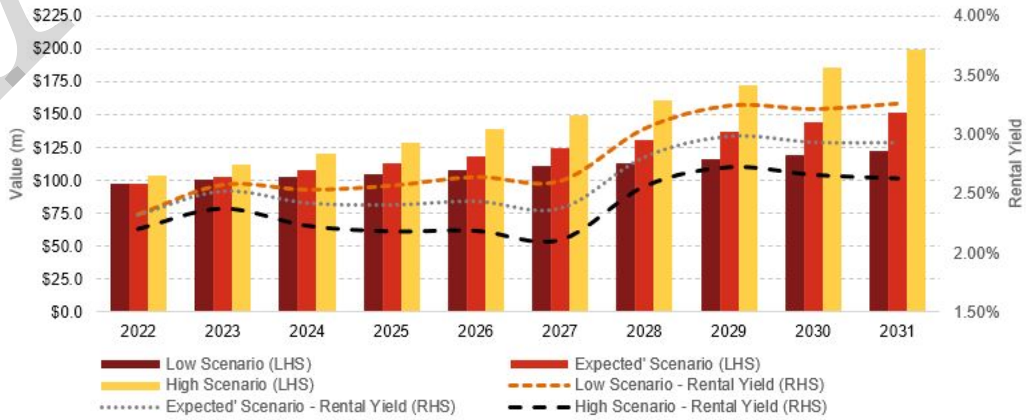
We reiterate that this analysis is indicative and high level only and may not eventuate. The value of the portfolio may decrease (as it has in the past) in response to the changes in economic conditions.

4.3 Sensitivity analysis

Further to the above, we undertook sensitivity analysis relative to the key variables adopted (which in this case is the indexation metrics (to estimate 2022 value) and long term value growth rate). We modelled the following scenarios:

- **Low Scenario:** Base case & 2.5% long term growth - to estimate the 2022 value we have adopted the lower end of the advised land value movement range (as detailed on the previous page, ranging from 20% to 60%); for the long term land value growth rate (post 2022) we used 2.5% per annum (which is more conservativerelative to the expected 5% to 10% range).
- **‘Expected’ Scenario:** Base case - for the 2022 value we have adopted the lower end of the advised land value movement range and for the long term land value growth (post 2022) we used 5%.
- **High Scenario:** 2022 Average & 7.5% long term growth - this is an optimistic scenario, the midpoint of the advised land movement range was adopted to estimate the 2022 value with the long term land value growth rate modelled at 7.5% from year 2023 onwards.

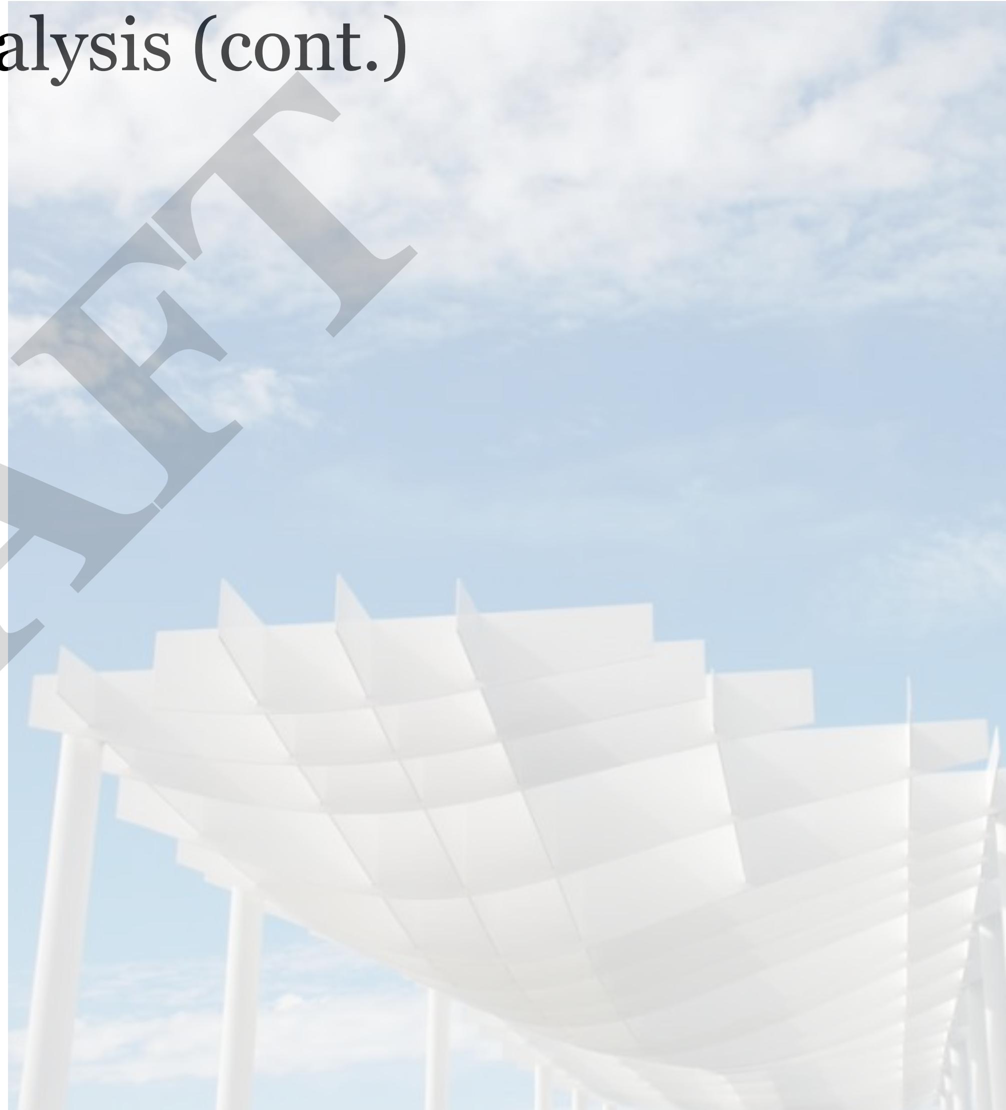
Chart: Sensitivity of the forecasted performance of the investment portfolio to changes in the land growth rates



4.0 Potential forecast returns analysis (cont.)

This analysis, assuming that growth in the first year crystallises the known growth in the market since the June 2021 valuation, indicates that:

- if land values continue to appreciate at a level close to an average rate of **5%** per annum, the Leasehold Portfolio value might further appreciate by circa **55%** (**CAGR 6.96%**) over the next 10 years;
- if land value growth is subdued at say **2.5%** per annum the increase in value might be in the region of **25%** (**CAGR 5.78%**).
- under a high scenario, if the land value growth averages say circa **7.5%** per annum the Leasehold Portfolio value might increase by **92%** (**CAGR 8.63%**).

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4. INVESTMENT POLICY REVIEW

Type of Report:	Operational
Legal Reference:	Local Government Act 2002
Document ID:	1467612
Reporting Officer/s & Unit:	Garry Hrustinsky, Investment and Funding Manager

4.1 Purpose of Report

The purpose of this report is to highlight and explain key proposed changes to the Investment Policy and to introduce the draft Statement of Investment Policies and Objectives (SIPO).

Officer's Recommendation

The Audit and Risk Committee:

a. **Endorse** the amended Investment Policy as presented.

b. **Receive** a draft copy of the Statement of Investment Policies and Objectives.

4.2 Background Summary

Napier City Council owns various properties in Napier which Council classifies as Napier City Council's Investment Property Portfolio. This land, held in the portfolio, is leased to various individuals and entities. All land held in the portfolio was originally commercial and industrial land. Council holds and manages these properties on behalf of the Napier community for the benefit of both current and future generations. The Napier community enjoys the benefit of these properties through a reduction in general rates to the extent of income received.

On the 18 September 2018 Council adopted (within the Investment Property Portfolio Policy (Leasehold)) a divestment and investment policy for the sale proceeds be established and approved by Council resolution prior to the release of any leasehold land.

As part of that piece of work, changes to the Investment Policy have been drafted to receive and manage funds from the sale of any leasehold land through the inclusion of a Statement of Investment Policies and Objectives (SIPO).

Further, in a November 2019 report produced by the New Zealand Productivity Commission (*Local government funding and financing*) signalled a general shift in approach for local authority investment activity across a number of areas including capital investments. Innovation, diversity and flexibility within a prudent framework are encouraged to assist local authorities in meeting an increasing financial burden.

Additional changes are recommended within the Investment Policy to allow greater flexibility in how Council invests within the existing framework. To that end, portions of the policy have been rearranged and expanded to improve clarity, terminology updated or corrected, and investment limits softened to reflect a more contemporary and prudent approach.

4.3 Issues

The current version of the Investment Policy does not allow for leasehold sale proceeds to be quarantined and managed differently from other Council assets. This has given rise to the need to introduce a SIPO that is referenced within the Investment Policy.

Investment rules within the policy reflect outdated terminology and are relatively inflexible. Adherence to the current policy may be detrimental Council assets – particularly in highly volatile or irregular economic environments.

Should a revised Investment Policy be adopted, additional work will need to completed on the Statement of Investment Policies and Objectives (SIIPO) (draft attached to this report) to ensure that it is appropriate for Council's needs. This work will include consultation with industry specialists on the agreed investment strategy.

4.4 Significance and Engagement

The Investment Policy impacts on several hundred million dollars of Council assets.

Due to the specialised nature of investing, Council does not need to publicly consult on the Investment Policy (*refer to S.102 (1), (2), (4) and (5) of the Local Government Act 2002*).

The policy was workshopped by Council prior to presentation.

A final draft of the SIPO will need to be presented to Council for adoption.

4.5 Implications

Financial

Council has over $60m of leasehold property, with approximately $3m of sale proceeds that requires reinvestment. There is no requirement to sell property, but an appropriate vehicle needs to be available for current proceeds and any future proceeds.

Social & Policy

Policy amendments have been prompted from changes to the Investment Property Portfolio Policy (Leasehold) and direction from the Audit and Risk Committee for officers to proceed with a review of Council's investment strategy.

Risk

Without an amendment to the Investment Policy, Council is currently in breach of its obligations under the Investment Property Portfolio Policy (Leasehold) as some leasehold property has been sold without an investment policy in place to receive the proceeds.

Provisions within the current Investment Policy are not fit for purpose with regards to leasehold sale proceeds.

Much of the framework within the current policy was developed at a time of greater economic stability. Adherence to policy provisions is having a detrimental impact on treasury investments.

4.6 Options

The options available to Committee are as follows:

a. Endorse the recommended changes to the Investment Policy
b. Endorse the Investment Policy subject to further amendments (in addition to, or in place of, those recommended).
c. Reject recommended changes to the Investment Policy.

4.7 Development of Preferred Option

The preferred option has been developed with reference to current best practice, consideration of policies from other local authorities and in response to wider economic conditions.

4.8 Attachments

1 Investment Property Portfolio Policy (Leasehold) (Doc Id 1471213) ⇩
2 Investment Policy (current) (Doc Id 1471212) ⇩
3 Investment Policy (proposed) (Doc Id 1471211) ⇩
4 SIPO (draft) (Doc Id 1471214) ⇩

INVESTMENT PROPERTY PORTFOLIO POLICY (LEASEHOLD)

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Investment Property Portfolio Policy (Leasehold)

Adopted by	Napier City Council on 18 September 2018
Relevant Legislation	Local Government Act 2002, Hawke's Bay Endowment Land Empowering Act 2002, Napier Borough Endowments Act 1876
NCC Documents Referenced	NCC Long Term Plan 2018-2028 consultation process and subsequent Council resolutions 1 June 2018 and 29 June 2018. Council's adopted Investment Policy and Liability Management Policy pursuant to Section 102 (1) and Section 104 of the Local Government Act 2002

Purpose

The purpose of this policy is to outline the terms and conditions on which Council may sell non-strategic land included in the Napier City Council's Investment Property Portfolio. The policy also provides guidance relating to the investment of the proceeds of sale.

Background

After public consultation as part of Council's Long Term Plan 2018-2028, Council resolved on 1 June 2018 and confirmed on 29 June 2018:

That the resolutions from the Strategy and Infrastructure Committee meeting on 30 January 2018 be updated to reflect the following:

- To allow freeholding of non-strategic land using as a guide the June 2016 Boffa Miskell report "Napier City Investment Portfolio: Urban Landscape Strategic review" on a case by case basis.
- That recommendations on the freeholding of all identified non-strategic land be considered by the Audit and Risk Committee in the first instance for recommendation to Council.
- That the sale of leasehold land be a Decision of Council.
- That a divestment and investment policy for the sale proceeds is established and approved by Council resolution prior to the release of any leasehold land.

For the reasons that:

1. The current policy provides no flexibility for freeholding specific, non-strategic assets that if sold, could assist in the redevelopment of industrial and/or commercial land in Napier and stimulate private investment.
2. Introducing some flexibility in the policy will allow Council to consider each leasehold property on its merits so that any decisions relating to such land is made with the best intentions for the future of Napier.
3. Freeholding specific properties will enable diversification of the Council's investment portfolio which will reduce market exposure risks.

Using the Boffa Miskell report as guidance to determine the strategic nature of each property and performing an investigation into sale and reinvestment opportunities on a case by case basis, gives Council the ability to adapt to current market conditions whilst also providing the ability for Council to secure better community outcomes and value from the area through project design, urban design, up-zoning the land to encourage better development potential or a combination of these, whilst also ensuring maximum benefit to ratepayers.

Description of Portfolio

The portfolio consists of the ownership of a lessor's interest portfolio, which comprises 74 leases known as the Investment Property Portfolio. Council owns the lessor's interest in these properties and a number of individuals and businesses own the lessee's interest. The leases are perpetually renewable meaning that, subject to continuing to pay rental (which is reviewed at periodical intervals) the lessees have a perpetual right to occupy the land. The improvements on the land are owned by the lessees, not Council.

Freeholding essentially involves the lessees purchasing Council's interest in the land. Council has no automatic right to purchase the Lessees interest and any purchase would require agreement between both parties.

Background to ownership

The Investment Property Portfolio was originally established from:

- Properties transferred to Council from the Hawke's Bay Harbour Board as part of the Local Government reorganisation in 1989. The reason for the transfer was to provide an income generating asset to offset the liability associated with the upkeep of the Inner Harbour and Foreshore Reserves, which transferred at the same time. The income generated from these properties has historically been applied by Council to fund in part the cost associated with these activities.
- Properties already owned by Council as a result of land development in conjunction with the Harbour Board.
- Other sundry properties which have been owned by Council for many years.
- Endowment Properties - Nine of the properties in the portfolio are subject to the Napier Borough Endowments Act 1876 and before freeholding of these can occur any requirements under that Act and Sections 140 and 141 of the Local Government Act 2002 must be satisfied.

Policy Statement

1. Overriding Principle

The Council's ability to sell non-strategic land under this Policy represents a discretion to be executed by Council on a case by case basis. Nothing in this Policy represents a right for any person to insist or require the Council to sell to them and the sale by Council of any land under this Policy does not create precedent or expectation that other land held by Council (whether of a similar nature or not) will be sold.

The above decision by Council sets no deadline for the expiry of the policy allowing consideration of freeholding on a case by case basis. The discretion regarding triggering a freeholding request therefore rests with the lessee.

2. Party to whom Council may sell land to

Sales are only to be made to the registered Lessee at the time of sale.

3. Valuation

Where land is sold it is to be sold at such price as determined by Council at its sole discretion. Full Market Value as determined by a registered valuer, commissioned by Council, is to be used as a guide. There is no right of appeal or right of arbitration.

4. Discount

No discount is to be applied irrespective of whether or not the land is used in full or in part for residential accommodation. The 30% discount on market value applied, as per Council policy, to the freeholding of residential land shall not apply to the land held in the Investment Property Portfolio

5. Payment Method

The purchase price will be paid as follows:

a. A deposit of 15% upon signing a sale and purchase agreement; and

b. The balance in full on settlement

The lessees will also be required to pay Council's costs of sale (including legal fees and disbursements). These costs will also be payable in full on settlement. Lessees will be required to meet all costs in seeking independent advice from their own professional advisors.

6. Factors which may be considered in determining the strategic nature of properties

The 2016 Boffa Miskell report may be used as a guide in determining on a case by case basis the strategic nature of each property. The five site assessment criteria used in the report were:

- **Adjacency to public amenity**
  Is the site adjacent to current or potential future public amenity e.g. coast/walkway? If it is adjacent, additional value may be able to be returned from the site by an investment in that amenity, or by undertaking re-development of the site to leverage value from a new form of activity or building.
- **Potential for collective redevelopment**
  Is the site isolated, or is it within a collection of Council sites that are large enough to enable a potential redevelopment if developed as a package? Larger sites generate opportunities for a collection of buildings and public space together whereas splitting sites reduces potential
- **Located in a transformational area**
  Is it in an area where change is already occurring and where Council might want to consider using the land to help the area to change?
- **Potential to improve connectivity + amenity**
  Can the site be used to improve connections between streets or as part of an open space network, or can it be re-purposed to make a new amenity?
- **Connections to infrastructure**
  Is the site able to be utilised for new infrastructure such as sustainable urban storm water device or for new streets etc.?

In addition, other strategies and plans of Council will also be used to determine the strategic nature a property such as City Vision and the Ahuriri Masterplan.

A financial analysis may also to be carried out to determine whether the land is strategic as an investment. Such analysis to include generally recognised measures and benchmarks in the property sector. Council may engage external professional advice on a case by case basis to assist in any evaluation.

7. Purchase of Lessees improvements

Consideration may be given to the purchase by Council of the Lessees interest in land held in the Investment Property Portfolio. This may be considered where this will result in a better outcome for the future of the property in the best interests of Council and City development. Any such purchase will require a resolution of Council.

8. Investment of sale proceeds

It is recognised that by allowing lessees to freehold with no deadline, Council will have no control over when the proceeds will be realised. This potentially impacts timing issues surrounding the ability for Council to sell down non- strategic properties and make desired investments.

Internal borrowing from Council reserves may be considered in order to facilitate investment opportunities ahead of the receipt of freeholding funds. Sale proceeds are to be ring fenced and initially credited to an interest bearing special fund within Council's accounts.

Investment decisions relating to these funds are to be made on a case by case basis and are to comply with Council's Investment Policy and Liability Management Policy adopted as a requirement under Section 102(1) and Section 104 of the Local Government Act 2002. Council may also refer for guidance to the Investment Strategy Analysis Review Report dated October 2016 prepared by

PricewaterhouseCoopers for Council. Updates to this report may be periodically required along with external professional advice on a case by case basis when evaluating investments.

The underlying goal is to ensure that any investments considered continue to generate sufficient income to replace that lost by properties sold. New investments require a resolution of Council.

9. Process for freeholding

Current registered lessees may make application in writing to have their property considered for freeholding.

An evaluation will then be undertaken by a panel of Council officers appointed by the Chief Executive to determine whether or not the property is strategic in terms of both location and as a financial investment. A market valuation will be conducted at this point in time.

Council officers will then make a recommendation to the Audit and Risk Committee. All recommendations will flow through to the Finance Committee who in turn will make a recommendation to Council.

Should Council resolve to allow the freeholding of a specific property, then a written offer will be made by Council giving a 3-month deadline for the lessee to accept and sign an appropriate agreement. After the three-month deadline the offer will lapse.

Legal work to complete transactions will be made by Council's Solicitors. The purchaser will however pay these costs.

Policy Review

The review timeframe of this policy will be no longer than every three years.

NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

PUBLIC POLICY

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Investment Policy			
Adopted By	Council		
Department	Finance		
Original Adoption Date	30 June 2015	**Review Adoption Date**	21 May 2020
Next Review Deadline	21 May 2023	**Control Document ID**	346412
Relevant Legislation	Section 102(1) of the Local Government Act 2002		
NCC Docs Referenced	n.a.	**Published Document ID**	n.a.

For information all administrative aspects of reviewing policy, please refer to Policy Review Procedure, document ID 667482

Purpose

The Investment Policy is adopted under Section 102(1) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with the relevant sections of the Council's Treasury Management Manual.

In its investment activities Council is guided by the Trustee Act of 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

Council is a risk-averse entity and does not wish to incur additional risk from its treasury activities. Its broad objectives in relation to treasury activity are to manage all of Council's investments within its strategic, financial and commercial objectives and optimise returns within these objectives, manage the overall cash position of Council's operations to meet known and reasonable unforeseen funding requirements, and invest surplus cash and the financial investment portfolio in liquid securities and strongly credit-rated counterparties.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments is delegated to the Director Corporate Services.

Mix of Investments

Council maintains investments in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP.) Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs). Council may also make advances to CCOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. Dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.
Council's objective in making any such investment will be to:

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

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council's overall objective is to own only property that is necessary to achieve its strategic and commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in car parking, leasehold land, and rental and retirement housing. Generally, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is retained only where it relates to a primary Council output.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.
Council provides car parking facilities which are operated on a commercial basis, and are run to cover ongoing operational costs.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002, is allowing lessees to freehold residential properties, which is diminishing the portfolio.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. Any disposition of a property investment requires Council approval.

Treasury Investments

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

All interest income from Council's treasury investments is included in the consolidated rating account or special activity account.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. 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.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be strong or better.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with as wide a range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread. Investment in corporate shares is considered to be an inappropriate asset class and therefore expressly forbidden.

Within the above credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements

Credit, Liquidity and Interest Risk Management

- Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer, and by limiting investments to registered banks, strongly rated State-Owned Enterprises, supranationals, local authorities and corporates within prescribed limits.
- Liquidity / Maturity risk is minimised by managing maturity terms within strict policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

Financial Investment Interest Rate/Maturity Limits

The following control limits are designed to manage interest rate risk and maturity risk on the financial investment portfolio. The portfolio comprises both cash and core treasury investments. Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements. Core treasury investments relate to unencumbered investments that are invested for terms of greater than three months.

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required.

Period	Minimum	Maximum
0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

Counterparty Limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the following table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Issuers	Approved Instruments	Minimum Long-Term &Short-Term Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
NZ Government	Treasury bills Government stock	N/A	Unlimited	100%
NZ Local Government Funding Agency	LGFA Fixed and Floating Rate Bonds Promissory notes / Commercial paper Borrower Notes	AA-/A-1	$40.0m	50%
NZD Registered Supranationals	Promissory Notes / Commercial Paper, Fixed and Floating Rate Bonds	AAA	$20.0m	30%
State-Owned Enterprises	Promissory Notes / Commercial Paper, Fixed and Floating Rate Bonds	A+/A-1	$15.0m	20%

Issuers	Approved Instruments	Minimum Long-Term &Short-Term Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
New Zealand Registered Banks *	Money market call deposits and term deposits, Registered Certificates of Deposit, Senior Bonds	A+/A-1	$30.0m or 40% of total portfolio (whichever is the lesser)	100%
Corporate Bonds *	Promissory Notes, Commercial Paper, Fixed and Floating Rate Senior Bonds	A+/A-1	$3.0m	20%
Local Authority	Fixed and Floating Rate Bonds and Stock, Commercial Paper	A+/A-1 (if rated) Unrated	$5.0m $3.0m	20%

* Note: An approved exception to the above is other treasury investments made with local registered banks that are regulated by the Royal Bank of New Zealand having a credit rating of at least BBB. Such investments shall be limited to a term of 3 months or less, and be for not more than $2 million in aggregate. At no time should the total exposure to this risk category be greater than 5% of the total investment portfolio.

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

All secured and unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- No asset backed securities are allowed.
- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt, junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

Council does not adopt the use of interest rate risk management instruments on its investments.

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Loan Redemption Reserves

Council establishes specific Loan Redemption Reserves for each new external borrowing. The internal Loan Redemption Reserve is invested in accordance with Council's Investment Policy.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
>1.0.25 (not rolled correctly)	Garry Hrustinsky	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2.0.0	Garry Hrustinsky	No change	May 2020

PUBLIC POLICY

Investment Policy			
Adoption By	Council		
Department	Corporate Services - Finance		
Original Adoption Date	30 June 2015	**Review Adoption Date**	21 May 2020
Next Review Deadline	21 May 2023	**Document ID**	352769
Relevant Legislation	Section 102 and 105 of the Local Government Act 2002		
NCC Docs Referenced	Not applicable		Not Applicable

Purpose

The Investment Policy is adopted under Section 102(1) and 102(2)(c) of the Local Government Act 2002 and must state the local authority's policies in respect of investments.

Policy

Council generally holds strategic investments where there is some social, economic, environmental or cultural benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective.

Specific purposes for maintaining investments include:

- For strategic purposes consistent with Council's LTP;
- To reduce the current ratepayer burden;
- The retention of vested land;
- Holding short-term investments for working capital requirements and liquidity management;
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations;
- Holding assets (such as property) for commercial returns;
- Providing 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;
- Investing amounts allocated to accumulated surplus, Council created restricted reserves and general reserves;
- Investing proceeds from the sale of assets.

Investments and associated risks are monitored and managed, and regularly reported to Council in accordance with this policy.

In its investment activities Council is guided by the principles outlined in the Trusts Act of 2019. When acting as a trustee or investing money on behalf of others, the Trusts 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.

For banking and fixed interest investments relating to treasury activities, Council is a risk-averse entity and does not wish to incur excess risk relative to expected returns. With the exception of any portfolio established to receive the proceeds of leasehold property sales (detailed below), Council's broad objectives in relation to treasury activity are to manage all of the investments to meet known and reasonable unforeseen funding requirements. Surplus cash is invested in liquid securities and strongly credit-rated counterparties. Where possible returns should be optimised.

A separate Statement of Investment Policies and Objectives (SIPO) has been established for the receipt and reinvestment of the proceeds of leasehold property. As per the Investment Property Portfolio Policy (leasehold), sale proceeds are ring-fenced and reinvested to provide ongoing income and capital growth to replace that lost from property sales. With consideration to the prudent person test, a separate investment strategy with its own risk and return objectives have been set for these ring-fenced funds.

Staff seek to develop and maintain professional relationships with Council's bankers, financial market participants and other stakeholders.

Acquisitions of New Investments

With the exception of treasury investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

The authority to acquire treasury investments, with the exception of cash and term deposits (which are provided for in the Financial Delegations Register), is delegated to the Director Corporate Services.

Mix of Investments

Council maintains investments in the following mix of investments:

Equity Investments

Equity Investments are held for various strategic, economic development and financial objectives, as outlined in the Long Term Plan (LTP). Council Equity Investments include interests in the Hawke's Bay Airport Authority and Omarunui Landfill Operation, and may include other Council Controlled Organisations (CCOs) and Local Government Funding Agency shares. Council may also make advances to CCOs.

Council seeks to achieve an acceptable rate of return on all its equity investments, consistent with the nature of the investment and Council's stated philosophy on investments.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Any disposition of these investments requires Council approval. With the exception of specific ringfencing provisions for some assets (e.g. Omarunui Landfill), dividends received and proceeds from the disposition of equity investments are used to repay debt, to invest in new assets or investments or any other purpose that is considered appropriate by Council.

New Zealand Local Government Funding Agency Limited (LGFA)

Council consulted on, and became a member of, the LGFA in March 2020.

Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment.

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

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

Council may invest in LGFA bonds and commercial paper as part of its financial investment portfolio.

As a borrower, Council's investment is recognised through shares and borrower notes. As an investor in LGFA shares and as a Guarantor, Council subscribes for uncalled capital in the LGFA.

Property Investments

Council's primary objective is to own property that is necessary to achieve its strategic or commercial objectives, or deemed to be a core Council function. Council therefore retains an investment in car parking, leasehold land, and rental and retirement housing.

Property purchases are supported by registered valuations and, where appropriate, a full business case analysis. Council does not purchase properties on a speculative basis.

Council provides car parking facilities which are operated on a commercial basis.

Rentals and ground rent from property investments, other than land covered by the HB Endowment Land Empowering Act 2002, is included in the consolidated rating account. Council's leasehold land portfolio was transferred from the Hawke's Bay Harbour Board in 1989 as part of the local government reorganisation and Council, by virtue of the Hawke's Bay Endowment Land Empowering Act 2002, is allowing lessees to freehold residential properties, which is diminishing the portfolio.

Council owns various Napier properties which it classifies as the 'Napier City Council Investment Property Portfolio'. The land held in the portfolio is leased to a variety of individuals and entities, and is managed in line with Council's leasehold land policy.

Property disposals are managed to ensure compliance with statutory requirements. Any disposition of a property investment requires Council approval. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

<u>Leasehold Land</u>

Disposition proceeds from the sale of leasehold land after 30 March 2002 are unrestricted under the Hawkes Bay Endowment Land Empowering Act 2002, and ring-fenced as per the Investment Property Portfolio Policy (leasehold) and managed according to the SIPO established for this purpose.

<u>General Land</u>

Disposition proceeds from the sale of General Land (including Roading Land) are used firstly to retire any debt related specifically to that investment prior to use for other purposes.

Treasury Investments – Cash & Fixed Interest Investments

Please note that Local Government Funding Agency borrower notes, bonds and commercial paper are discussed elsewhere in this policy.

Council maintains treasury investments for the following primary reasons:

- to invest amounts allocated to loan redemption reserves, trusts, bequests and special funds.
- to invest surplus cash, and working capital funds.

Treasury Investment Philosophy and Objectives

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. 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.

To provide the greatest benefit, Council utilises its surplus internal funds for internal borrowing to reduce external debt, thus effectively reducing net interest costs.

Council's primary objective when investing is the protection of its investment capital and liquidity of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be A- rated or better. Exposure to investments below a strong rating (A rated) are not recommended due to Councils Risk Framework and financial risk appetite.

To avoid undue concentration of exposures, treasury investments/financial instruments should be used with a suitable range of counterparties as practicable. Where possible, transaction notional and principal sizes and maturities should be well spread.

Within allowable credit constraints, Council also seeks to:

- Ensure investments are liquid
- Maximise investment return
- Manage potential capital losses due to interest rate movements and interest break costs if investments need to be liquidated before maturity.

Cash

Cash is defined as money held (physical or in a NZ registered bank) and term deposits.

A cash balance is maintained for liquidity purposes to meet operational needs. Council has daily cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments.

If practical, a targeted minimum of $5,000,000 is held at call to meet day-to-day operational cashflow requirements.

Term deposits must be held with NZ registered banks. Maturities are staggered to provide day-to-day cashflow requirements and to avoid early break penalties. Not more than $40,000,000 may be held with any one bank at any point in time.

Overdraft facilities are utilised as little as practical. Council maintains a $300,000 committed bank overdraft facility to meet interim cash and liquidity requirements.

Cash Interest Rate/Maturity Guide

An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required. This should be considered before applying the maturity guide (discussed below).

The following maturity guide is designed to manage interest rate risk and maturity risk on the treasury investment portfolio. The portfolio comprises both cash and fixed interest investments. Cash investments relate to matching investments with Council's working capital funding requirement and liquidity buffer amount requirements.

Period	Minimum	Maximum
0-6 months	30%	80%
6-12 months	20%	70%
1-3 years	0%	50%
3-5 years	0%	20%

Cash - Foreign Exchange Policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets approved through the capital planning process. Generally, all commitments over NZ$100,000 equivalent are hedged using forward foreign exchange contracts, once expenditure is approved, the purchase order is placed, and the exact timing and amount is known. Council uses both spot and forward foreign exchange contracts.

Council does not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Fixed Interest

Fixed interest is defined as debt instruments (other than those defined as cash). Fixed interest can include, but is not limited to, bonds, commercial paper, etc.

Fixed interest may be used to supplement cash investments where terms are more favourable than those offered for cash investments or where timeframes are greater than 5 years.

Council preference is for plain vanilla bonds although other structures may be considered on a case-by-case basis. All secured and unsecured investment securities should preferably be senior in ranking. The following types of investment instruments are expressly prohibited:

- No asset-backed securities are allowed
- Structured debt (e.g. CDOs, CLOs or synthetic instruments)
- Subordinated debt or unsecured junior debt
- Perpetual notes
- Debt/equity hybrid notes such as convertibles

Fixed Interest - Credit, Liquidity and Interest Risk Management

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

Fixed Interest - Credit, Liquidity and Interest Risk Management

- Credit risk is minimised by placing limits for each broad class of non-Government issuer.
- Liquidity / Maturity risk is minimised by managing maturity terms within policy limits and ensuring that all negotiable investments are capable of being liquidated in a readily available secondary market.
- Interest Rate risk is minimised by investing in fixed rate bonds and bank term deposits spread over a range of maturity terms.

Fixed Interest - Counterparty Limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. Credit ratings are as determined by Standard and Poor's, or equivalent rating. If any counterparty's credit rating falls below the minimum specified in the following table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
NZ Government	Treasury bills Government stock	N/A	Unlimited	100%
NZ Local Government Funding Agency	LGFA Fixed and Floating Rate Bonds Promissory notes / Commercial paper Borrower Notes	N/A	$40.0m	50%

Fixed Interest Issuers	Approved Instruments	Minimum Credit Rating (S&P)	Maximum per Counter-party	Maximum % of Total Investment Portfolio
State-Owned Enterprises and Local Authority	Promissory Notes / Commercial Paper, Fixed Rate Bonds	A-	$5.0m	40%
Corporate Listed Bonds	Commercial Paper, Fixed Rate Bonds	A-	$5.0m	0%

Loan Advances

Council may provide advances to CCOs, charitable trusts and community organisations for strategic and commercial purposes only. New loan advances are by Council resolution only.

As outlined in Section 63 of the Local Government Act 2002, Council does not lend money, or provide any other financial accommodation to a CCO on terms and conditions that are more favourable to the CCO than those that would apply if Council were (without charging any rate or rate revenue as security) borrowing the money or obtaining the financial accommodation.

Loan advances are generally provided on an unsecured basis. Where possible, Council seeks security through a mortgage over land and buildings.

Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

Investment Management and Reporting Procedures

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long term cashflow through the annual Cashflow Forecast. To maintain liquidity, Council's short and long term investment maturities are matched with Council's known cashflow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The results are summarised and reported to Council on a quarterly and annual basis.

Policy Review

The review timeframe of this policy will be no longer than every 3 years.

Document History

Version	Reviewer	Change Detail	Date
1	Investment and Funding Manager	NCC Long Term Plan 2015-2025, wording below was reviewed between March and May 2018, and published in the Long Term Plan 2018-2028	2019
2	Investment and Funding Manager	No change	May 2020
3 DRAFT	Investment and Funding Manager		May 2022

NAPIER CITY COUNCIL

LONG TERM INVESTMENT PORTFOLIO

Statement of Investment Policies and Objectives

Contents

1. Purpose

The purpose of this Statement of Investment Policy and Objectives ("SIPO") is to assist Napier City Council ("Council"), the Audit & Risk Committee and the Investment Manager in effectively supervising, monitoring and evaluating the management of the Investment Fund ("the Fund").

The SIPO defines the key responsibilities, and the operating parameters within which the investments and their ongoing management are to operate. The SIPO should at all times encourage the use of methodologies and processes that reflect industry best practice, encompass the principles of good governance, and reflect Council's vision and risk tolerances.

2. Objectives

2.1 Background

Napier was granted municipal status in 1874, with the first meeting held in 1875. In 1931 the earthquake destroyed infrastructure and services. As a result of the earthquake, significant areas of land were raised; assisting with Council land reclamation projects.
Napier was proclaimed a city in 1950.

In 1989 the New Zealand Government legislated a major overhaul of local bodies by the Local Government Commission, which ended or amalgamated most single-purpose bodies. As a result of amalgamation, a number of commercial and residential properties were transferred to Council from the Hawke's Bay Harbour Board. In addition to this property an Investment Property Portfolio was also established from:

- Properties already owned by Council as a result of land development in conjunction with the
- Harbour Board.
- Other sundry properties which have been owned by Council for many years.
- Endowment Properties - Nine of the properties in the portfolio are subject to the Napier Borough Endowments Act 1876 and before freeholding of these can occur any requirements under that Act and Sections 140 and 141 of the Local Government Act 2002 must be satisfied.

Napier City Council owns various properties in Napier which Council classifies as Napier City Council's Investment Property Portfolio. This land, held in the portfolio, is leased to various individuals and entities. All land held in the portfolio was originally commercial and industrial land. Council holds and manages these properties on behalf of the Napier community for the benefit of both current and future generations. The Napier community enjoys the benefit of these properties through a reduction in general rates to the extent of income received.

Under the Hawke's Bay Endowment Land Empowering Act 2002, Council was given the power to sell such land free from endowments to fund purposes listed in s.3 of the Act.

As detailed in the Investment Property Portfolio Policy (leasehold) as at 3rd August 2021, Council resolved on 1st of June 2018 and confirmed 29th June 2018 that a divestment and investment policy for the sale proceeds is established and approved by Council resolution prior to the release of any leasehold land. This SIPO provides the guidelines for establishing and managing such a portfolio.

2.2 Objectives

To protect and maintain the purchasing power of the current investment assets and all future additions to the investment assets for current and future generations.

To maximise investment returns within reasonable prudent levels of risk.

To maintain an appropriate asset allocation in order to make distributions as required while preserving the real value of the Council's capital from the effects of inflation.

As this portfolio was created from the proceeds of NCC leasehold property sales, the portfolio is intended to generate income to supplement revenue from rates in support of Council operations. Please refer to Section 6 (Portfolio Distributions) for further details on this objective.

2.3 Time Horizon

The Fund is an intergenerational/perpetual investment. At a minimum, the investment guidelines are based upon an investment horizon of greater than ten years. Therefore, interim fluctuations should be viewed with appropriate perspective.

2.4 Risk Tolerance

Council is a risk-averse entity but acknowledges that some risk must be assumed to counter the capital-eroding nature of inflation and achieve the long-term investment objectives of the portfolio. Council also recognises that there are uncertainties and complexities associated with investment markets that manifest as risk for the portfolio. It is the express desire of Council to minimise portfolio volatility through the adoption of prudent portfolio management practices.

With a requirement to generate capital growth in excess of inflation, provide some capital stability and income through interest, dividends and distributions, overall a balanced investment approach is adhered to – this is further defined in section 4 (Investment Policy and Implementation).

2.5 Ethical Investment (Socially Responsible Investment)

Council seeks to avoid investing in activities that would be regarded as unethical by a substantial majority of the New Zealand public. Where practical, a negative screen will be applied to the selection process of investments within the Fund (including debt instruments). Council wishes to avoid direct involvement with industries that have a negative impact on the environment or society. Examples of industries to be excluded include:

- Gambling
- Alcohol
- Weapons manufacturing and mercenary activities
- Tobacco
- Coal production (where the producer generates more than 30% of their revenue from coal production)

Council may also exclude investment in entities that don't directly undertake any of the activities above if they hold significant investments (i.e. more than 50%) in entities that themselves engage in those activities.

This list is not exhaustive.

2.6 Performance Expectations

In general, Council would like investment portfolios that are managed by external Investment Managers to earn a long-term targeted net return of 4.3% per annum[1].

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[1] Refer to Appendix 1 for return assumptions.

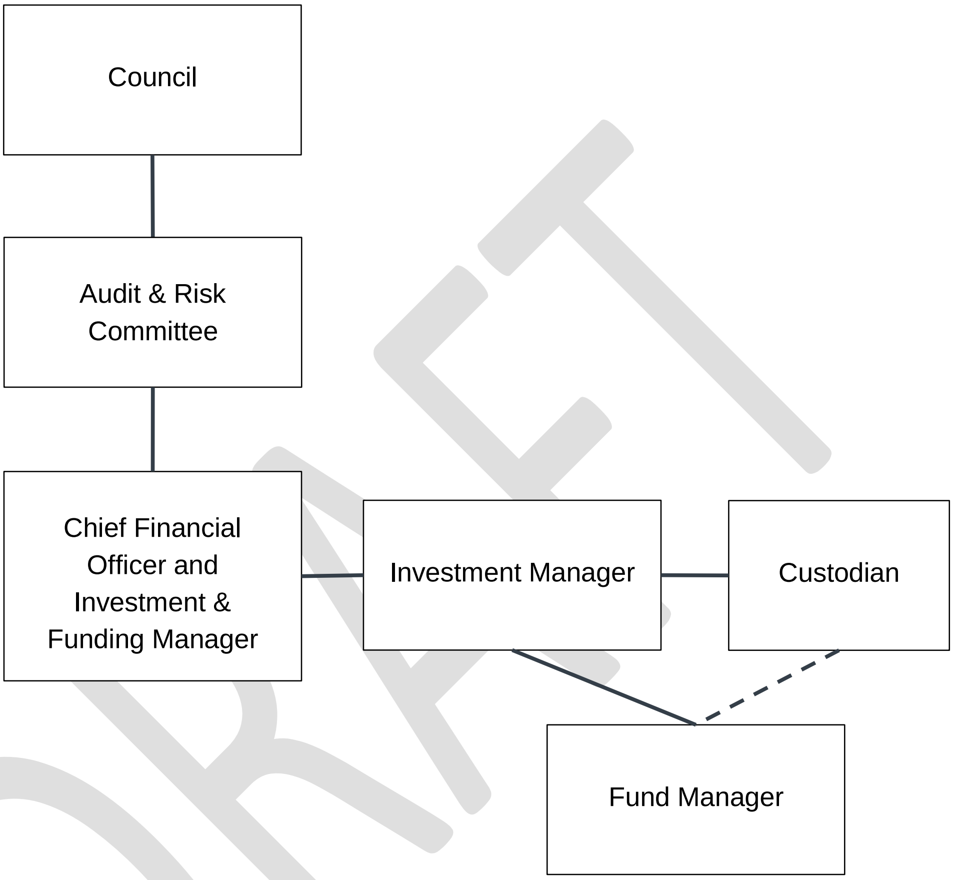
2.7 Policy Setting and Management

Council may from time to time approve/amend the policy parameters set in relation to Council's investment activities. These changes will be resolved and approved by Council and incorporated into the SIPO with the dates of changes noted, and all parties involved with the management of the investments notified.

3. Duties and Responsibilities

3.1 Structure

Council's investment management organisational chart is displayed below. Within this structure the Audit and Risk Committee are responsible for the oversight and monitoring of the Fund.



3.2 Council

Council has the ultimate responsibility for managing investment decisions on the establishment and ongoing operation of the Fund. Council will be responsible for the following:

- Setting the Fund's investment strategy, including the level of risk and investment objectives, and investment policies.
- Selecting and changing the Investment Manager/s as appropriate.
- Reviewing the SIPO annually, including the investment strategy, policies and manager configuration, and instructions to the Investment Manager/s.
- Formally reviewing the SIPO every three years. This includes the investment strategy, return objective, policies and manager configuration, and instructions to the Investment Manager/s. This review may include consultation with the Investment Manager/s and/or other third party specialists.

- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objective to maintain equity, in terms of amounts available for distribution, between present and future rate payer generations.
- Providing cash flow information with respect to future deposits and redemptions.
- Set out the duties and responsibilities of all parties involved with respect to decision-making, planning, investment management, reporting and review.
- Seeking guidance, as appropriate, from the Audit & Risk Committee, CFO and Investment & Funding Manager on matters relating to policy and portfolio management.
- Receiving semi-annual and annual portfolio performance reports from the CFO and Investment & Funding Manager (sourced from Investment Manager/s).

3.3 Audit & Risk Committee

The responsibility for the monitoring and reviewing of Council's investment policies is that of the Audit and Risk Committee, assisted by the Chief Financial Officer, Investment & Funding Manager and the Investment Manager/s.

- Provide guidance and leadership on the appointment, management, monitoring and review of Investment Manager/s.
- Recommend the SIPO to Council.
- Liaise with the Investment Manager/s.
- Ensure that the Investment Manager/s have their own Investment Policy Statement ("IPS") recording how the investor's money is to be managed. Specific information on matters such as asset allocation, risk tolerance, investment securities and liquidity requirements are included in an IPS. Ensure that the IPS is consistent with how Council manage their portfolio.
- Review all matters concerning the SIPO, considering any changes or amendments to the SIPO and making appropriate recommendations.
- Ensure that the practices and policies set out in the SIPO are adhered to on an ongoing basis.
- Review Investment Manager reports and reporting exceptions on a quarterly basis.
- Ensure that all parties overseeing, advising and managing Council's investments disclose any potential conflicts of interest. In the event that conflicts of interest arise, the policies and procedures for managing these are to be clearly defined, although, in principle, such conflicts should be avoided.
- Advise Council of changes or issues regarding the Fund.
- Report to Council on the performance of the Fund on a basis agreed with the Council.
- Confirm the management of investments complies with all applicable laws, Council's policies, risk tolerance and other supporting documents.
- Ensure that contracts for the Investment Manager/s and custodial services are reviewed annually.

- Ensure appropriate risk management standards and procedures are developed and maintained.
- Ensure the overall Fund is prudently diversified to meet the agreed risk/return profile.
- Recommends rebalancing of the Fund.
- Follow formal criteria to monitor, evaluate and compare the investment performance results achieved against relevant benchmarks and objectives on a regular basis.
- Ensure that all service agreements and contracts are in writing and are consistent with fiduciary standards of care.

3.4 Chief Financial Officer and Investment & Funding Manager

The Chief Financial Officer (CFO) and Investment & Funding Manager are the primary point of contact for the Investment Manager/s, and maintain day-to-day oversight over the Fund. Responsibilities include:

- Provide guidance (as required) to Audit & Risk Committee and Council on the appointment, management, monitoring and review of the appropriate Investment Manager and matters relating to portfolio management and investment policy.
- Consolidate and present to Council semi-annual and annual performance reports sourced from the Investment Manager/s.
- Provide quarterly portfolio reports to Audit & Risk (including SIPO breaches) in conjunction with Investment Managers.
- Arrange attendance at Audit & Risk Committee and Council meetings with the Investment Manager/s.
- Advise the Audit & Risk Committee and Council (as appropriate) of any other material events or information that may impact the Fund, are time-bound/critical and require further guidance or a decision to be made. Where no decision is required by the Audit & Risk Committee or Council (i.e. the Investment Manager/s are able to make changes within the scope of the SIPO), an information-only report should be provided to those bodies.

3.5 Investment Manager

With reference to the SIPO, the Investment Manager has discretion to select specific investments and construct a portfolio on behalf of Council. Responsibilities include:

- Use the care, skill, prudence and due diligence under the prevailing circumstances that an experienced investment professional, acting in a like capacity and fully familiar with such matters, would use in like activities for like portfolios, and comply with all applicable laws, rules and regulations.
- Manage the Fund's investments in accordance with the guidelines and objectives as outlined in the SIPO, their IPS and in their service agreements.
- Ensure investment assets are appropriately diversified and conform within the time horizon and agreed risk/return profile. Outline expected returns and risk, or volatility, within the selected strategies.

- Manage the Fund on a day-to-day basis. Administer and attend to the day-to-day financial matters associated with the management of the Fund. The primary points of contact for the Investment Manager are CFO and Investment & Funding Manager.
- Exercise all voting rights, where applicable, in the best interests of the Fund.
- Ensure that “expected” and “modelled” returns for asset classes are based on sound return and risk premium assumptions.
- Provide advice on the asset allocation.
- Specify, and advise on, asset and sub-asset class allocation strategies.
- Recommend a Custodian to hold and report on investment assets. Periodically review custodial arrangements and make recommendations.
- Confirm on an annual basis that best practice with respect to execution, brokerage, money sweep facilities, foreign currency spreads, transaction costs and management fees is being applied.
- Manage the relationship with Fund Managers including:
    - Instructions to lodge or withdraw funds,
    - Overseeing and monitoring performance, and
    - Appointment and removal.
- Rebalance individual investments and asset class groups to within agreed benchmarks as described in the rebalancing policy contained in the SIPO and IPS documents.
- To effect all transactions for the Fund at the best price.
- Compile and account for all investment, record keeping and administrative expenses associated with the management of the Fund.
- Deliver quarterly reports including:
    - Fund valuation,
    - Fund duration,
    - Compliance reporting (including approved exceptions),
    - Performance summary for the Fund and by asset class,
    - Performance against agreed benchmarks,
    - Fund income,
    - Asset transactions summary,
    - Investment management fees,
    - Custodial fees,
    - Individual fund management fees, and
    - Brokerage and other transaction costs.
- Make available appropriate personnel to attend meetings, as agreed.
- Disclose any potential conflicts of interest and steps taken to mitigate such conflicts.

- To report annually the 'Total cost of Delivery' being the sum of:
  - o Investment Manager fees,
  - o Custodial fees,
  - o Administration fees, and
  - o Total Fund fees – made up of annual management fees (including annual management fees of underlying investments) and any other fees (including buy/sell spreads) and costs.
- Provide financial information, including income and/or returns projections, as required for forecast budgeting purposes.
- Communicate to Council all significant changes that are material with relation to management of the portfolio. Changes in ownership, organisational structure, financial condition, professional staff and reputation are examples that must be communicated.

3.6 Custodians

Custodians hold investments as bare trustee on behalf of Council and are responsible for the safekeeping of Council's investment assets. The specific duties and responsibilities of the custodian are:

- Maintaining separate accounts.
- Valuation of all investment assets.
- Collect all income and dividends owed to the portfolio.
- Settlement of transactions (buy/sell orders) initiated by the Investment Manager/s.
- Provide access for Investment Manager/s, CFO and Investment & Funding Manager to reports detailing transactions, cash flows, securities held and their current values, changes in value and returns.
- Provide annual audit confirmations to Investment Manager/s, CFO and Investment & Funding Manager.

3.7 Fund Manager

The Fund Manager is tasked with managing an allocated part of the Fund on terms and conditions consistent with their mandate. The Fund Manager/s is chosen by the Investment Manager/s and has no direct contact with Council.

4. Investment Policy and Implementation

4.1 Asset Class Guidelines

Long-term investment performance is primarily a function of strategic asset allocation and asset class mix.

History shows that while interest-generating investments, such as fixed interest portfolios, have the advantage of relative stability of capital value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments have a significantly higher expected return but have the disadvantage of much greater year-on-year variability of return. From an investment decision-making point of view, this year-on-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (10 years or greater).

Council can make investments in the following asset classes and assets:

- Cash – term deposits, cash on call, commercial paper, and bank bills.
- NZ fixed Interest – NZ Government, local authority and NZ State-Owned Enterprise bonds, corporate bonds, and fixed interest funds.
- International fixed interest – either direct, if appropriate, or via managed funds.
- Australasian property – listed property companies, managed property funds and direct property investments.
- Equities (Australasian and international) – managed funds or directly.
- Alternative assets – commodities, private equity and derivatives. Other assets defined as alternative assets may be included on researched advice from Investment Manager/s.

4.2 Asset Allocation

Academic research offers considerable evidence that the strategic asset allocation decision far outweighs security selection and market timing in its impact on portfolio variability and performance. On this basis Council prefers to adopt a strategic asset allocation –with restrictions placed around active and/or tactical asset allocation strategies.

Overall, Council wishes to adopt a broad balanced approach with a 50/50 split between defensive and growth assets. There is an allowable variance of +/-10% to the target defensive and growth split.

The asset allocation benchmark is to be[2]:

Asset Class	Income / Growth	Target Allocation	Acceptable Range	
			Minimum	**Maximum**
NZ Cash	Income	5%	0%*	30%
NZ Fixed Interest	Income	25%	10%	35%
International Fixed Interest	Income	20%	5%	30%
Defensive Assets		***50%***	***40%***	***60%***
Australasian Property	Growth	5%	1%	10%
Australasian Equities	Growth	20%	10%	40%
International Equities	Growth	25%	10%	30%
Alternative Assets	Growth	0%	0%	5%
Growth Assets		***50%***	***40%***	***60%***
Total		**100%**		

* Subject to minimum Cash Management Account requirements.

The asset allocation benchmark will be reviewed annually to ensure that it remains appropriate. Fundamental changes in the investment environment may prompt a review outside of this cycle.

4.3 Cash

4.3.1 Portfolio Objectives for Cash

- To provide liquidity within the portfolio for investment purchases and externally for Council funding.
- To provide diversified exposure to cash investments beyond returns available through conventional deposit accounts (i.e. bank accounts).
- To hold funds that are marked for a specific use within three years.

4.3.2 Portfolio Construction Guidelines

a. Diversification

The portfolio should be constructed with consideration for cash flow/liquidity and specific portfolio requirements (e.g. cash management accounts within custodial portfolios held for transactional purposes).

b. Number of Securities

There is no minimum or maximum number of securities or instruments held.

[2] Subject to consultation with Investment Manager/s and agreement by Council.

c. Duration
Where investments are fixed term, maturity must be 12 months or less.

d. Credit Rating
Fixed investments (e.g. term deposits) must have a Standard and Poor's or equivalent agency short term credit rating of 'A-1' or stronger.

4.4 NZ Fixed Interest

4.4.1 Portfolio Objectives for Direct NZ Fixed Interest
To gain a diversified exposure to the New Zealand fixed interest market through investing in direct securities with the following objectives identified below:

- Provide access to the market in a cost-effective manner,
- Provide a stable income and capital preservation (in nominal terms) over a full market cycle,
- Reduce overall volatility of a strategically diversified portfolio, and
- Provide a high level of transparency.

4.4.2 Portfolio Construction Guidelines
a. Diversification
The portfolio should be constructed to achieve appropriate diversification (in the constraints of the NZ market) relative to:

- New Zealand fixed interest issuers,
- The industries/sectors the issuers are involved with,
- The individual issue and overall portfolio duration, and
- Overall credit risk exposure of a portfolio.

The level of the diversification will be governed by the size of the fixed interest portfolio. Credit ratings will have an impact on the level of diversification. Securities with lower credit ratings require a higher level of diversification.

b. Number of Securities
To achieve sufficient levels of diversification, a minimum of 15 securities where the size of the NZ fixed interest portfolio is more than $1,000,000, and 10 securities where the size of the NZ fixed interest portfolio is less than $1,000,000 is required.

Where appropriate diversification cannot be achieved due to the size of the portfolio or availability in the market, funds may be directed to money market instruments or managed funds until availability improves.

c. Duration
The portfolio should be diversified across all durations to minimise the adverse effects of reinvestment risk on maturity. Council should be aware if the duration of their portfolio deviates from the benchmark duration by more than 1 year.

d. Liquidity
Although Council invests into the direct New Zealand fixed interest market with a "buy-and-hold" philosophy, over time its needs may change and greater levels of liquidity may be required.

The more liquidity is required, the more government and liquid (i.e. senior debt issues of $150m or greater) corporate securities should be included in the portfolio.

e. Exposure Levels by Credit Rating
Guidelines for maximum security exposure levels for individual securities are set by credit rating. The following criteria should be considered when making decisions on exposure levels with a portfolio:

- Consideration should be given to excessive exposure to any single issuer,
- Consideration should be given to the other asset class exposures Council may have to an issuer,
- The portfolio should be distributed across credit ratings, with a core of senior ranking securities rate A or higher, and
- BBB rated and unrated SOE securities can be included so long as they have characteristics in line with Council's investment expectations and objectives.

The following table presents a set of guidelines that must be used when constructing a portfolio:

S&P Rating Band	Overall maximum % of bond portfolio
AAA to BBB-	100%
A+ to BBB-	55%
BBB+ to BBB-	15%
Unrated*	7.5%
Sub-Investment Grade	0%
Government	100%

*Generally, Council will not seek to invest in unrated securities in a bond portfolio unless an implied investment-grade rating has been assigned.

A maximum of 5% of floating rate/annual resettable securities is permitted in a portfolio. However, this does not include perpetual securities (as detailed under the "4.4.2.f Banned Securities" heading).

Where possible, the following maximum individual security guidelines should be followed to gain diversification whilst ensuring sound credit quality within portfolios.

Maximum Individual Security Guidelines:

S&P Rating Band	Security maximum % of bond portfolio
Unrated Corporate	4%
BBB / Unrated SOE	5%
A	7.5%
AA	10%
AAA	15%
Government	20%

Please note that the above table provides guidelines for assessing an individual security. Although there is no maximum issuer exposure specified, diversification guidelines described under the "Diversification" heading are to be followed.

f. Banned Securities

Required fixed interest exposure can be adequately achieved by investing in securities with simple structures which possess typical fixed interest characteristics. The following securities are expressly banned:

- Direct mortgages and individual mortgage loans.
- Subordinated debt.
- Structured credit: including collateralised debt obligations (CDOs) or collateralised loan obligations (CLOs). These investments are generally complex and lack sophisticated monitoring systems required to provide ongoing assessment.
- Sub-investment grade bonds (junk bonds). Junk bonds are defined as having a credit rating of BBB- or below (or equivalent).
- Perpetual securities. Given the equity structure (including potential imputation credits) of perpetual securities, this class of fixed interest is not to be used.

g. Ratings Downgrade

If a security is downgraded, the guidelines table should be revisited to ensure that the new rating falls within the ratings framework. A decision must be made by Council in light of the downgrade as to the future holding of the security (which could potentially be outside the guidelines).

h. Reinvestment

Recommendations to reinvest the proceeds from a maturity should take into account all of the above portfolio construction guidelines.

As noted in 4.4.2.b, where it is uneconomical to gain a direct exposure to NZ or international fixed interest, investment may occur via a recommended managed fund in order to gain an appropriate level of diversification.

4.5 International Fixed Interest

4.5.1 Portfolio Objectives for International Fixed Interest

To provide an exposure to a diversified portfolio of international bonds.

4.5.2 Portfolio Construction Guidelines

Council considers it prudent to gain exposure to international fixed interest via a managed fund or funds in order to gain sufficient diversification and achieve economies of scale.

Where direct investment is made, the portfolio construction guidelines detailed in section 4.4.2 are to be employed (with the exception of the Maximum Individual Security Guidelines).

No more than 5% of the market value of the international fixed interest assets held should be invested in non-benchmark markets (i.e. markets not in the Barclays Capital Global Aggregate Index).

No more than 5% of the assets in this class should be held in any one security or with one single issuer, other than a fund or a security representing a collective investment of other securities (unless the security represents an OECD sovereign borrower, issuer, or agency of an OECD government and supranational borrowers).

4.6 Property Investment

4.6.1 Portfolio Objectives for Property Investment

To provide an exposure to the Australasian listed property sector.

4.6.2 Portfolio Construction Guidelines

a. Investment Philosophy

The inclusion of property stocks in the portfolio should be based on a “buy-and-hold” philosophy. As such, turnover is expected to be low (ideally no more than one change per year).

b. Diversification

The portfolio is to be diversified across different property types and regions. A minimum of 2 property stocks should be held.

c. Liquidity

There should be enough liquidity so that each property stock can be liquidated at a fair market value within one month.

d. Debt Position

Each property stock should have a prudent debt position, be compliant with its covenants, and avoid excessive refinancing risk.

f. Quality

The average quality of the properties within each stock’s portfolio should be at least B-grade.

4.7 Australasian Equity

4.7.1 Portfolio Objectives for Australasian Investment

To provide a combination of capital growth and income via a broad exposure to the Australasian equity market.

4.7.2 Portfolio Construction Guidelines

a. Investment Philosophy

High turnover that generates excessive transaction costs must be avoided.

b. Diversification

The portfolio is to be diversified across the respective industries that comprise the Australasian equity market. A minimum of 10 stocks should be held. Property stocks are to be excluded as this sector is treated as a separate asset class.

No investment is allowed in preference shares.

c. Liquidity

There should be enough liquidity so that each stock can be liquidated at a fair market value within one month.

4.8 International Equity

4.8.1 Portfolio Objectives for International Equity Investment

To provide an exposure to investments in the international equities sector.

4.8.2 Portfolio Construction Guidelines

Council considers a strategy which consists predominantly of Exchange Traded Funds (ETFs) to be appropriate, as it will achieve adequate diversification across a number of countries and industries. EFTs are cost-effective and have a high level of liquidity.

An exposure to small-cap shares (via an actively managed fund) and emerging markets is allowed for additional diversification and the potential for higher growth over the long term.

The weighting to each region will take into consideration economic output and not exclusively market capitalisation, so that the strategy is not reliant on any one economy.

No investment is allowed in preference shares.

4.9 Alternative Assets

4.9.1 Portfolio Objectives for Alternative Assets

To provide limited exposure to an asset class that traditionally has low correlation to other, more traditional, asset classes.

No exposure is required to alternative assets. However, this asset class may be employed where there is a demonstrated risk/return benefit.

4.9.2 Portfolio Construction Guidelines

Commodities and private equity may be used. Other alternative assets, excluding those that are expressly banned, may be considered by Council on a case-by-case basis.

Derivatives may be used in the following situations:

- To modify the yield curve or duration for cash and fixed interest investments.
- To alter asset allocation within the stated exposure ranges.
- To manage foreign currency exposure or as a hedge against other investment risks.
- To reduce transaction costs and improve liquidity that would otherwise have to be taken by buying or selling physical securities.

4.9.3 Banned Securities

No investment is allowed in illiquid or typically opaque markets.

Council cannot hold physical assets (e.g. gold, collectable items) for investment purposes. Storage costs, insurance, risk of loss and issues with liquidity make this a highly speculative market. Direct property is excluded from this list.

Due to the varied nature of hedge funds, a fund-of-fund approach is generally recommended to provide diverse exposure. However, hedge funds typically provide very poor benefit for cost. Hedge funds are expressly banned.

4.10 Foreign Currency Management

Historically, fluctuation of the New Zealand dollar against other major currencies has been significant and has resulted in additional portfolio volatility.

To minimise the risk associated with currency fluctuations the following policies apply:

- Holdings of offshore fixed interest (bonds) are to be fully hedged back to NZ dollars at all times.
- When investing in international equities either directly or via managed funds, a neutral currency position is the preferred strategy with at least 50% of the international equities being hedge back to NZ dollars at any one point in time. Any deviation from the preferred hedging level will require Council approval.

4.11 Tax Policy

The Fund is exempt from taxation on both income and capital gains. Any investment strategy employed needs to take into account Council's tax status, although this should not be to the detriment of the long-term strategic asset allocation.

Any tax leakage is to be quantified by the Investment Manager and reported to Council annually.

4.12 Rebalancing Guidelines

The percentage allocation to each asset class may vary depending on market conditions. The strategic asset allocation agreed to between Council and the Investment Manager will have upper and lower limits for each asset class.

The collective exposure to the various asset classes will be monitored quarterly, taking into account the impact of derivatives.

If the actual weighting has moved outside the tolerance levels, the Investment Manager will be required to rebalance the portfolio back towards the recommended weighting. Breaches are to be notified, with advice on how they will be rectified.

Where rebalancing does occur, this procedure should be completed at least annually. To ensure transactional costs are minimised, a pragmatic approach to rebalancing is to be adopted.

The regular cash flow requirements of the Council also provide an opportunity to assist in rebalancing the Fund towards benchmark weights.

5. Monitoring and Evaluation

5.1 Purpose

The goals of performance monitoring are to:

- Assess the extent to which the Fund's investment objectives are being achieved.
- Compare the performance of the Fund's appointed Investment Manager against the agreed performance benchmarks, performance of other relevant professional managers and market indices.
- Understand the existence of any particular weakness in the Investment Manager or the investment product(s) utilised.
- Allow the Audit and Risk Committee to continually assess the ability of both the Council and the Investment Manager to meet the Fund objectives.

5.2 Performance Objectives

Council acknowledge fluctuating rates of return characterise the securities markets, particularly during short time periods. Recognising that short-term fluctuations cause variations in performance, Council intends to evaluate investment performance from a long-term perspective.

Council is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at Councils' discretion to take corrective action by replacing an Investment Manager if they deem it appropriate at any time. Refer to 5.2.1 below for further discussion on Investment Manager Performance.

On a timely basis, but not less than annually, Council will meet to review whether the Investment Manager and the investment options selected continue to conform to the criteria outlined in the SIPO specifically:

- Adherence to the asset allocation levels set with rebalancing occurring within the agreed parameters and in a timely fashion,
- Adherence to the agreed investment philosophy and constraints,
- The adherence of individual investments to the investment guidelines,
- Material changes in the investment options, organisation, investment philosophy and/or personnel, and
- Any legal or other regulatory agency proceeding affecting the investment options.

5.2.1 Investment Manager Performance

Returns achieved by the appointed Investment Manager will be assessed by the Council in relation to their stated objectives and the objectives of the Fund. Returns will also be compared with returns earned by a suitable peer group, such as a group of other professional Investment Managers.

The Investment Manager will report at least quarterly in accordance with an agreed format.

The Investment Manager's role will be reviewed by Council on an annual basis. Factors taken into account in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the to meet the applicable investment objectives.

5.3 Benchmarks

Council has determined that performance objectives should be established for each investment option and for the overall investment portfolio. Manager performance will be evaluated in terms of an appropriate market index and the relevant peer group. These are to be agreed to between Council and the Investment Manager. Asset classes and relevant benchmarks could include:

Asset Class	Index
New Zealand Cash	S&P/NZX 90 Day Bank Bill Index
NZ Government Bonds	S&P/NZX NZ Government Bond Index
New Zealand Corporate Bonds	S&P/NZX Investment Grade Corporate Bond Index
International Fixed Interest	Barclays Capital Global Aggregate Bond Index (NZD hedged)
New Zealand Property (50%) Australian Property (50%)	S&P/NZX All Real Estate Index S&P ASX 200 Property Index
New Zealand Equities (50%) Australian Equities (50%)	S&P/NZX 50 Gross Index S&P/ASX 200 Accumulation Index
International Equities	MSCI All Countries World Net Total Return Index (50% hedged)
Private Equity	S&P Listed Private Equity Index
Commodities	Dow Jones Commodity Index

5.4 Watch List Procedures

An investment option and/or Investment Manager may be placed on watch list and a thorough review and analysis may be conducted when:

- Performance is below median for their peer group over a one, three and/or five-year cumulative period,
- The three-year risk-adjusted return falls below the peer group's median risk-adjusted return,
- There is a change in the professionals managing the investment,
- There is an indication the investment option and/or Investment Manager is deviating from the state style and/or strategy,
- There is an increase in fees and expenses,
- Any extraordinary event occurs that may interfere with the investment option and/or Investment Manager's ability to prudently manage investment assets.

This process is delegated to the Investment Manager where investment options are concerned. The process is delegated to the Audit & Risk Committee and/or a nominated third party where Investment Managers are concerned.
Investments or Investment Managers on a watch list will be reported to Council annually.

5.5 Measuring Costs

The total portfolio delivery costs should be fair and reasonable. The appointed Investment Manager should offer a fee-only service with all commissions returned to Council.
The Investment Manager is to report to Council annually on the breakdown and the total costs of delivery including:

- Administration/custodial reporting fees,
- Management expense ratios for managed fund investments,
- Advisory fees,
- Other brokerage or fees.

6. Portfolio Distributions (Option 1)

6.1 Purpose

The purpose of this portfolio is to benefit the Napier community by subsidising general rates through additional income received. At the same time as providing income, Council is tasked with preserving the value of the portfolio for future generations.

As noted previously, the portfolio was established from the sale proceeds of leasehold land owned by NCC. Assuming that the property is occupied, leasehold land provides regular rental income and potential capital growth. Without reinvesting into property, NCC is unlikely to replicate the returns patterns inherent in that property class. Unlike direct property, some capital gains can be realised to supplement income. On that basis, a distribution policy must be set to provide clarity on how much income can be drawn, and how much capital can be realised from the portfolio in any given year.

6.2 Maintenance of Capital Value

Although the investment objective is long-term, Council recognises that returns may fluctuate from year-to-year. The first goal of Council is to preserve the value of capital invested on an inflation-adjusted basis.

The Consumer Price Index (CPI) will be used as the measure of inflation for the purpose of calculating the minimum portfolio value target. The Reserve Bank of New Zealand releases the 12 month CPI value in mid-July every year.

Prior to determining available distributions to Council for the year, the minimum inflation-adjusted portfolio value must be calculated.

The Minimum Portfolio Value (MPV) will be calculated as follows:

(Opening portfolio value + additional investments) x 12 month CPI value = MPV

The MPV is calculated annually and provides an ongoing portfolio target to maintain purchasing power (preserve inflation-adjusted value).

6.3 Distribution Policy

The second goal of Council is to generate income from the Fund. Distributions may be made from the portfolio annually (after the MPV has been calculated).

Distributions are calculated as follows:

Closing Portfolio Value (30th of June) – MPV = Distribution to Council

Where the Closing Portfolio Value is less than the MPV, no distribution will be made. This approach is adopted to preserve portfolio value and maintain the purchasing power of future distributions.

6. Portfolio Distributions (Option 2)

6.1 Purpose

The purpose of this portfolio is to benefit the Napier community by subsidising general rates through additional income received. At the same time as providing income, Council is tasked with preserving the value of the portfolio for future generations.

As noted previously, the portfolio was established from the sale proceeds of leasehold land owned by NCC. Assuming that the property is occupied, leasehold land provides regular rental income and potential capital growth. Without reinvesting into property, NCC is unlikely to replicate the returns patterns inherent in that property class. Unlike direct property, some capital gains can be realised to supplement income. On that basis, a distribution policy must be set to provide clarity on how much income can be drawn, and how much capital can be realised from the portfolio in any given year.

6.2 Maintenance of Capital Value

Although the investment objective is long-term, Council recognises that returns may fluctuate from year-to-year. The first goal of Council is to preserve the value of capital invested on an inflation-adjusted basis.

The Consumer Price Index (CPI) is used as a common measure of inflation in New Zealand. The Reserve Bank of New Zealand (RBNZ) attempts to constrain inflation within a band of 1% to 3%.Iinflation may fall outside of RBNZ banding from time-to-time.
For the purpose of projections, Council assumes a long-term inflation rate of 1.5% (i.e. the mid-point of the RBNZ target band).

To preserve the inflation-adjusted value of Council's Investment Fund, any distribution will be net of inflation plus a buffer of 0.5% (i.e. 2%).

6.3 Distribution Policy

The second Goal of Council is to generate income from the Fund.

A total annual Distribution of 2.3% will be made from the Fund. The distribution is based on a long-term return assumption of 4.3% less an inflation buffer of 2%.

A quarterly distribution of 0.575% of the opening portfolio value will be made. Opening portfolio value will be calculated on the 1st of July each year, with distributions timed for 30th September, 31st December, 31st March and the 30th of June (or the nearest business day prior to those distribution dates).

7. Review of the Statement of Investment Policy & Objectives

This SIPO takes effect from dd/mm/yyyy.

Council will review this SIPO at least annually to determine whether the stated investment objectives are still relevant and it is feasible that they will be achieved. It is not expected that the SIPO will change frequently. In particular, short-term changes in the financial markets should not require adjustment to the SIPO.

Approved by Council:

Name	**Position**	**Date**

Appendix 1 – Returns Assumptions

Projected returns based on asset allocation detailed in Section 4.2 Asset Allocation.

10-Year Projected Portfolio Return

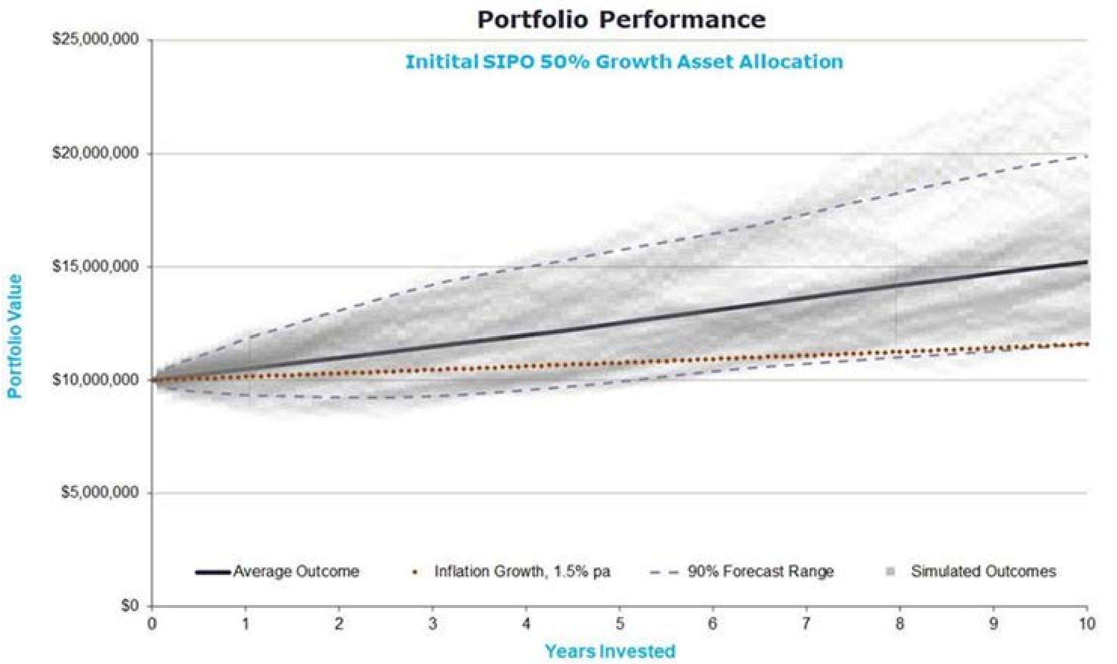
90% likelihood 10 Year Return	1.5% to 7.1%
Average 10 Year Return	4.3%
after Inflation	2.7%

Short-Term Variability

90% likelihood Year to Year Return	-6.7% to 18.2%
Historic best 12 months	19.2%
Historic worst 12 months	-14.8%
Historic worst peak to trough	-17.3%
Period	10/2007 to 03/2009

Source: JBWere 10-year expected returns and market behaviour since 1990.
Average inflation rate of 1.5% expected over the next 10 years.

Portfolio Projections (Monte Carlo Simulation)



5. RISK MANAGEMENT REPORT

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1467692
Reporting Officer/s & Unit:	Jane Klingender, Manager Business Excellence & Transformation Adele Henderson, Deputy Chief Executive / Director Corporate Services

5.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on risk management with reference to responsibilities listed in the Audit & Risk Charter.

Officer's Recommendation

The Audit and Risk Committee:

a. **Receive** the Risk Management Report dated May 2022;

b. **Receive** the report from PWC called "NCC Risk Workshop Output" outlining outcomes of workshops on strategic risks and risk appetite with Council and the Executive Leadership Team;

c. **Endorse** the recommended list of strategic risks, noting that there may be some changes as a result of further analysis;

d. **Endorse** the revised Risk Management Policy for Council approval; and

e. **Note** the emerging risks

5.2 Background Summary

This paper addresses responsibilities in relation to the Audit & Risk Committee Charter.

Risk Management Framework

Executive Leadership Team (ELT) workshops were undertaken (September and November 2021) to review the revised Risk Management Policy (including Framework) and Risk Management Strategy; and to review and update strategic risks. PWC were engaged to facilitate workshops with Council and ELT to review the strategic risks (1 March 2022), and to review risk appetite (22 March 2022). See attached final report on workshop outcomes. ELT reviewed the final report (24 March 2022) and agreed to:

- Endorse the recommended list of strategic risks, noting that there may be some changes as a result of deep dives (see below).
- Lead a series of deep dive sessions on each strategic risk. Results of the deep dive sessions will then be approved by ELT for workshops with Council.
- Include the amended appetite in the revised Risk Management Policy noting that, as the operational risk register is brought up-to-date, the appetite may require further review

In the workshop report PWC recommended that Council determine current exposure to any risks beyond its appetite (based on the revised appetite agreed at the Council workshop). While the operational risk register is not being actively and consistently maintained, analysis of risk exposure is not possible. ELT have provided direction on regular reporting and development of a process for improved accountability in relation to maintenance of the risk register. As the risk register is brought up-to-date the risk appetite and resulting exposure will be monitored; and if required the Risk Management Policy will be revised.

Risk Management Policy

The revised Risk Management Policy was reviewed by a Risk Management Working Group and Risk Sponsor (Director Corporate Services) and the final version includes the amended risk appetite agreed at the Council workshop (refer to the attached report). Key changes include:

- Delegation of responsibility for adopting NCC's *Risk Management Strategy* to the Audit and Risk Committee (in accordance with schedule 7, clause 32(1) of the Local Government Act 2002)
- Renaming of the following *Risk Impact Categories* to align with best practice: changed "Environmental" to "Environmental & Sustainability" and "Health & Safety" to "Health, Safety & Wellbeing". With increasing risk maturity the descriptions and consequence criteria for the risk categories will be monitored and an update provided in the next policy review.
- Updated *Risk Appetite* (refer to the attached report)
- Updated *Authority for Acceptance of Risk Above Stated Appetite* to reflect that all high risks will be reported to the Chief Executive and extreme risks will be reported to Council
- Updated *Roles and Responsibility*. The Risk Committee has been discontinued following recruitment of the Risk and Assurance Lead.

Strategic Risk Management Plans for Major Projects

Project risks are currently managed within individual projects. Planned improvements for delivery of the capital programme will include review of all project risks and support for a consistent and coordinated approach to managing project risks.

Risk Management Framework on its Control Environment and Insurance Arrangements

In relation to Risk OR211: *Current insurance cover does not meet the required level to ensure all assets impacted by an event are covered for full replacement* a workshop will be scheduled with AON Insurance on required level of cover. Council's main mitigation in the short term is a strong balance sheet including significant cash assets.

Once Council have confirmed and adopted their Risk Appetite, a review of Insurance will be undertaken with Council with a recommendation to come from the Audit and Risk Committee.

Business Continuity Planning and Disaster Recovery

A full report on Business Continuity Planning in response to COVID-19 was provided at the last Audit and Risk Committee meeting. People and Capability are monitoring and reporting staff numbers; and managers and team leaders are managing teams as appropriate (for example, with infection numbers increasing again Payroll are working from home to minimise risk; Information Services have advised of temporary reduced services).

ELT continue to monitor Covid19 impacts on staff and any risk to business continuity. A second wave of infections have occurred, but all services have been maintained in accordance with BCP planning.

Processes and Systems Related to Fraud

Annual fraud training is undertaken across the organization during Fraud Awareness week each November. We held a series of 4 Fraud workshops last November which involved presentations by the NZ Police and our internal audit provider Crowe. We have also held fraud workshops during the year with customer facing business units, many of whom were not able to attend the fraud workshops due to rostering.

Fraud reminders and awareness around sensitive expenditure and appropriate internal controls is provided at the bi monthly Corporate Services training.

The Business analyst position in the finance team is also responsible for rolling out the fraud training and overseeing the internal audit programme. We regularly review our internal controls such as new supplier application processes, conflicts of interest, and segregation of duties.

Council has a fraud policy which is in the process of being reviewed by Crowe. Any recommended updates to the policy will be reported through to the Audit and Risk Committee.

Audit NZ completes a fraud risk assessment as part of the annual year end audit.

5.3 Issues

Covid-19 continues to cause issues:

Staff wellbeing: Until now NCC has been offering three OCP sessions. This has been extended to six sessions. There is ongoing support from the Umbrella Group.

Global Supply Chain: Rising costs and the inability to obtain materials, products and services in reasonable time frames is affecting delivery of projects. The Programme Delivery directorate is actively working with suppliers to manage project variations.

Inflation: With rising inflation, cost of both operating expenditure and capital expenditure are facing higher costs than anticipated. Council have been briefed on this risk, and any significant budget variance will be identified either through tendering committee approvals or through a report to Council.

5.4 Significance and Engagement

N/A

5.5 Implications

Financial

Costs to address risk controls and actions identified for operational risks are included in individual activity budgets.

Cost of internal resources required for business continuity has been absorbed within operational budgets, or projects delayed in order to accommodate staff being away.

Training and ongoing support for BCP development and risk management is provided by internal resource (Risk and Assurance Lead).

Social & Policy

The attached Risk Management Policy has been revised and includes the amended risk appetite agreed at the Council workshop (22 March 2022). This report seeks endorsement of the Policy by the Committee for final approval by Council.

Risk

Strategic risks

The following list of strategic risks has been endorsed by ELT (see above). Next, officers will complete deep dive sessions to identify causes, consequences and controls to ensure NCC is actively managing these risks. This report seeks endorsement of the list of strategic risks by the Committee for final approval by Council, noting that there may be some amendments following deep dive analysis.

1. Poor Long Term Planning for Asset utilisation and provision
2. Insufficient resources (i.e. we do not have the right capability and capacity to deliver our capital plan)
3. Supply chain issues (i.e. we are unable to source the right goods and services at the right time/price)
4. Failure to plan and manage Council's budget
5. Failure to maintain a safe and healthy workplace and /or assets (i.e. we do not proactively navigate H&S threats)
6. Failure to comply with legislative and other requirements
7. Failing to meet Treaty of Waitangi commitments and obligations
8. Impact of externally driven change on the Council and community is unmanageable
9. The Council does not have the right people with the right capabilities
10. Ineffective strategic relationships (i.e. not optimising opportunities through relationships)

Operational Risks

There are currently 182 (87 extreme or high) operational risks captured in the risk register.

In parallel with review of the strategic risks, the Risk and Assurance Lead continues to provide tailored training and support for management of operational risks; coordinate with other councils on approach to the culture shift towards enterprise risk management; and optimisation of our risk application (Sycle) and reporting.

ELT have agreed to a full review of the operational risk register every six months (first session to be scheduled after deep dives on strategic risks) and requested a report on overdue risks at the monthly performance meeting.

Project Risks

Project risks have been excluded from reporting.

Emerging Risks

Note that supply chain, labour availability and inflation continue to put pressure on Council budgets and delivery.

5.6 Options

i. **Receive** the Risk Management Report dated May 2022

ii. **Receive** the report from PWC called "NCC Risk Workshop Output" outlining outcomes of workshops on strategic risks and risk appetite with Council and the Executive Leadership Team

iii. **Endorse** the recommended list of strategic risks, noting that there may be some changes as a result of further analysis

iv. **Endorse** the revised Risk Management Policy for Council approval; and

v. **Note** the emerging risks.

5.7 Development of Preferred Option

Receive the reports and provide comment to Council in relation to the Risk Report and its recommendations.

5.8 Attachments

1 NCC Risk Workshop Output FINAL with disclaimer (Doc Id 1469232) ⇩

2 Risk Management Policy (1472738) ⇩

Napier City Council

Risk workshop outputs
May 2022

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

pwc

Adele Henderson
Director Corporate Services
Napier City Council
Private Bag 6010
Napier 4142

19 May 2022

Strategic risk and appetite workshops facilitation assistance

Dear Adele,

In accordance with our 8 February 2022 Letter of Engagement, we have completed our facilitation of the Council's key strategic risk and risk appetite workshops. The outputs from these workshops are included in this report.

I would like to take this opportunity to acknowledge and thank the personnel for the time and contributions they have made to enable us to perform this engagement.

Please feel free to contact me on 027 511 6563 if you have any questions or require any further information.

Yours sincerely,

Vaughan Harrison
Partner
PricewaterhouseCoopers
E: vaughan.x.harrison@pwc.com

PricewaterhouseCoopers, PwC Centre, 10 Waterloo Quay, PO Box 243, Wellington 6140, New Zealand

In reading this output we request you note the following:

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Conclusions

We have performed our engagement in accordance with relevant ethical requirements of the Code of Ethics issued by the New Zealand Institute of Chartered Accountants, and appropriate quality control standards. Our engagement does not constitute a review or audit in terms of standards issued by the New Zealand Institute of Chartered Accountants.

Accordingly, this engagement is not intended to result in either the expression of an audit opinion nor the fulfilling of any statutory audit or other requirements.

1

Key strategic risk workshop summary

The following approach was used to explore the Council's key strategic risks

1.00

0:10

1. Introductions, housekeeping and purpose of today's workshop

1:10

2. Setting the scene:

0:20

- Environmental scan and other Council experiences i.e. PwC to share common local Council and broader New Zealand risks
- Strategic objectives and long term plan, i.e. set the scene on what success looks like for NCC, what are the key challenges/issues faced (i.e. what is going to stop us), and what is changing, internally and externally, that can introduce risk?
- Overview of NCC's existing risk management policy and confirm common understanding of:
  - Key policy definitions and expectations for risk management
  - Roles and responsibilities of Councillors and ELT to manage risk at NCC

1:30

3. Explore and confirm the Council's key strategic risks – a PwC facilitated session:

1:00

- Describe today's approach and the thinking to date
- Interactive session - Where do the big risks lie?
  - Present initial ELT risks and facilitate discussion where further clarity is required to support a common understanding
  - Discussion on any other risks that Councillors would like to explore today

Output: *A long list of NCC risks (including current top risk profile and any new risks identified)*

2:30

2:30

1:30

- Agree key strategic risks through an interactive session:
  - Using the risk long list, vote to identify key strategic risks capturing the management perspectives
  - Open discussion on key strategic risks including:
    - Confirm and agree those risks that are clearly strategic and those risks that are clearly not
    - Explore differences that exist between the Directors and Executive's views on which risks are strategic and those that are not
    - Explore lower ranked risks and those risks that did not make the strategic risk list – have we got the balance right?
    - Confirm strategic risks

Output: *A set of confirmed key risks that Councillor's would like to prioritise to understand further to help with future risk management and reporting*

4:00

4. Wrap up of next steps

The ELT's initial risk thinking was used as a basis to explore the Council's key risks. We then explored a series of broader risk categories seen across other Councils, and identified two additional further risks for consideration during the workshop

ELT's initial risk thinking to help explore our strategic risks					Broader risk categories for consideration	
Unable to deliver its critical services	**Unable to deliver the capital plan, strategies and/or service levels**	**Failure to be financially viable and sustainable**	**Staff and/or public harmed while at work or using Council provided services or assets**	**Legal and policy non-compliance**	**Strategy, stakeholders and ESG**	**External drivers and operational resilience**
Poor Long Term Planning for Asset utilisation and provision	Ineffective systems, tools and processes (i.e we are unable to deliver our capital plan to scope, time and budget)	Failure to plan and manage Council's budget	Failure to maintain a safe and healthy workplace and /or assets (i.e. we do not proactively navigate H&S threats)	Failure to comply with legislative and other requirements.	Impact of externally driven change on the Council and community is unmanageable	Failure to sustainably manage our natural environment
Lack of adequate BCP/DRP/EMP/IMP (i.e. we are unable to operate key Council key services when faced with a continuity even during a continuity event)	Lack of buy in to our capital plan	Budget processes are ineffective	Failure of SOPs and poor work practices (i.e. staff or third parties do understand or follow expected practices)	Disagreement between Elected Members	The Council does not have the right people with the right capabilities	Failure to execute change by doing the right things (i.e. projects/change management)
	Supply chain issues (i.e. we are unable to source the right goods and services at the right time/price	Fixed term contracts are no longer an option for Council		Fraud (i.e. our assets are misused)	Ineffective strategic relationships (i.e. not optimising opportunities through relationships)	Cyber and privacy: Unauthorised access is gained to our key assets, and/or our key assets are not available
	Insufficient resources (i.e. we do not have the right capability/capacity to deliver our capital plan)			Serious Code of Conduct breaches	Council strategy: We don't achieve our key objectives	Macroeconomics: Inflation and procurement (i.e. increasing cost pressures challenge our budgets)
				Wrongful or criminal deception for personal gain	Failing to meet Treaty of Waitangi commitments and obligations	
				Lack of clarity/adherence to governance & management responsibilities		

Additional risks added during the workshop	Misguided information reported through social media and other platforms	Disagreement or mistrust between Directors and Councillors

PwC

The Councillors and Directors were provided eight votes each to identify the Council's key strategic risks

Councillor votes | Director votes | Councillors votes outnumbered Directors | Common agreement between Director/Councillors

Unable to deliver its critical services

Risk	Councillor votes	Director votes
Poor Long Term Planning for Asset utilisation and provision	5	4
Lack of adequate BCP/DRP/EMP/IMP (i.e. we are unable to operate key Council key services when faced with a continuity even during a continuity event)	2	2

Unable to deliver the capital plan, strategies and/or service levels

Risk	Councillor votes	Director votes
Ineffective systems, tools and processes (i.e. we are unable to deliver our capital plan to scope, time and budget)	3	2
Lack of buy in to our capital plan	5	
Supply chain issues (i.e. we are unable to source the right goods and services at the right time/price	7	1
Insufficient resources (i.e. we do not have the right capability/capacity to deliver our capital plan)	8	4

Failure to be financially viable and sustainable

Risk	Councillor votes	Director votes
Failure to plan and manage Council's budget	4	5
Budget processes are ineffective	1	1
Fixed term contracts are no longer an option for Council		

Staff and/or public harmed while at work or using Council provided services or assets

Risk	Councillor votes	Director votes
Failure to maintain a safe and healthy workplace and /or assets (i.e. we do not proactively navigate H&S threats)	2	3
Failure of SOPs and poor work practices (i.e. staff or third parties do understand or follow expected practices)	3	1

Legal and policy non-compliance

Risk	Councillor votes	Director votes
Failure to comply with legislative and other requirements.	5	4
Disagreement between Elected Members		
Fraud (i.e. our assets are misused)		
Serious Code of Conduct breaches		
Wrongful or criminal deception for personal gain		
Lack of clarity/adherence to governance & management responsibilities	3	1

Strategy, stakeholders and ESG

Risk	Councillor votes	Director votes
Impact of externally driven change on the Council and community is unmanageable	5	1
The Council does not have the right people with the right capabilities	4	2
Ineffective strategic relationships (i.e. not optimising opportunities through relationships)	4	2
Council strategy: We don't achieve our key objectives		1
Failing to meet Treaty of Waitangi commitments and obligations	7	1
Misguided information reported through social media and other platforms	1	

External drivers and operational resilience

Risk	Councillor votes	Director votes
Failure to sustainably manage our natural environment	3	1
Failure to execute change by doing the right things (i.e. projects/change management)		1
Cyber and privacy: Unauthorised access is gained to our key assets, and/or our key assets are not available	2	1
Macroeconomics: Inflation and procurement (i.e. increasing cost pressures challenge our budgets)	2	1
Disagreement or mistrust between Directors and Councillors	2	1

Key themes arising from the key risk discussions:

- Council and Directors both identified the risk areas of poor long term planning for asset utilisation/provision, the failure to comply with legislative requirements and management of the Council's budget were of higher importance relative to other risk area
- Councillors had a greater risk focus, relative to Directors, for the delivery of the capital plan, particularly across the supply chain, insufficient resources (i.e. capability/capacity) and the lack of buy-in from the community. This is driven from the Councillors' concern on the historic poor delivery of the capital plan, and the higher level of visibility Directors have in the day-to-day management of these risks
- Councillors and Directors spent time during the workshop discussing a number of risks outside of the ELT's initial risk thinking. There was particular focus on the uncertainty of externally driven change and the impact of these to existing Council responsibilities. This included the effort required to address three waters and RMA reforms whist still maintaining the same level of service delivery for the community.

PwC

This voting identified the following key strategic risks

Key strategic risks

Total Councillor and Director votes

Unable to deliver its critical services

- Poor Long Term Planning for Asset utilisation and provision — 9

Unable to deliver the capital plan, strategies and/or service levels

- Insufficient resources (i.e. we do not have the right capability and capacity to deliver our capital plan) — 12
- Supply chain issues (i.e. we are unable to source the right goods and services at the right time/price) — 8

Failure to be financially viable and sustainable

- Failure to plan and manage Council's budget — 9

Staff and/or public harmed while at work or using Council provided services or assets

- Failure to maintain a safe and healthy workplace and /or assets (i.e. we do not proactively navigate H&S threats) — 5

Legal and policy non-compliance

- Failure to comply with legislative and other requirements. — 9

Strategy, stakeholders and ESG

- Failing to meet Treaty of Waitangi commitments and obligations — 8
- The Council does not have the right people with the right capabilities — 6
- Impact of externally driven change on the Council and community is unmanageable — 6
- Ineffective strategic relationships (i.e. not optimising opportunities through relationships) — 6

- Lack of adequate BCP/DRP/EMP/IMP (i.e. we are unable to operate key Council key services when faced with a continuity even during a continuity event) — 4
- Ineffective systems, tools and processes (i.e. we are unable to deliver our capital plan to scope, time and budget) — 5
- Lack of buy in to our capital plan — 5
- Budget processes are ineffective
- Fixed term contracts are no longer an option for Council — 2
- Failure of SOPs and poor work practices (i.e. staff or third parties do understand or follow expected practices) — 4
- Lack of clarity/adherence to governance & management responsibilities — 4
- Disagreement between Elected Members
- Fraud (i.e. our assets are misused)
- Serious Code of Conduct breaches
- Wrongful or criminal deception for personal gain
- Council strategy: We don't achieve our key objectives — 1

External drivers and operational resilience

- Failure to sustainably manage our natural environment — 4
- Cyber and privacy: Unauthorised access is gained to our key assets, and/or our key assets are not available — 3
- Failure to execute change by doing the right things (i.e. projects/change management) — 1
- Macroeconomics: Inflation and procurement (i.e. increasing cost pressures challenge our budgets) — 3
- Misguided information reported through social media and other platforms — 1
- Disagreement or mistrust between Directors and Councillors — 3

The above strategic risks (i.e. Non-key) were raised during the Council workshops but were given a lower priority, so they have not been included in our final key strategic risks. These risks were considered a lower priority relative to the others during the workshop. These risks will continue to be monitored and managed through NCC's risk bowtie processes used across all strategic and operational risks.

2 Risk appetite workshop summary

The following approach was used to explore the Council's risk appetite

1.00

1. **Introductions, housekeeping and purpose of today's workshop**

0:20

2. **Setting the scene:**
   - Risk appetite overview - what it is, and how it is used and share the current NCC consequence table

1:20

3. **Refresh and revisit the NCC risk appetites – a PwC facilitated session:**
   - Describe today's approach and the thinking to date

   Interactive session:

   - **Establish an initial risk appetite position:**
     - Councillors and Directors to consider and record their own risk appetite for each risk category
     - Councillors and Directors will take the perspective of each NCC stakeholder (e.g. individual rate payers, local businesses, iwi, and Minister/central government) and mark on the risk consequence matrix their view of the stakeholders' perceived risk appetite.

0:40

2:00

2:10

10 min break

1:40

- **Discuss and confirm the risk appetite for each risk category** - Come back together and discuss differences in risk appetite perspectives and seek to confirm a common risk appetite for each risk category.

3:50

4. **Wrap up of next steps**

PwC

For each NCC risk category Councillors and Directors recorded their own risk appetite and identified the perceived risk appetite of important Council stakeholders

Category	Consequence / Impact				
	Insignificant	**Minor**	**Moderate**	**Major**	**Serious**
Financial	Minimal financial impact requiring no action or approval within local authority levels. Less than $10,000. 1 **Total: 1**	A financial loss that can be managed within existing department budget. $10,000 to less than $100,000. 1 2 5 5 1 **Total: 12**	A financial loss that can be managed within existing organisational budget.$100,000 to less than $1M. 1 4 7 3 2 **Total: 17**	A financial loss resulting in potential reduction in a service. $1M to less than $5M. 3 3 1 1 1 3 **Total: 12**	A critical financial loss resulting in closure or significant reduction in a service. Greater than $5M. 1 1 4 **Total: 6**
Health, Safety and Wellbeing	Minor injury or ailment that does NOT require medical treatment by a physician or a qualified first aid person. 1 1 1 3 **Total: 6**	Injuries or illness requiring medical attention with no long-term effects. ***OR*** Exposure of public and staff to a hazard that could cause minor injuries or minor adverse health effects 4 5 5 7 3 **Total: 24**	One or more injuries or illness requiring hospitalisation with some long-term effects. ***OR*** Public or staff exposed to a hazard that could cause injuries or moderate adverse health effects 1 2 1 2 **Total: 6**	One or more serious casualties or illness with long-term effects. ***OR*** Public or staff exposed to a hazard that results in major surgery or permanent disablement. 2 2 **Total: 4**	One or more fatalities or life threatening injuries or illness. ***OR*** Public or staff exposed to a severe, adverse long-term health impact or life-threatening hazard. **Total: 0**
Legislative compliance	Minor technical breach but no damages. No monetary penalty ***AND/OR*** Internal query. 2 2 2 **Total: 6**	Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. ***AND/OR*** Special audit by outside agency or enquiry by Ombudsman. 1 3 3 3 3 3 **Total: 16**	Compliance breach of regulation with investigation or report to authority with prosecution and/or possible fine. ***AND/OR*** Non-compliance with Corporate/Council Policy 3 2 3 3 2 **Total: 13**	Major compliance breach with potential exposure to large damages or awards. Prosecution with 50% to maximum penalty imposed. District or Environmental court. ***OR*** Multiple compliance breaches that together result in potential prosecution with 50% to maximum penalty imposed 1 1 3 **Total: 5**	Serious compliance breach with potential prosecution with maximum penalty imposed. High Court or criminal action. ***OR*** Multiple compliance breaches that together result in potential prosecution with maximum penalty imposed 1 1 **Total: 2**
Reputation / Image	Customer complaint. ***AND/OR*** Not at fault issue, settled quickly with no impact. 1 1 1 **Total: 3**	Non-headline community media exposure. Clear fault. Settled quickly by NCC response. Negligible impact. 1 2 1 2 3 1 **Total: 10**	Negative local (headline) and some regional media coverage. Council notification. Slow resolution. 4 5 6 2 4 **Total: 19**	Negative regional (headline) and some national media coverage. Repeated exposure. Council involvement. At fault or unresolved complexities impacting public or key groups. 3 2 1 1 4 **Total: 11**	Maximum multiple high-level exposure. Sustained national media coverage. Direct Council intervention. Loss of credibility and public / key stakeholder support. 1 1 1 **Total: 3**

Key: Management Team · Councillors · Individual Rate Payers · Local Businesses · Iwi · Minister / Central Government

PwC

(continued)

Category	Consequence / Impact				
	Insignificant	**Minor**	**Moderate**	**Major**	**Serious**
ICT, Assets and Infrastructure	Some damage where repairs are required however facility or infrastructure is still operational. Loss of utilities/systems resulting in minor IT disruption to a service for up to 12 hours. 1 3 2 2	Short term loss or damage where repairs required to allow the infrastructure to remain operational using existing internal resources. Loss of utilities/systems resulting in minor IT disruption to a service (>12 hours - 24 hours). 4 6 4 3 6 2	Short to medium term loss of key assets and infrastructure where repairs required to allow the infrastructure to remain operational. Cost outside of budget allocation. Loss of utilities/systems resulting in IT disruption to a department for up to 12 hours. 1 1 4 5	Widespread, short term to medium term loss of key assets and infrastructure. Where repairs required to allow the infrastructure to remain operational. Cost significant and outside of budget allocation. Loss of utilities/systems resulting in serious IT disruption to several services or more than 1 department for >12 hours. 1 2	Widespread, long term loss of substantial key assets and infrastructure. Where infrastructure requires total rebuild or replacement. Failure of utilities/systems resulting in the loss of function for several departments (> 12 hours). 1
Service Delivery	Some non-essential tasks will not be able to be achieved. ***AND/OR*** Unable to provide service for <1 business day. ***AND/OR*** Major Project in progress delay for < 1 month. 1 5 1	Less than 5% of essential tasks will not be achieved. ***AND/OR*** Unable to provide service for 1-3 business days. ***AND/OR*** Major Project in progress delay for 1 - 2 months. 1 3 3 6 3 2	5% - 10% of essential tasks will not be achieved ***AND/OR*** Unable to provide service for 3-10 business days. ***AND/OR*** Major Project in progress delay for 2-3 months. 1 1 2 3 3	10% - 20% of essential tasks will not be achieved. ***AND/OR*** Unable to provide service for 10-20 business days. ***AND/OR*** Major Project in progress delay for 3-6 months. 1 3 1 3	Greater than 20% of essential tasks will not be achieved. ***AND/OR*** Unable to provide service for >20 business days. ***AND/OR*** Major Project in progress delay for > 6 months. 1 1 1 2
Environment and Sustainability	Negligible damage that is contained on-site. ***AND*** The damage is fully recoverable with no permanent effect on the environment or the asset. It will take less than 6 months for the resource to fully recover. 2 8 2	Minor damage to the environment or heritage asset or area that is immediately contained on-site. It will take less than 2 years for the resource or asset to fully recover or it will only require minor repair. ***OR*** Disturbance to scarce or sensitive environmental or heritage asset or area. 2 7 4 7 2	Moderate damage to the environment or a heritage listed asset or area, which is repairable. The resource or asset will take up to 10 years to recover. 1 2 5	Irreversible and extensive damage is caused to a non-Heritage Listed area or asset but that has heritage values. ***OR*** Irreversible and extensive damage is caused to a non-environmentally significant area or asset. ***OR*** Significant damage is caused to a Heritage Listed area or asset that involves either extensive remediation or will take more than 10 years to recover. ***OR*** Significant damage is caused to an environmentally significant area or asset from which it will take more than 10 years to recover. 1 1	Irreversible and extensive damage is caused to a World Heritage Listed Area, a National Heritage Listed Site, a Register of the National Estate Site or a Council Heritage Listed area or asset. ***OR*** Irreversible and extensive damage is caused to a Matter of National Environmental Significance under the Act (e.g. endangered species, RAMSAR wetland, marine environment). 1

Key: Management Team Councillors Individual Rate Payers Local Businesses Iwi Minister / Central Government

This voting identified the following risk appetites across each of the Council's risk categories

These voting results provided an initial risk appetite for each risk category. The appetite for the majority of risk categories was clear, however Service Delivery and Environmental and Sustainability may require additional consultation given their close results. This should be considered by management as part of the next step in determining if the council is currently exposed to any risks beyond its risk appetite (see section 3).

Category	Ins	Min	Mod	Maj	Ser	Consequence/Impact statement details
Financial						A financial loss that can be managed within existing organisational budget. $100,000 to less than $1M.
Health, Safety & Wellbeing						Injuries or illness requiring medical attention with no long-term effects. *OR* Exposure of public and staff to a hazard that could cause minor injuries or minor adverse health effects
Legislative Compliance						Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. *AND/OR* Special audit by outside agency or enquiry by Ombudsman.
Reputation / Image						Negative local (headline) and some regional media coverage. Council notification. Slow resolution.
ICT, Assets / Infrastructure						Short term loss or damage where repairs required to allow the infrastructure to remain operational using existing internal resources. Loss of utilities/systems resulting in minor IT disruption to a service (>12 hours - 24 hours).
Service Delivery						Less than 5% of essential tasks will not be achieved. *AND/OR* Unable to provide service for 1-3 business days. *AND/OR* Major Project in progress delay for 1 - 2 months.
Environmental & Sustainability						Minor damage to the environment or heritage asset or area that is immediately contained on-site. It will take less than 2 years for the resource or asset to fully recover or it will only require minor repair. *OR* Disturbance to scarce or sensitive environmental or heritage asset or area.

3 Next Steps

The following opportunities exist to leverage the strategic risk and risk appetite thinking to date to further enhance the Council's risk management approaches

1. Determine if the Council is currently exposed to any risks beyond its risk appetite

i. Review NCC's existing risk registers (e.g. operational risk) and identify those risks whose current risk rating (i.e. risk rating after current mitigating controls are considered) is above the Council's risk appetite

ii. These risk owners should identify additional controls or safeguards available to further mitigate these risks. A broader programme of work may be required to bring any new controls to life

iii. Where additional controls are not available, a process should be established to share these risks with senior Council leadership and Councillors to accept these risks and identify the monitoring and oversight required to mitigate the likelihood of these risks being realised

2. Plan and conduct deep dive risk sessions with Councillors

i. Develop a schedule to complete deep dive sessions with Councillors for each key strategic risk. We recommend two risks are covered in each deep dive

ii. Management should present back to Councillors a summary of the approach to managing key strategic risks (refer to the following pages for some enablers). This should be presented by the risk owner and include:

- A summary of the risk and key appetite categories that apply
- Key mitigations in place and how this brings the risk to within appetite, including, where relevant, any monitoring, oversight or assurance that provides additional confidence the risk is managed appropriately
- Where relevant, key activities underway to further improve the management of the risk.

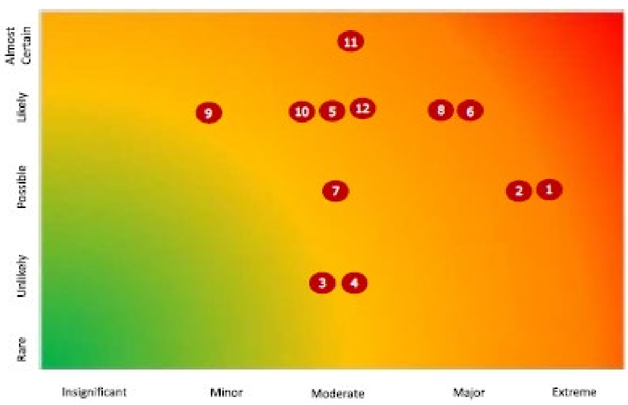
3. Consider implication to NCC internal audit planning

Good practice would align the Council's internal audit plan to the Council's key risks and priorities, and provide trust and confidence over the arrangements responsible for managing these key risks. The Council's key risks should be used, as one input, to help define the next internal audit plan. In Appendix A we have included an internal audit planning approach used at our other clients to define the internal audit plan.

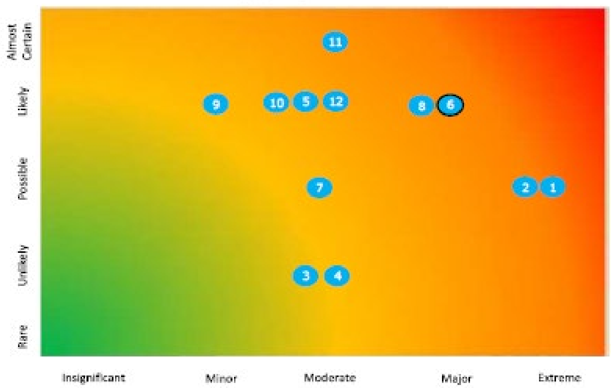
Example: Governance risk management reporting

NCC Strategic Risks Summary

Mapping of Inherent Risk



Mapping of Residual Risk



No	Risk	Inherent Risk	Control Environment	Residual Risk	Owner
1	XXX	Critical		Critical	XXX
2	XXX	Medium		Medium	XXX
3	XXX	High		Medium	XXX
4	XXX	High		High	XXX
5	XXX	Critical		Critical	XXX
6	XXX	High		High	XXX
7	XXX	Medium		Medium	XXX
8	XXX	High		High	XXX
9	XXX	High		High	XXX
10	XXX	High		High	XXX
11	XXX	Critical		Critical	XXX
12	XXX	Critical		High	XXX

Example: Governance risk management reporting (cont.)

Risk 1 – XXXXXX

Residual Risk – HIGH
Extreme / Possible

Risk ID	R-001
Risk Description	XXXXXXXX
Risk Owner	XXXX
Controls	4
Actions	2
Applicable Risk Appetite Categories	XXXX

Control ID	Control Description	Control Owner	Control Effectiveness	Business unit
C-01	XXX	XXX		XX
C-02	XXX	XXX		XX
C-03	XXXX	XXXX		XX
C-04	XXXX	XXXX		XX

Action ID	Action Description	Primary Control ID	Due Date	Revised Due Date	Status
R1-01	XXX	C-01	31/12/2020		In Progress
R1-02	XXX	C-03	1/03/2021		In Progress

Appendix A: Developing an internal audit plan

Key planning steps	Description
1. Scan the NCC key functional activities and operating environment	Using the NCC's key functional activities as the basis to ensures all NCC activities were considered when preparing the internal audit plan
2. Align assurance activity with NCC LTP, Strategy and risk profile	Consider NCC LTP, Strategy and risk profile to help identify the NCC activities of higher relative importance throughout the year
3. Discuss Management and Councillors priorities	Meet with Management and Councillors to understand their perspectives on: • Areas of focus and what success looks like • Key risks and any current or emerging issues, both within their business area and across NCC • Planned changes across processes, people and technology • Environmental/external observations • Where internal audit could provide trust and confidence These associated themes help elaborate NCC strategy and identify internal audit priority areas
4. Integrate internal audit observations or 'hot topics'	Consider the internal audit reviews completed recently and any industry or local Government trends/emerging risks to determine if any activities were overlooked during our preliminary internal audit planning meetings
5. Prioritise and agree	Use these information sources to produce a long-list of potential internal audits and share with the Management and Councillors to prioritise and agree the reviews on the internal audit plan

When combining the approaches above, it highlights the key areas that would receive the greatest benefit from undertaking an internal audit. It demonstrates back to Councillors what has been considered, why the internal audits were proposed for which areas and importantly why not. This is then easily reported in a table format as described in the example below:

NCC functional areas		***No assurance activity in past 3 years***	***Impacts the realisation of NCC Strategy or key risk***	***Key theme identified by Councillors or management***	***Internal audit issue or industry 'hot topic'***	***Potential internal audit activity***
Finance and Administration	Finance operations	✓				
	Accounts payable	✓	✓		✓	
	Procurement	✓	✓	✓	✓	• *XXX internal audit*
	Accounts receivable	✓				

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PUBLIC POLICY

Risk Management Policy			
Adopted By			
Department	Corporate Services		
Original Approval Date	5 April 2017	**Review Date**	29 June 2022
Next Review Deadline	30 June 2023	**Document ID**	
Relevant Legislation	Local Government Act 2002		
NCC Docs Referenced	Risk Management Strategy		
	Audit and Risk Committee Charter		ID 325090
	Health and Safety Policy		ID 350878
Previously known as	Corporate Risk Management Framework Policy		ID 350878
Other Docs Referenced	AS/NZS ISO 31000: Risk Management - Principles and Guidelines		
	ISO Guide 73:2009, Risk Management – Vocabulary		

Purpose

This policy replaces the Napier City Council (NCC) Corporate Risk Management Framework Policy adopted on 5 April 2017.

This policy provides a conceptual framework based on the AS/NZS ISO 31000 Framework for risk management. A separate Risk Management Strategy sets out Napier City Council's approach to maturing risk capability, while this document outlines the framework for risk management on an ongoing basis.

Scope

The policy describes the framework for managing risk, including risk impact categories, risk appetite, authority for acceptance of risk above stated appetite, responsibilities, integration with other planning processes and how risks will be monitored and reported.

Policy

Background

NCC is working towards an Enterprise Risk Management (ERM) model that is aligned to the Risk Standard, AS/NZS ISO 31000 ('the Standard'). The Standard recommends that organisations should have a framework that integrates the process for managing risk into the organisation's overall governance, strategy and planning, management, reporting processes, policies, values and culture.

The AS/NZS ISO 31000 Risk Management - Principles and Guidelines, defines a Risk Management Framework as a: "set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation".

With commitment from NCC's Executive Leadership Team, the Risk Management Policy supports risk management practice, reporting, responsibilities and accountabilities at all management levels.

Mandate and Commitment

To ensure the ongoing effectiveness of the risk management framework there will be active and ongoing support, mandate and commitment by the Council and Executive Leadership Team to its implementation.

Risk Management Strategy

A separate document, NCC's Risk Management Strategy, outlines the goals for risk maturity at NCC, based on a risk management model and maturity matrix, and how NCC plans to work towards and measure progress against stated goals.

In adopting this Policy, NCC delegates to the Audit and Risk Committee (in accordance with schedule 7, clause 32(1) of the Local Government Act 2002), responsibility for adopting NCC's Risk Management Strategy, and for reviewing that strategy as appropriate, but no less than annually.

Risk Management

The sections below define the external and internal parameters within which risks will be managed at NCC, and set the scope and risk criteria for risk management processes.

Risk Impact Categories

The Risk Impact Categories are those areas against which the consequences/impacts of risk are measured at NCC and are listed and described in the table below.

Risk Impact Category	Description
Environmental & Sustainability	Harm to the environment or heritage asset or area, or risk to the long-term viability of an asset or resource.
Financial	Financial loss that may or may not be managed within the existing budget and may or may not impact a service.
Health, Safety and Wellbeing	Harm or injury to people with potential time loss and/or medical expenses. This includes social impacts and well-being of the community.
ICT, Infrastructure and Assets	Damage to assets/infrastructure with financial consequences. Loss of utilities/ICT systems resulting in disruption to services.
Legislative Compliance	Breach of legislation and compliance requirements that may or may not result in legal action and financial penalties.
Reputation/Image	Media exposure that may or may not impact reputation and image and may or may not require action or intervention.
Service Delivery	Disruption to a service or major project in progress that may result in delays to delivery.

Risk Appetite

The ISO Guide 73:2009, Risk Management – Vocabulary defines risk appetite as "The amount and type of risk that an organisation is willing to pursue or retain". It is the responsibility of Council to set the appetite, and review that it is fit for purpose on an annual basis. Risk appetite for residual risk has been identified for each Impact Category for NCC in the following table.

Impact Category	Level of residual risk NCC is willing to retain in the pursuit of its objectives			
	Low	Moderate	High	Extreme
Environmental & Sustainability	●			
Financial		●		
Health and Safety and Well-being	●			
ICT, Infrastructure and Assets	●			
Legislative Compliance	●			
Reputation/Image		●		
Service Delivery	●			

Regarding health and safety risks to people in the workplace, NCC is bound by the Health and Safety at Work Act 2015 section 30, and NCC's approach to complying with those duties is set out in the Napier City Council Health and Safety Policy.

Where the identified risk/hazard has the potential to cause immediate danger to people, the situation must be stabilised before the issue is escalated in accordance with the risk escalation process.

Authority for Acceptance of Risk above stated appetite

The aim is to apply control measures to minimise residual risks to the prescribed tolerance level or below. Residual risks that are above the prescribed tolerance level are to be escalated and assigned to the appropriate level within NCC. The assigned authority for control and management (including retention) of residual risk above the prescribed tolerance for NCC risks is shown in the table below.

Impact Category	Authority for Continued Tolerance/Retention of NCC Risks			
	Low	**Moderate**	**High**	**Extreme**
Environmental & Sustainability	Executive Director	Executive Director	Chief Executive	Council

Financial	Executive Director	Executive Director	Chief Executive	Council
Health, Safety and Wellbeing	Executive Director	Chief Executive	Chief Executive	Council
ICT, Infrastructure and Assets	Executive Director	Executive Director	Chief Executive	Council
Legislative Compliance	Executive Director	Chief Executive	Chief Executive	Council
Reputation/Image	Executive Director	Chief Executive	Chief Executive	Council
Service Delivery	Executive Director	Executive Director	Chief Executive	Council

Organisation and its Context

This policy sets the direction for risk management at NCC by:

- providing the mandate and structure (based on AS/NZS ISO 31000 Risk Management - Principles and Guidelines) for how risk will be managed at NCC (including approved risk appetite);
- giving delegated authority for the Audit and Risk Committee to approve the Risk Management Strategy (under LGA Schedule 7 Section 32).

The Risk Management Policy is reviewed annually and is endorsed by the Audit and Risk Committee for adoption by Council.

Refer to the Risk Management Strategy for considerations related to the internal and external context.

Roles and Responsibility

Roles and responsibilities for risk management at NCC are defined below.

- Council has a governance role for risk management at NCC providing both direction and control.
- The Audit and Risk Committee will deliver on its mandate as outlined in its delegations including acting in a risk monitoring advisory and improver role for Council. Refer to the Audit and Risk Committee Charter in the NCC Local Governance Statement.
- The Chief Executive has overall oversight of risk management providing direction and advice to mitigate Council exposure, and promoting a risk management culture.
- The ELT has responsibility for management of strategic and operational risks, and promoting a risk management culture.
- The Risk Sponsor is responsible for reporting to the Audit and Risk Committee.
- The Risk and Assurance Lead provides proactive support and training to executive directors, managers and staff for the ongoing development of a risk management culture.
- Managers and Team Leaders are accountable for operational risk management within business units.
- All staff will have an awareness of the risk management framework; and associated actions.

- Contractors will adhere to Council's policies and procedures.

Integration with Organisation Processes

Environmental scanning and identification of strategic and operational risks, controls and treatment actions are incorporated into the Long Term Plan and Annual Plan development processes. Project risks are managed and reported within individual projects.

Resourcing

The table below summarises resourcing and budget requirements.

Area	Resources	Budget
Risk Controls and Treatment Actions	Internal and External Resources	Operational and capital budgets (individual activities)
Risk Management Training	Internal and External Resources	Operational budget
Risk Management Audit	External provider	Operational budget
Risk Management System	External provider	Operational budget

Communication and Reporting

The table below summarises the risk reporting requirements at NCC.

Report	Frequency	Audience
Risk Treatment Action Status Report[1]	Monthly	Executive Leadership Team, Managers
	Quarterly	Audit and Risk Committee
Incident Report[2]	Monthly	Executive Leadership Team, Managers
	Quarterly	Audit and Risk Committee
Strategic Risk Report	Quarterly	Executive Leadership Team, Audit and Risk Committee
Operational Risk Report	Quarterly	Executive Leadership Team, Managers
Risk Management Audit Report	Annual	Executive Leadership Team, Audit and Risk Committee, Council

Monitoring and Review

Risks will be formally monitored, reviewed and reported on by the Risk Owner.

[1] For all extreme organisational and high strategic risks.
[2] Relates to Health & Safety risks.

Continual Improvement of Framework

The programme of work for improvement is defined in NCC's Risk Management Strategy. The Strategy will be revised as appropriate based on assessment of progress.

Processes

Processes will be described in user guidelines and, where possible, follow the Risk Standard, AS/NZS ISO 31000:20018

Policy Review

The review timeframe of this policy will be as required, but no longer than every three years.

Document History

Version	Reviewer	Change Detail	Date
1	[To be populated]	Policy Development	2017
2	Adele Henderson – Director Corporate Services	Full rewrite	May 2022

Appendix A: Glossary of Terms

Term	Definition
Consequences	Outcome of an event affecting objectives (AS/NZS ISO 31000).
Control	Measure that is modifying risk (AS/NZS ISO 31000).
Exposure	The risk exposure is a qualitative value of the sum of the consequences of an event multiplied by the probability of that event occurring.
Likelihood	Chance of something happening (AS/NZS ISO 31000)
Operational Risk	Risks at a business unit and function level that could have an effect on the successful achievement of the group and business unit outcomes and objectives. Potentially these risks could have a significant financial, reputational and/or service delivery impact on the business unit as a whole.
Project Risk	Risks that could have an effect on the successful achievement of the project's outcomes/objectives in terms of service delivery, benefits realisation and engagement with key stakeholders (service users, third parties, partners etc.).
Residual Risk	Risk remaining after risk treatment (AS/NZS ISO 31000)
Risk	Effect of uncertainty on objectives. (AS/NZS ISO 31000)
Risk Appetite	The amount and type of risk that an organisation is prepared to pursue, retain or take.
Risk Appetite/Tolerance	An organisation's or stakeholder's readiness to bear the risk after risk treatment in order to achieve objectives.
Risk Management	Coordinated activities to direct and control an organisation with regard to risk (AS/NZS ISO 31000 - 2009).
Risk Owner	Person or entity with the accountability and authority to manage a risk (AS/NZS ISO 31000 - 2009).
Risk Treatment	Process to modify risk (AS/NZS ISO 31000).
Stakeholder	Person or organisation that can affect, be affected by, or perceive themselves to be affected by, a decision or activity. (AS/NZS ISO 31000)
Strategic Risk	Risks that could affect or prevent the Council achieving its objectives. These are: 1. risks that could potentially have a Council-wide impact and/or 2. risks that cannot be managed solely at a business unit level because higher level support/intervention is needed.

INTERNAL POLICY

Appendix B: Consequence Criteria Rating

Impact Category	Insignificant	Minor	Moderate	Major	Severe
Environmental and Sustainability	Negligible damage that is contained on-site. AND The damage is fully recoverable with no permanent effect on the environment or the asset. It will take less than 6 months for the resource to fully recover.	Minor damage to the environment or heritage asset or area that is immediately contained on-site. It will take less than 2 years for the resource or asset to fully recover or it will only require minor repair. OR Disturbance to scarce or sensitive environmental or heritage asset or area.	Moderate damage to the environment or a heritage listed asset or area, which is repairable. The resource or asset will take up to 10 years to recover.	Irreversible and extensive damage is caused to a non-Heritage Listed area or asset but that has heritage values. OR Irreversible and extensive damage is caused to a non-environmentally significant area or asset. OR Significant damage is caused to a Heritage Listed area or asset that involves either extensive remediation or will take more than 10 years to recover. OR Significant damage is caused to an environmentally significant area or asset from which it	Irreversible and extensive damage is caused to a World Heritage Listed Area, a National Heritage Listed Site, a Register of the National Estate Site or a Council Heritage Listed area or asset. OR Irreversible and extensive damage is caused to a Matter of National Environmental Significance under the Act (e.g. endangered species, RAMSAR wetland, marine environment).

Impact Category	Insignificant	Minor	Moderate	Major	Severe
				will take more than 10 years to recover.	
Financial	Minimal financial impact requiring no action or approval within local authority levels. Less than $10,000.	A financial loss that can be managed within existing department budget. $10,000 to less than $100,000.	A financial loss that can be managed within existing organisational budget. $100,000 to less than $1M.	A financial loss resulting in potential reduction in a service. $1M to less than $5M.	A critical financial loss resulting in closure or significant reduction in a service. Greater than $5M.
Health, Safety and Wellbeing	Minor injury or ailment that does NOT require medical treatment by a physician or a qualified first aid person	Injuries or illness requiring medical attention with no long-term effects. OR Exposure of public and staff to a hazard that could cause minor injuries or minor adverse health effects	One or more injuries or illness requiring hospitalisation with some long-term effects. OR Public or staff exposed to a hazard that could cause injuries or moderate adverse health effects	One or more serious casualties or illness with long-term effects. OR Public or staff exposed to a hazard that results in major surgery or permanent disablement.	One or more fatalities or life threatening injuries or illness. OR Public or staff exposed to a severe, adverse long-term health impact or life-threatening hazard.
ICT, Assets/Infrastructure	Some damage where repairs are required however facility or infrastructure is still operational. Loss of utilities/systems resulting in minor IT disruption to a service for up to 12 hours.	Short term loss or damage where repairs required to allow the infrastructure to remain operational using existing internal resources. Loss of utilities/systems resulting in minor IT	Short to medium term loss of key assets and infrastructure where repairs required to allow the infrastructure to remain operational. Cost outside of budget allocation. Loss of	Widespread, short term to medium term loss of key assets and infrastructure. Where repairs required to allow the infrastructure to remain operational. Cost significant and outside of budget	Widespread, long term loss of substantial key assets and infrastructure. Where infrastructure requires total rebuild or replacement. Failure of utilities/systems resulting in the loss of

Impact Category	Insignificant	Minor	Moderate	Major	Severe
		disruption to a service (>12 hours - 24 hours).	utilities/systems resulting in IT disruption to a department for up to 12 hours.	allocation. Loss of utilities/systems resulting in serious IT disruption to several services or more than 1 department for up to 12 hours.	function for several departments (> 12 hours).
Legislative Compliance	Minor technical breach but no damages. No monetary penalty AND/OR Internal query.	Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. AND/OR Special audit by outside agency or enquiry by Ombudsman.	Compliance breach of regulation with investigation or report to authority with prosecution and/or possible fine. AND/OR Non-compliance with Corporate/Council Policy	Major compliance breach with potential exposure to large damages or awards. Prosecution with 50% to maximum penalty imposed. District or Environmental court. OR Multiple compliance breaches that together result in potential prosecution with 50% to maximum penalty imposed	Serious compliance breach with potential prosecution with maximum penalty imposed. High Court or criminal action. OR Multiple compliance breaches that together result in potential prosecution with maximum penalty imposed
Reputation/Image	Customer complaint. AND/OR Not at fault issue, settled quickly with no impact.	Non-headline community media exposure. Clear fault. Settled quickly by NCC response. Negligible impact.	Negative local (headline) and some regional media coverage. Council notification. Slow resolution.	Negative regional (headline) and some national media coverage. Repeated exposure. Council involvement. At fault or unresolved complexities	Maximum multiple high-level exposure. Sustained national media coverage. Direct Council intervention. Loss of credibility and public /

Impact Category	Insignificant	Minor	Moderate	Major	Severe
				impacting public or key groups.	key stakeholder support.
Service Delivery	Some non-essential tasks will not be able to be achieved. AND/OR Unable to provide service for <1 business day. AND/OR Major Project in progress delay for < 1 month.	Less than 5% of essential tasks will not be achieved. AND/OR Unable to provide service for 1-3 business days. AND/OR Major Project in progress delay for 1 - 2 months.	5% - 10% of essential tasks will not be achieved AND/OR Unable to provide service for 3-10 business days. AND/OR Major Project in progress delay for 2-3 months.	10% - 20% of essential tasks will not be achieved. AND/OR Unable to provide service for 10-20 business days. AND/OR Major Project in progress delay for 3-6 months.	Greater than 20% of essential tasks will not be achieved. AND/OR Unable to provide service for >20 business days. AND/OR Major Project in progress delay for > 6 months.

6. EXTERNAL ACCOUNTABILITY: AUDIT NEW ZEALAND MANAGEMENT REPORT

Type of Report:	Information
Legal Reference:	Local Government Act 2002
Document ID:	1460999
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer Talia Foster, Accounting Manager

6.1 Purpose of Report

To consider the Audit NZ management report to the Council on the audit of Napier City Council for the year ended 30 June 2021.

Officer's Recommendation

The Audit and Risk Committee:

a. **Receive** the Audit NZ management report to the Council on the audit of Napier City Council for the year ended 30 June 2021

6.2 Background Summary

Audit NZ has completed the audit of Council's accounts for the year ended 30 June 2021. The findings from the audit are set out in the Audit NZ management report.

The Audit NZ management report contains detailed findings and recommendations for areas of improvement together with management response.

The financial statements are free from material misstatements.

6.3 Issues

Audit NZ issued Council with an unmodified audit opinion on the financial statements, meaning they were satisfied that our financial statements fairly present our activity for the year and financial position at the end of the year.

A qualified opinion was issued for certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater, and stormwater. Audit NZ were unable to determine whether the Council's reported results for these measures were materially correct.

Without modifying the audit opinion, audit has included an emphasis of matter paragraph to draw attention to the disclosures in the annual report which outlines that subsequent to year-end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

6.4 Significance and Engagement

N/A

6.5 Implications

Financial

N/A

Social & Policy

N/A

Risk

The total number of complaints issue has been rectified with software changes in October 2020 and March 2021 and documented changes to procedures in January 2021 to ensure the issue is cleared for the 2021/22 financial year.

The issue regarding the response times is being rectified with fixes expected to be in place by 30 June 2022, ensuring the issue is cleared for the 2022/23 financial year. However, there is a risk that Council receives a further qualified opinion for 2021/22 due to the issue not being fully resolved in 2021/22.

6.6 Attachments

1 Report to the Council on the audit of NCC 30 June 2021 (Doc Id 1468962) ⇩

Audit New Zealand
Mana Arotake Aotearoa

Report to the Council on the audit of

Napier City Council

For the year ended 30 June 2021

Contents

Key messages

We have completed the audit for the year ended 30 June 2021. This report sets out our findings from the audit and draws attention to areas where the Napier City Council (the City Council) is doing well and where we have made recommendations for improvement.

Audit report

We have issued a non-standard audit report dated 21 December 2021.

Our audit report included:

- An **unmodified opinion** on the financial statements, which means we were satisfied that the financial statements present fairly the City Council's activity for the year and its financial position at the end of the year.
- A **qualified opinion** on certain performance information relating to the Department of Internal Affairs (DIA) mandatory performance measures for water activities in relation to water supply, wastewater and stormwater.

  The performance measures we qualified our opinion on are:

  - Total number of complaints received – Water supply, wastewater, and stormwater.
  - Attendance and resolution times – Water supply, wastewater, and stormwater.
- Without further modifying our audit opinion, an **emphasis of matter** paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year-end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.

Areas of focus

We comment on the following key matters in the report:

- **Performance reporting – DIA three waters mandatory measures –** We identified issues with two DIA mandatory performance measures for water activities: Total number of complaints received, and the time taken to attend and resolve water supply, wastewater and stormwater faults. The performance measure on the total number of complaints received was also qualified last year. We have recommended that the City Council address process and evidential issues.

- **Covid-19 impact on annual reporting –** Covid-19 has continued to have an impact on the activities of the City Council. We are satisfied that the City Council has included appropriate disclosure about the impact of Covid-19 in the financial statements and performance information, and the Level 4 lockdown from August 2021 as a non-adjustable event.

- **Delivery of capital expenditure programme** – We reported in our audit report on the 2021/31 LTP: *The Council is proposing a $825 million capital programme over the next 10 years, which is a 52% increase compared to the last 10 year plan. While the Council has taken steps to support the delivery of the capital programme, there is an inherent level of uncertainty and risk that the Council may not be able to deliver on its capital programme. If the Council is not able to deliver all of its capital programme, the Council will reorganise the capital programme to ensure that basic needs are met and will not progress with some projects to increase levels of service.*

  We have noted that $51m of the 2020/21 capital expenditure programme has been carried forward into future years. We understand this is primarily due to the impacts of Covid-19 on the construction sector, interruptions to supply change and staff shortages.

  The City Council is implementing various initiatives to ensure it is best placed to deliver on its capital programme, while increasing its reporting to Council on capital projects. We will continue to monitor developments in this area.

- **Revalued assets** – We are satisfied that the roading, land and buildings and investment properties valuations at 30 June 2021 are reasonable and the associated disclosures are appropriate.

  We have recommended the City Council apply the lessons identified from our audit of roading valuations and those identified internally to future valuations of roading assets.

- **Assets that are revalued but were not revalued this year** – We reviewed management's assessment of the valuation of three waters infrastructural assets and were satisfied that the carrying value of these assets continues to materially reflect the fair value of these assets at year-end.

Thank you

We would like to thank the Council, management and staff for their assistance in completing the audit, for their preparedness for the audit, and for their engagement with us.

Karen Young

Karen Young
Appointed Auditor
25 May 2022

1 Recommendations

Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	**Needs to be addressed *urgently*** These recommendations relate to a significant deficiency that exposes the City Council to significant risk or for any other reason need to be addressed without delay.
Necessary	**Address at the earliest reasonable opportunity, *generally within six months*** These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
Beneficial	**Address, *generally within six to 12 months*** These recommendations relate to areas where the City Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Qualified performance measures Address the evidential issues associated with the performance measures: • Total number of complaints received – Water supply, wastewater, and stormwater. • Attendance and resolution times – Water supply, wastewater, and stormwater. And any possible impacts on the City Council's 2021/22 annual report.	4.1	Necessary

Recommendation	Reference	Priority
Reporting against DIA performance measures for water services The City Council needs to: • increase governance and oversight of performance results and reporting; • review and document its systems, processes and controls for the capturing of information and reporting of information; • provide training to staff on systems, processes and controls; and • review the adequacy of the level of quality assurance procedures, verification, and internal audit review that is required.	4.1	Necessary
Revaluation of roading assets To improve the robustness of the roading valuation process, we recommend the City Council apply the lessons identified from our audit of and those identified internally to future valuations of roading assets.	4.2	Necessary
Fraud/theft event The City Council: • learn from the fraud/theft event; • obtain assurance from management responsible that internal audit's recommendations are acted on and implemented in a timely manner; and • consider completing a follow up / post implementation review.	5.2	Necessary
Reporting on flood events Review the level of staff available for such events and implement a clear process for collating data in response to flooding events.	5.3	Necessary
Delegations A procedure be put in place for approving operating expenditure in excess of $1,000,000.	5.4	Necessary

Recommendation	Reference	Priority
Sensitive expenditure		Necessary
Policy	5.5.1	
The City Council reviewed its sensitive expenditure policies against the Guidance and make any necessary changes to its policies.		
Practice	5.52	
Sensitive expenditure is approved in accordance with the sensitive expenditure policy.		

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open	-	9	4	**13**
Audit New Zealand to follow up during 2021/22	-	3	-	**3**
Implemented and closed	-	6	-	**6**
Total	**-**	**18**	**4**	**22**

2 Our audit report

2.1 We issued a non-standard audit report

We issued our audit report on 21 December 2021.

We issued an unmodified opinion on the financial statements, which means we were satisfied that the financial statements present fairly the City Council's activity for the year end its financial position at the end of the year.

We issued a qualified opinion on certain performance information relating to the DIA mandatory measures for water activities relating to water supply, wastewater and stormwater.

The performance measures we qualified our opinion on are:

- Total number of complaints received – Water supply, Wastewater, and Stormwater.
- Attendance and resolution times – Water supply, Wastewater, and Stormwater.

Without further modifying our audit opinion, an emphasis of matter paragraph drawing the readers' attention to the disclosure in the annual report which outlines that subsequent to year end the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The inclusion of this paragraph is in line with the Auditor-General's expectations across 30 June 2021 local council audits.

In forming our audit opinion, we considered the following matters. Refer to sections three to five for further detail on these matters.

2.2 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. There were no significant misstatements identified during the audit that required correcting.

2.3 Corrected 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. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Assets	Liabilities	Equity	Financial performance
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Property plant and equipment – revaluation surplus	-	-	39,901,000	-
Property plant and equipment	(39,901,000)	-	-	-
Total parent	**(39,901,000)**	**-**	**39,901,000**	**-**

Explanation of uncorrected misstatements

To correct roading sealed pavement layer unit rate from $46.40 metre squared to $21.90 metre squared.

2.4 Quality and timeliness of information provided for audit

Management needs to provide information for audit relating to the annual report of the City Council. This includes the draft annual report with supporting working papers. We provided a listing of information we required to management through AuditDashboard our online portal to transfer files between the City Council and Audit New Zealand. This included the dates we required the information to be provided to us.

City Council staff provided us with the documents and information requested on a timely basis. AuditDashboard was used on the audit. This worked well for both the City Council and us. This allowed the audit to proceed more efficiently and reduced the level of interruption to City Council staff.

There were a number of significant issues with the information provided to support some of the performance measure results in the three waters, particularly in relation to the performance measures that we were qualified. However, the issues were not limited to these. Efforts lead by finance staff working with the business to address these issues were commendable. Despite the efforts, however, the City Council was unable to accurately report on fault response times for each of the three water services and had some difficulty reporting against some of the other three waters measures. These performance measures and information provided were challenging to audit and the actual hours incurred to audit the information exceeded budgeted hours by a considerable amount. We intend to seek recovery of these costs, as well as the additional time required to audit the roading valuation.

We were able to work collaboratively with City Council, management and staff, and acknowledge their assistance, willingness to help and professionalism throughout the year.

3 Assessment of internal control

The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

3.1 Control environment

The control environment reflects the overall attitudes, awareness and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy, and is the context in which the accounting system and control procedures operate. Management, with the oversight of the Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

We consider that a culture of honesty and ethical behaviour has been created. The elements of the control environment provide an appropriate foundation for other components of internal control.

3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems.

In performing the assessment we consider both the “design effectiveness” and “operational effectiveness” of internal control. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

4 Matters raised in the Audit Plan

In our Audit Plan of 18 August 2021, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
4.1 Performance measures that have been qualified	
In previous years, we have made recommendations to improve systems and processes for reporting against the DIA mandatory performance measures for the three waters and roading. During the audit for 2019/20 it was noted that the City Council did not have systems in place to report against the complaints measures and this resulted in a modified opinion with a qualification over those measures. To ensure the integrity and efficiency of reporting, the City Council should ensure: • there is a clear understanding of what the measure is intended to measure; • ensures that it has the appropriate systems, processes and controls in place to accurately report and collate the data; and • consider what level of verification or independent review/quality assurance is appropriate.	We found significant issues with two of the DIA three waters mandatory performance measures. These are summarised below. In addition, we have provided a supplementary report to management which includes our detailed findings, analysis and conclusions. 1 Total number of complaints received – Water supply, Wastewater, and Stormwater As in the previous year, the City Council was unable to accurately report the number of complaints for each of the three water services. Complete records of all complaints were not available, and the complaints system used also did not classify complaints between water supply, wastewater and stormwater. Refer to Appendix 1 also for follow up of prior year recommendation on complaints recording and classification. 2 Attendance and resolution times – Water supply, wastewater, and stormwater The City Council was unable to accurately report on fault response times for each of the three water services. The information produced by the system used to report on fault response times was not reliable because the attendance and resolution times for service requests recorded were not always accurate or classified in line with the definitions

Audit risk/issue	Outcome
	set out in the set out in the Non-Financial Performance Measure Rules 2013. **Conclusion** As a result of the issues, a qualified audit opinion was issued over the reliability of the information. **We recommend** that the City Council address the evidential issues associated with these performance measures, and any possible impacts on the City Council's 2021/22 annual report. **Management comment** *The total number of complaints received issue was carried forward from the 2019/20 audit, and has since been rectified. Software changes in October 2020 and March 2021, and changes to procedures in January 2021 should ensure this issue is cleared in the 2021/22 financial year.* *The second issue regarding response times is being rectified, with fixes expected to be in place by 30 June 2022, ensuring the issue is cleared for the 2022/23 financial year. Internal workshops identifying issues with the categories in our service request system began in January 2022. In April 2022 the new categories are expected to be agreed and implemented, with initial training to follow. An ongoing training programme, and regular review to certify the accuracy of data entry and correct records is also being implemented.*
4.2 The risk of management override of internal controls	
Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is	To reduce the risk of material misstatement due to fraud to an acceptable level we completed the following audit work: • Tested the appropriateness of journal entries recorded in the general ledge and other adjustments made in the preparation of the financial statements.

Audit risk/issue	Outcome
nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it results in a risk of material misstatement due to fraud.	• Reviewed accounting estimates for biases and evaluated whether the circumstances producing bias, if any, represent a risk of material misstatement due to fraud. • Tested the property, plant and equipment fair value assessments (including key assumptions and estimates) and management's conclusions were appropriate. • Maintained awareness of any significant transactions that were outside the normal course of business, or that otherwise appear to be unusual given our understanding of the City Council and its environment, and other information obtained during the audit. **Conclusion** From our testing we did not identify any issues that indicated management override of internal controls.
4.3 Revaluation of roading, and land and buildings assets	
Public sector accounting standards require that revaluations be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The City Council's policy is to revalue its roading assets every year, and land and building assets every three years. The City Council last revalued its land and buildings for the year ended 30 June 2019 but with the movement in the value of these assets it is required to revalue these assets for the year ended 30 June 2021.	We: • assessed the valuation process, including the competence and experience of the person completing the valuation. The assets are revalued by an external independent valuer; • reviewed the valuation report to assess whether the requirements of PBE IPAS 17: *Property, Plant and Equipment* (including the appropriateness of the valuation basis) have been met; • ensured changes to useful lives had been appropriately taken up, and values and depreciation charges had been appropriately accounted for; • determined how unit rates for replacement costs had been

Audit risk/issue	Outcome
	determined. We confirmed the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the City Council; and • assessed the accounting entries, presentation and disclosure of information related to the valuation in the financial statements. As part of the process, we: • enquired into the processes employed by the City Council to ensure that the items revalued were complete, and any items excluded from the revaluation and reason for this; • reviewed how the Council satisfied itself that the revaluation was appropriate; and • discussed the results with, and obtained an assurance letter from the valuer. **Conclusion** We are satisfied that the land and buildings valuation at 30 June 2021 is reasonable, and the associated disclosures are appropriate. To improve the robustness of roading valuation process, **we recommend** the City Council apply the lessons identified from our audit of and those identified internally to future valuations of roading assets. Lessons identified include: • use actual construction cost data to inform and determine unit rates rather than inflating historical costs by capital goods pricing indices; and • where a default construction date has been applied, improve data quality by estimating the construction date based on the suburb development, until replacements occur.

<table>
<tr><th>Audit risk/issue</th><th>Outcome</th></tr>
<tr><td></td><td>Management comment
Council will be engaging an additional contractor this year to estimate asset ages prior to the valuation being completed for 30 June 2022. The cost database will be reviewed internally, and due to significant construction work this year we have a far broader sample of rates on which to base our unit costs. This work will mean a more robust valuation process in 2022/23.</td></tr>
<tr><td colspan="2">4.4 Investment property revaluation</td></tr>
<tr><td>Investment properties are required to be revalued annually.
The relevant accounting standard is PBE IPSAS 16: Investment Properties.</td><td>The City Council's investment property consists of industrial and commercial sites.
We obtained an understanding of the City Council's investment property valuation and reviewed the valuation report. The valuation methodology, underlying key assumptions and relevant indices used in the valuation are in line with PBE IPSAS 16. We also reviewed the disclosures.
Conclusion
We are satisfied with the investment property valuation performed and confirmed that it has been appropriately included and disclosed in the financial statements.</td></tr>
<tr><td colspan="2">4.5 Fair value assessment of three waters assets</td></tr>
<tr><td>The City Council revalued its three waters assets as at 30 June 2020. The City Council's policy is to revalue its assets every three years. Therefore, it is not scheduled to perform a revaluation this year.
Under the accounting standard PBE IPSAS 17 Property, plant and equipment, the carrying value of property, plant and equipment assets measured at fair value needs to be assessed at each reporting date to see if there has been a material movement in value. If there has been a material movement, then a revaluation of the relevant asset class is required. If the fair value movement is not material then a</td><td>The City Council engaged valuers to perform a fair value assessment over the three water assets. We reviewed management's assessment, the external experts' reports, and the associated disclosure in the financial statements.
Conclusion
We are satisfied that the:
• assessment complies with the relevant accounting standards;
• impacts of Covid-19 have been appropriately considered in the assessment;</td></tr>
</table>

<table>
<tr><th>Audit risk/issue</th><th>Outcome</th></tr>
<tr><td>revaluation of that asset class is not required this year. When the fair value of a revalued asset differs materially from its carrying amount, a full revaluation of the asset class becomes necessary.</td><td>carrying value of three water assets does not differ materially from fair value and that a full revaluation is not required in 2020/21; and
disclosures in the financial statements are appropriate.</td></tr>
<tr><td colspan="2">4.6 Delivery of capital expenditure programme</td></tr>
<tr><td>The City Council continues to undertake an intensive capital programme.

Council has recognised the risk with the level of projects being undertaken and is taking actions to mitigate these.

Council is proposing a $825 million capital programme over the next 10 years, which is a 52% increase compared to the last 10 year plan. While the Council has taken steps to support the delivery of the capital programme, there is an inherent level of uncertainty and risk that the Council may not be able to deliver on its capital programme. If the Council is not able to deliver all of its capital programme, the Council will reorganise the capital programme to ensure that basic needs are met and will not progress with some projects to increase levels of service.</td><td>$51m of the capital expenditure programme has been carried forward into future years. This was primarily due to the impacts of Covid-19: Council is facing construction sector constraints which has meant some projects have had to be re-prioritised. We have been advised that the high level of employment, virtually zero migration and supply chain interruptions are all impacting on Council's ability to deliver projects.

We acknowledge that the City Council is implementing initiatives to deliver its capital programme, and has increased its reporting to Council on capital projects. We will continue to monitor developments in this area.

Conclusion

There remains uncertainty as to whether the City Council can deliver its capital programme. There are currently no significant impacts expected on levels of service. There is a risk that this may change.

Management comment

The construction industry, including professional service providers and contractors, is currently stretched beyond capacity. This is impacting on the Hawkes Bay and Napier City Council's programme delivery. The arrival of the Omicron variant of Covid-19 is likely to add additional pressures on workforce availability and supply chains. In order to improve programme delivery officers are reviewing project management processes and where possible will bundle projects of like work to form packages of</td></tr>
</table>

<table>
<tr><th>Audit risk/issue</th><th>Outcome</th></tr>
<tr><td></td><td>work that are more attractive in a construction industry that is at or beyond capacity.</td></tr>
<tr><td colspan="2">4.7 Impact of three waters reform</td></tr>
<tr><td>
The three waters reform programme is one of the most significant policy programmes affecting local authorities. This is a three-year programme of work in three tranches.
During 2020/21, the City Council signed a non-binding Memorandum of Understanding (MOU) with the Crown. By signing this MOU, the City Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.
On signing of the MOU, the City Council received a share of $761 million Crown stimulus funding, which was the first tranche of funding that was provided under the reform programme. It is important that the City Council is appropriately accounting for its share of the funding and is meeting the obligations of the funding agreement.
We expected the City Council has taken steps to:

ensure any Crown stimulus funding resulting from the three waters reform programme received by the City Council has been appropriately accounted for in accordance with accounting standards and the terms of the agreement; and
consider the implications of any government announcements about three waters reform up to the date of authorisation of the financial statements. This includes the impact on financial statements and disclosures, including subsequent events disclosures.

</td><td>
We gained an understanding of the water stimulus funding agreement entered into by the City Council.
We reviewed the treatment of the revenue to ensure that was in line with accounting standards.
The City Council included as a subsequent event, the Government announcement on 27 October 2021, that it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.
Conclusion
We concluded that the:

stimulus funding was appropriately accounted for in the financial statements; and
Government’s announcement was appropriately disclosed in the financial statements.

</td></tr>
</table>

Audit risk/issue	Outcome
4.8 Covid-19 impact on annual reports	
The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, aspects of the City Council's operations continue to be impacted by Covid-19. These business risks may also have an impact for the financial statements and performance information, and public sector reporting and therefore an audit risk and impact.	Covid-19 continued to have an impact on the City Council during the year. **Conclusion** We are satisfied that the City Council has included appropriate disclosure about the impact of Covid-19 in the financial statements and performance information, and the Level 4 lockdown from August 2021 as a non-adjustable event.

5 Matters identified during the audit

During the audit we identified the following matters

5.1 Reporting against DIA performance measures for water services

There were some significant issues with the information provided to support some of the performance measure results for the three waters, particularly in relation to the performance measures that we were qualified. However, the issues were not limited to these.

We recommend the City Council:

- increase governance and oversight of performance results and reporting;
- review and document its systems, processes and controls for the capturing of information;
- provide training to staff on systems, processes and controls; and
- review the adequacy of the level of quality assurance procedures, verification, and internal audit review that is required.

Management comment

Several changes to our software, policies and procedures have already been implemented with further changes to come. We acknowledge the requirement to complete regular reviews to certify the accuracy of data entry and correct records being maintained. Training will be completed regularly, with new training guides and flowcharts being provided to the customer services team with the implementation of revised categories in the service request system.

5.2 Fraud/theft event

The City Council reported to us a suspected fraud/theft event at an off-council site, which it subsequent investigated and found it was inconclusive.

The investigation identified amongst other things that internal controls were not followed. An Internal Audit report earlier on in the year identified that the internal controls were not followed and recommended that they are followed. However, the recommendations were not acted on.

We recommend that the City Council:

- learn from the fraud/theft event;

- obtain assurance from management responsible that internal audit's recommendations are acted on and implemented in a timely manner; and
- consider completing a follow up / post implementation review.

Management comment

Council completed an internal review which highlighted several recommendations, agreed between all relevant parties. The majority of these recommendations have already been implemented, and the finance team is working with the business unit to complete the recommendations. We have scheduled a follow up review for later in the 2022 year.

5.3 Reporting on flood events

On 9 November 2020, Napier experienced intense rainfall that ultimately resulted in a flood affecting hundreds of properties.

We reviewed processes the City Council used to respond to the flooding event:

- We found there were insufficient resources to obtain the appropriate information required to report on the properties affected by the flood.
- During the event, the Council was required to collect data on the properties affected by the flood, we found there was a lack of clear written instructions for staff to follow. This resulted in insufficient and unclear information being obtained.

We recommend the City Council review the level of staff available for such events and implement a clear process for collating data in response to flooding events.

Management comment

This flooding event was an unexpected emergency that affected many in our community as well as staff on a personal level. We were able to resource the event with a full complement of customer service staff and additional staff from our water team and after-hours call provider. However, our practice at the time for managing high call volumes did not meet the requirements. We now have a better understanding of what we need to do to meet the requirements and have in place new procedures for call taking where all calls and all issues are correctly captured in our system. We will continue to review our approach to call taking during unexpected emergency events to ensure we achieve best practice in this regard.

We acknowledge the lack of processes and forms for collating data. This is an issue which has been identified by staff internally, and also by the Incident Management Team. Also, we acknowledge that there could be gaps where we were not notified of damage to property due to homeowners dealing only with their own insurance providers. Ensuring that all responders to the event know of the necessity to notify Council in future will help with this issue.

5.4 Delegations

Operating expenditure transactions in excess of $1,000,000 are required to be approved by Mayor/Council. However, this is not state in the Delegations Policy and Delegated Financial Authorities (DFA) tables.

We recommend there is a procedure in place for approving operating expenditure in excess of $1,000,000.

Management comment

The Financial Delegations Policy is currently under review, as are the delegated authority limits of the Chief Executive. We anticipate that this review will lessen the requirement for approvals from the Mayor and Council. We will formalise the procedure, and include in the revised policy, information about transactions in excess of the CE's delegation.

5.5 Sensitive expenditure

5.5.1 Policy

The Auditor-General has written to all chief executives across central and local government to provide them with an update on the integrity work programme. The OAG's first areas of focus are the management of sensitive expenditure and conflicts of interest. These are both areas of interest given that public organisations have not always managed these matters as well as they could have. The OAG has issued a good practice guide on sensitive expenditure https://oag.parliament.nz/good-practice/sensitive-expenditure

We recommend that the City Council reviewed its sensitive expenditure policies against the Guidance and make any necessary changes to its policies.

Management comment

We have commissioned a review of our Sensitive Expenditure by our Internal Auditors in May 2022. Once completed, the findings will assist in our review of the Sensitive Expenditure Policy. We will also follow the OAG guidance on sensitive expenditure in this review, which we expect to be completed mid-2022.

5.5.2 Practice

We selected a sample of sensitive expenditure incurred, and we found four instances where sensitive expenditure incurred by the Chief Executive and Councillors are not being approved in accordance with the City Council's sensitive expenditure policy.

We recommend that sensitive expenditure is approved in accordance with the sensitive expenditure policy.

Management comment

Training has since been completed with the governance team and executive assistants of the Mayor and CE. Feedback from the training suggests the policy is understood and processes will be amended to ensure the policy is followed. We will continue to monitor this with regular reviews and further training as applicable.

6 Public sector audit

The City Council is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the City Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the City Council has fairly reflected the results of its activities in its financial statements and performance information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the City Council carrying out its activities effectively and efficiently;
- the City Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the City Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

There were no items noted during our audit that we need to bring to your attention.

Appendix 1: Status of previous recommendations

Table 1: Open recommendations

Recommendation	First raised	Status
Necessary		
Asset revaluations The roading valuation and three water peer review reports noted some areas for the City Council to continue to improve its records/valuation. We recommend the City Council make the improvements.	2020	**Outstanding** Improvements are required to the roading valuation. Refer to section 4.2. Revaluation for three waters not required in 2020/21.
Performance reporting - recording of customer complaints The City Council record all complaints in the system based on the DIA guidance. Formalised procedures should be established.	2020	**In progress** The City Council advised that they have addressed the recommendations now. We will review the systems and processes as part of our 2021/22 audit. For the after-hours call centre service, reliance is placed on Palmerston North City Council (PNCC). The City Council should follow up with PNCC as to whether they are recording all complaints, and classifying them into water supply, wastewater and stormwater.
Three Waters capitalisation process The costs of assets are allocated at an asset level rather than at the mains level.	2020	**Outstanding** The intention is to address this recommendation for the year ended 30 June 2022
General journal approvals Match the workflow for journal approvals to the transaction listing to ensure all journals have been through the workflow process of approval.	2019	**In progress.** The City Council have advised that a significant amount of work has gone into rectifying the issue/recommendation. A workflow and reporting process is in place albeit it is possible that there are still some holes which need correct. We will review the updated workflow and reporting process as part of the 2021/22 audit.

Recommendation	First raised	Status
Quality assurance processes over performance measure report Complete a monthly review of all the service requests relating to wastewater and water supply, to ensure the correct attendance and completed times are recorded.	2019	**Outstanding** Refer to sections 4.1 and 5.1.
Reporting against mandatory measures for complaints and median response times The City Council establish a process for the centralised review of the results reported in the quarterly report to ensure their accuracy and completeness. We recommend that the following improvements be implemented: • Continue to review the effectiveness of the current reporting and systems to accurately capture the underlying data and ensure the data is complete. • Continue to perform regular, for example, weekly or even daily quality reviews of data entered in relation to complaints, service requests and response times to ensure it is complete, accurate and supportable. • Data fields should include information to clearly show why data has been amended or re–categorised with a clear audit trail of any changes made and who authorised these. • Continue to review DIA guidance to ensure that the data being captured and reported meets the mandatory reporting requirements.	2016	**Outstanding** For our detailed recommendations on this matter, refer to our management report dated 26 October 2016, and sections 4.1 and 5.1 of this report.

Recommendation	First raised	Status
Improvement in the expenditure control systems One up approval to be gained for all expenditure. 1. Expenses are coded into the appropriate financial year. A review of a random sample of purchases against supporting documentation as part of the management accountant's review would reduce the risk in this area. 2. Development of a system report which will identify where the same staff member has raised, approved and receipted the goods or services. This could be run as part of each creditors pay run and then included in the creditor payment review procedures conducted by senior finance staff to gain assurance that the expenditure is appropriate and valid.	2016	**In progress.** The issue has been rectified but may not have been in place for the full 2020/21 financial year. 1) the City Council does not believe the issue of recognising expenses in the appropriate financial year is a problem because adjustments are made to ensure all expenses are reported in the appropriate financial year. It maybe that the City Council's system (Magiq) does not allow expenses to be backdated. Recommendation 4) has been implemented and therefore satisfactorily cleared. The City Council run a weekly exception report for Purchase Order and Invoices raised and approved by the same person. The report is reviewed by the Accounting Manager and investigated if the same person is found to have raised and approved a Purchase Order or an invoice.
Water by meter rates - improvements to systems An independent post input review of rates per cubic meter and property classification inputted into the system be carried out, evidenced with a dated signature.	2017	**Outstanding** The recommendation has not been implemented due to lack of resources. The City Council will consider going forward.
High annual leave balances Encourage those with high annual leave balances to take leave.	Prior to 2016	**Outstanding** As result of the Covid-19 pandemic and staff not taking leave, there has been no progress on this issue.
Beneficial		
Kennedy Park: Weakness in Till Takings sign off A more appropriate sign–off process be put in place, where the employee signing off the Cashier Balance Sheet report can be easily verified.	2019	**In progress** The cashier balance sheet is signed off as checked but no sign off as to who prepared it. Business Analyst will be working alongside Kennedy Park to improve the above process.

Recommendation	First raised	Status
Stocktake of fixed assets A periodic stocktake of fixed assets be completed to ensure that all assets included in the financial records are still held by the City Council.	2019	**In progress** The City Council have now started completing a stocktake of all fixed assets, however it will take some to complete and was not completed in this financial year.
Procurement and contract management We have recommended: a) Complete a register of all procurement (non-purchase order) contracts to ensure the City Council has a complete view of its contracted obligations. b) Complete the roll–out of the electronic purchase order system as a means to facilitate purchase order analysis and improve the efficiency of processing purchase orders. c) Provide procurement training and development for those involved in significant procurement activity – both sourcing and managing contracts – particularly around probity and contract risk. d) Enhance the documentation to support considerations of conflict of interest in procurement. e) Consider whether the procurement expertise available in the design office can be better utilised in assisting those business units in City Council with little specialist knowledge of procurement. f) Consider using a wider range of procurement approaches (including evaluation methodologies) to fit the goods/services being procured. g) Provide additional guidance to staff involved with procurement about the documentation that needs to be retained to support the procurement (including contract management) activity.	2011	**In progress** Management have advised that recommendations b) to d) have been implemented.

Recommendation	First raised	Status
h) Consider development of standard template procurement documentation to assist in consistency across the procuring business units. i) Consider the security of key procurement and contract documentation in the case of fire or natural disaster. j) Clarify whether the clause in the delegations policy that requires "all contracts entered into by the Chief Executive or any Manager that exceeds half of the delegated authority must be reported to the following ordinary meeting of Council" is being complied with (and clarify the definition of Manager for the purposes of application of the policy).		
Conflict of interest risk management *Interest Register* The register could be improved by documenting the assessment of interests disclosed for any potential conflicts and how any identified conflicts will be managed or mitigated. Apply the interest register, to lower management level staff, consultants and contractors involved in procurement and projects. Declarations should be updated at regular intervals (e.g. six monthly). Training should also be provided on the conflict of interest policy and should apply to Councillors, senior management, management and staff involved in the procuring of goods and services.	2015	**Outstanding**

Table 2: Audit New Zealand to follow up in 2021/22

Recommendation	First raised	Status
Necessary		
Payment for Hurt and Humiliation City Council review its policy on out of court settlements for hurt and humiliation, and consider making a voluntary disclosure to the IRD.	2020	**Audit New Zealand to follow up** We were not required to test any such payments during the year. We will follow up the recommendation as part of our 2021/22 audit.
Final pay calculations City Council ensure that holiday pay is not calculated and paid on ex gratia or other types of discretionary payments.		
Mclean Park sports ground hire income Regular audit process be implemented over gate takings/ticket sales at the McLean Park Sports ground.	Prior to 2016	Management have advised that a review has been completed and have findings available to show that this is no longer an issue.

Table 3: Implemented and closed recommendations

Recommendation	First raised	Status
Necessary		
Conflict of interest risk management *Employee Handbook* A policy covering conflicts of interest should be developed and included in the next version of Employees' Handbook.	2015	**Closed.** A Conflicts of Interest Policy is in place. The Employee Handbook does not refer to individual policies but all policies are on the Intranet and need to be read.
Improvement in the expenditure control systems We recommended: 1. Expenses are coded into the appropriate financial year. A review of a random sample of purchases against supporting documentation as part of the management accountant's review would reduce the risk in this area.	2016	**Closed.** The City Council does not believe the issue of recognising expenses in the appropriate financial year is a problem because adjustments are made to ensure all expenses are reported in the appropriate financial year. It maybe that the City Council's system (Magiq) does not allow expenses to be backdated.

Recommendation	First raised	Status
2. Develop a system report which will identify where the same staff member has raised, approved and receipted the goods or services. This could be run as part of each creditors pay run and then included in the creditor payment review procedures conducted by senior finance staff to gain assurance that the expenditure is appropriate and valid.		We did not identify any expenditure/accounts payable period reporting/cut-off issues. **Implemented and closed.** The City Council run a weekly exception report for Purchase Order and Invoices raised and approved by the same person. The report is reviewed by the Accounting Manager and investigated if the same person is found to have raised and approved a Purchase Order or an invoice.
Disposals of infrastructure assets The City Council ensure disposals are treated correctly.	2020	**Closed.** No issues with disposals of infrastructural assets in the current year.
Policy fees and charges Invoices should be reviewed against the policy before being issued.	2020	**Closed.** No issues found in the testing we performed in the current year.
Reconciliation reviews We recommend that: • reconciliations are printed, signed and dated as evidence of preparation and review and that reconciling items are cleared regularly; and • the general suspense account is cleared regularly.	2019	**Implemented and closed.** The reconciliation process has been improved and that the City Council uses an electronic approval process that enables it to determine whether and who has reviewed the reconciliations (in addition to Excel spreadsheets in prior years). It was confirmed that the suspense accounts were appropriately cleared.
Guidelines for sensitive and discretionary expenditure policy review That the "Policy Guidelines for Sensitive and Discretionary Expenditure" be reviewed in the next financial year to ensure that the policy remains up–to–date and meets the City Council's needs.	2019	**Closed** Management have advised that the most recent policy review was completed in December 2021. Audit New Zealand to review the review report and updated sensitive expenditure policies as part of the 2021/22 audit

Appendix 2: Corrected misstatements

Corrected disclosure deficiencies

Detail of disclosure deficiency
There were a number of changes that were required in the annual report to ensure that the disclosures matched the prior year.
Standards issued and not yet effective part of the accounting policies needed to be updated to reflect the information for the current year and to improve the disclosures to show the impact.
The property plant and equipment noted needed to be updated to ensure that all the required disclosures for the revaluation were included in the annual report.
Events after balance date needed to be updated to reflect the current situation relating to the announcements from the Government in relation to the three waters reform.
The explanations for major variances to budget needed to be updated to ensure that the correct figures were disclosed for the variances.
Disclosures in the groups of activities for the capital expenditure needed to be updated to ensure that these reported back against the annual plan figures.
Remuneration disclosures for fees paid to Councillors and FTEs needed to be updated to match the underlying payroll records.
The debt control benchmark needed to be updated as an incorrect calculation was initially used.
The key statistics relating to rating units needed to be updated to reflect the information from the RID.

Corrected performance reporting misstatements

Detail of misstatement
There were a number of changes that were required in the annual report to ensure that the disclosures matched the prior year.
Various measure needed to be updated as they were initially presented with no information.
Dry weather overflows of wastewater measure needed to be updated to reflect the underlying information for the measure.

Appendix 3: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit	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 performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the Council of their responsibilities. Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.
Auditing standards	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.
Auditor independence	We are independent of the City 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: *International Code of Ethics for Assurance Practitioners,* issued by New Zealand Auditing and Assurance Standards Board. In addition to our audit and the report on the disclosure requirements, we have: • audited the City Council's 2021-2031 Long-term plan; and • carried out a limited assurance engagement related to the City Council's debenture trust deed. These engagements are compatible with those independence requirements. Other than these engagements, we have no relationship with or interests in the City Council or its subsidiaries and controlled entities.
Fees	The audit fee for the year is $151,570, as detailed in our Audit Proposal Letter. Other fees charged in the period are: • 2021- 2031 Long-term plan: $91,600; and • Debenture Trust Deed: $4,650.
Other relationships	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 City Council or its subsidiaries that is significant to the audit.

Area	Key messages
	The Audit Manager on the audit has not undertaken any work related to the internal auditors (as her sister is a Findex (Crowe) employee). The audit supervisor has reported directly to the Appointed Auditor on any of our work relating to internal audit. A staff member of Audit New Zealand accepted a position of employment with the City Council during the year. The staff member was not involved in the audit of the City Council.

Appendix 4: Useful publications

Based on our knowledge of the Council, we have set out below some publications that the Mayor, Councillors, members of the Audit and Risk Committee and management may find useful.

Description	Where to find it
Consulting matters: Observations on the 2021-31 consultation documents	
This report provides our observations on the 2021-31 long-term plan consultation documents. Councils, as a whole, have realistically confronted the challenges they face and, for the most part, produced clear consultation documents. This is no small achievement at the best of times. In the middle of a pandemic and in a sector focused on significant reforms, this is even more significant. Areas covered: • Preparing long-term plans in a challenging environment. • The audit reports we issued on the consultation documents. • Engaging effectively with communities. • The types of issues councils consulted on in the 2021-31 consultation documents.	On OAG's website under 2021 publications Link: Summary of Consulting matters: Our observations on the 2021-31 (oag.parliament.nz)
Local government risk management practices	
The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. In our audit work, we often see instances where councils do not have effective risk management. This report discusses the current state of local government risk management practices and what councils should be doing to improve their risk management.	On OAG's website under 2021 publications Link: risk management practices
Managing conflicts of interest involving council employees	
This article discusses findings across four councils on how conflicts of interest of council employees, including the Chief Executive and staff, are managed.	On OAG's website under 2021 publications. Link: council employees
The Auditor-General's report on the results of recent audits of local government	
The OAG publishes a report on the results of each cycle of annual audits for the sector.	On the OAG's website under publications. Link: 2019/20 audits

<table>
<tr><th>Description</th><th>Where to find it</th></tr>
<tr><td colspan="2">What good looks like: Lessons for public organisations</td></tr>
<tr><td>A presentation to our central government Audit and Risk Committee Chairs' Forum.

The presentation contained important findings from our recent work, including our performance audits, inquiries, and good practice guidance. We also highlighted areas that we will be focusing on over the next six months, including our Covid-19-related work.</td><td>On OAG's website under 2021 publications

Link:
what-good-looks-like</td></tr>
<tr><td colspan="2">The problems, progress, and potential of performance reporting</td></tr>
<tr><td>Performance reporting is a fundamental part of providing effective public accountability.

This discussion paper explores five areas for improvement:

• ensuring that performance information is focused on the issues that matter to New Zealanders;

• ensuring that performance information is tailored to different audiences to make it more accessible;

• better integrating and aligning performance information so it is clear how the activities of public organisations contribute to outcomes;

• improving monitoring and scrutiny of the performance information that is produced to encourage continuous improvement; and

• building demand for good quality performance information, strengthening system leadership, and investing in the capability to do it well.</td><td>On OAG's website under 2021 publications

Link:
performance-reporting</td></tr>
<tr><td colspan="2">Building a stronger public accountability system for New Zealanders</td></tr>
<tr><td>Public accountability is about public organisations demonstrating to Parliament and the public their competence, reliability, and honesty in their use of public money and other public resources.

This discussion paper looks at how well New Zealand's public accountability system is working in practice.</td><td>On OAG's website under 2021 publications

Link: public-accountability</td></tr>
<tr><td colspan="2">The Government's preparedness to implement the sustainable development goals</td></tr>
<tr><td>In 2015, all United Nations members signed up to Transforming our world: the 2030 Agenda for Sustainable Development (the 2030 Agenda). It sets out 17 sustainable development goals to be achieved by 2030.

We looked at what arrangements are in place and how the Government is encouraging stakeholders and the public to engage with efforts to achieve the sustainable development goals by 2030.</td><td>On OAG's website under 2021 publications

Link: sdgs</td></tr>
</table>

Description	Where to find it
Client updates	
As part of our response to the Covid-19 situation, we developed online client updates to replace the in-person sessions that were cancelled. This year's material is accessible via video presentations on our website. The themes respond to challenges that our clients now face, such as planning for unexpected events or dealing with additional reporting requirements related to Covid-19 and climate change.	On our website under publications and resources. Link: Client updates
Procurement	
The OAG are continuing their multi-year work programme on procurement. They have published an article encouraging reflection on a series of questions about procurement practices and how processes and procedures can be strengthened.	On the OAG's website under publications. Links: Strategic suppliers: Understanding and managing the risks of service disruption Getting the best from panels of suppliers Local government procurement
Good practice	
The OAG has made it easier to find good practice guidance, including resources on: • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments.	On the OAG's website under good practice. Link: Good practice

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PUBLIC EXCLUDED ITEMS

That the public be excluded from the following parts of the proceedings of this meeting, namely:

AGENDA ITEMS

1. Tender process update
2. Appointment - Audit and Risk Committee
3. HRIS & Payroll Project

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were as follows:

General subject of each matter to be considered.	**Reason for passing this resolution in relation to each matter.**	**Ground(s) under section 48(1) to the passing of this resolution.**
1. Tender process update	7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
2. Appointment - Audit and Risk Committee	7(2)(a) Protect the privacy of natural persons, including that of a deceased person	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7

		(except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
3. HRIS & Payroll Project	7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information 7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.

AUDIT AND RISK COMMITTEE
Open Minutes

Meeting Date:	Friday 25 March 2022
Time:	1.08pm – 1.40pm *(Open)* 1.42pm – 1.55pm *(Public Excluded)*
Venue	Via Zoom Audio Visual Link
	Livestreamed via Council's Facebook site

Present	**Acting Chair:**	David Pearson
	Members:	Mayor Kirsten, Councillors Nigel Simpson and Graeme Taylor
In Attendance	Chief Executive (Steph Rotarangi) Director Corporate Services (Adele Henderson) Director Programme Delivery (Jon Kingsford) Director Community Services (Antoinette Campbell) Manager People and Capability (Sue Maitkin) Manager Business Excellence & Transformation (Jane Klingender) Director Infrastructure (Debra Stewart) Communications and Marketing Manager (Julia Atkinson) Accounting Manager (Talia Foster) Manager Building Consents (Malcolm Smith)	
Administration	Governance Advisor (Carolyn Hunt)	

Karakia

Chief Executive gave the opening karakia.

Apologies

Mayor Wise / Councillor Simpson

That the apology from John Palairet be accepted.

Carried

Conflicts of interest

Public forum

Nil

Announcements by the Mayor

Rainfall – Thanked the dedicated staff in the water teams for their work during the heavy rainfall over the last few days. There have been no major issues and there is still more rain to come and staff will be continuing to monitor Council's system.

Announcements by the Chairperson

Nil

Announcements by the management

The Chief Executive announced the withdrawal of the Public Excluded item Financial Delegation from the agenda.

Confirmation of minutes

Councillor Simpson / D Pearson

That the Minutes of the meeting held on 26 November 2021 were taken as a true and accurate record of the meeting.

Carried

AGENDA ITEMS

1. HEALTH AND SAFETY REPORT

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1439109
Reporting Officer/s & Unit:	Sue Matkin, Manager People & Capability

1.1 Purpose of Report

The purpose of this paper is to provide the Audit & Risk Committee with an overview of Health & Safety activity for the period Quarter 2 FY22.

At the Meeting

The Manager People and Capability, Ms Maitkin provided a brief overview of the Health and Safety report for the four month period 1 November to March 2021. As at 25 March 2022 there were 38 staff who had tested Covid positive, 33 people had recovered and there were 22 household contacts. There is starting to be a drop off now in terms of the number of positive cases.

There were changes that the Government announced earlier this week around "My Vaccine Passes and Mandates". Council has reviewed its policy in light of the changes from Government.

An application for staff to use John Kirwin's mental health support application is being rolled and is another piece of helping people with their resilience through the changes over the last few months in adapting to Covid together with the webinars and support that has been provided staff.

In response to questions at the meeting it was clarified:

- The trigger for staff to bring health and safety issues on to agendas is through their Health and Safety Representative or through their manager.
- There are five different Health and Safety Committees that meet and concerns, queries or incidents can be raised at that time and depending on what the issue is it may make its way back to a formal Team meeting agenda.
- 207 staff have been revalidated and recertified in their Health and Safety or First Aid qualifications. Information on staff that have not been recertificated was not available and would be provided separately.
- In regard to the sitewise prequalificiation contract assessment scores Ms Matkin advised that a more comprehensive and clearer explanation of each of those numbers in the boxes would be provided.
- The Team work with any contractors that do not meet Council's standard to bring them up to the desired level.

The Acting Chair, Mr Pearson advised that Ms Maitkin was leaving Council and on behalf of the Committee wished her well in her new endeavours and thanked her for her contribution to Council.

Committee's recommendation

Councillors Simpson / Mayor Wise

The Audit and Risk Committee:

a. **Receive** the Health and Safety report for the period October 2021 to March 2022.

Carried

2. RISK MANAGEMENT

Type of Report:	Operational
Legal Reference:	N/A
Document ID:	1439033
Reporting Officer/s & Unit:	Jane Klingender, Manager Business Excellence & Transformation Adele Henderson, Director Corporate Services

2.1 Purpose of Report

To provide the Audit and Risk Committee (Committee) with an update on risk management with reference to responsibilities listed in the Audit & Risk Charter; to report on high and extreme strategic risks; and to note emerging risks.

At the Meeting

The Director Corporate Services, Ms Henderson spoke to the report and updated the Committee on risk management during the last quarter. During this time the Risk Management Policy (including Framework) and Risk Management Strategy was reviewed and revised.

In response to questions at the meeting it was clarified:

- Looking at causes and controls Council are satisfied that there are good processes in place to identify causes and manage controls.
- Where there is significant concern or are unable to manage mitigations of extreme risk Council will continue to provide that level of information to the Committee. In most cases controls have been able to be put in place to ensure Council is not put at risk.
- Council has now employed a full time cyber security engineer and are advised of global cyber activity and Council is improving its ongoing resilience in this space.

Committee's recommendation

Councillors Taylor / Simpson

The Audit and Risk Committee:

a. **Receive t**he Risk Management Report dated 25 March 2022;

b. **Note** the progress against the agreed action plan to progress towards organisational risk maturity and to review statutory compliance at least annually, including identifying progress against the top five risks agreed by Council;

c. **Note** the business continuity planning actions in response to the threat of COVID-19 Delta and Omicron variants; and

d. **Note** the emerging risks.

Carried

3. BUSINESS CONTINUITY PLANNING IN RESPONSE TO COVID-19

Type of Report:	Information
Legal Reference:	N/A
Document ID:	1444463
Reporting Officer/s & Unit:	Jane Klingender, Manager Business Excellence & Transformation Adele Henderson, Director Corporate Services

3.1 Purpose of Report

To provide a summary of the Audit and Risk Committee workshop on Business Continuity Planning for Covid-19 held 15 March 2022.

At the Meeting

The Director Corporate Services, Ms Henderson advised that due to events happening in this space a workshop was held with the Audit and Risk Committee and the Executive Leadership Team on 15 March 2022 to update the Committee on actions undertaken in response to the threat of spread of the Delta and Omicron variants.

In response to questions at the meeting it was clarified:

- An update had been received from the HB District Health Board this morning advising that Hawke's Bay is not through the peak of Omicron at this stage.
- Case numbers are predicted to rise a bit further and will probably last for 2-3 weeks.
- Council is managing its Business Continuity Plans however, numbers are appearing to be dropping off on impacted staff at Council.

Committee's recommendation

Councillor Taylor /Mayor Wise

The Audit and Risk Committee:

a. **Receive** the Business Continuity Planning in Response to Covid-19 report dated 25 March 2022.

b. **Note** the actions taken for business continuity planning.

Carried

4. SENSITIVE EXPENDITURE - MAYOR AND CHIEF EXECUTIVE

Type of Report:	Procedural
Legal Reference:	N/A
Document ID:	1439112
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

4.1 Purpose of Report

To provide the information required for the Committee to review Sensitive Expenditure of the Mayor and Chief Executive for compliance with Council's Sensitive Expenditure Policy.

At the Meeting

The Director Corporate Services, Ms Henderson took the report as read.

Committee's recommendation

Councillors Simpson / Taylor

The Audit and Risk Committee:

a. **Receive** the 31 December 2021 quarterly report of Sensitive Expenditure for the Mayor and Chief Executive and review for compliance with the Sensitive Expenditure Policy.

Carried

5. INTERNAL AUDIT: BUILDING & RESOURCE CONSENTS REVIEW

Type of Report:	Operational
Legal Reference:	Local Government Act 2002
Document ID:	1440724
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

5.1 Purpose of Report

To table to the Committee the internal audit on Building and Resource Consents undertaken by Council's internal auditors, Crowe.

At the Meeting

Ms Foster spoke to the report in regard to Council's internal audit programme with internal auditors Crowe. The most recent audit undertaken was the building resource consent review looking at all Council's internal processes. Findings in general were very good with two high priority recommendations which required updated processes, five medium risks and one process improvement.

Committee's recommendation

Councillors Simpson / Taylor

The Audit and Risk Committee:

a. **Receive** the report from Crowe titled "Building & Resource Consents Review".

Carried

6. EXTERNAL ACCOUNTABILITY: ANNUAL PLAN 2022/23 UNDERLYING DOCUMENTS

Type of Report:	Operational
Legal Reference:	Local Government Act 2002
Document ID:	1441854
Reporting Officer/s & Unit:	Caroline Thomson, Chief Financial Officer

6.1 Purpose of Report

That the Committee review and provide feedback to Council on the Annual Plan 2022/23 underlying financial information prior to the final adoption of the reports.

At the Meeting

The Director Corporate Services, Ms Henderson spoke to the report which was to provide the Committee an opportunity to provide any feedback on the underlying information and assumptions that fed into the material that would become part of the Annual Plan consultation document that will be released for community consultation.

Committee's recommendation

Councillors Taylor / Simpson

The Audit and Risk Committee:

a. **Receive** the underlying information as the basis for the Annual Plan consultation document 2022/23:

   i. Capital plan changes

   ii. 10 year revised capital plan

   iii. Financial information

   iv. Fees and charges

b. **Provided** no feedback from the review of the draft Annual Plan 2022/23 underlying financial information to the Council meeting on 31 March 2022.

Carried

PUBLIC EXCLUDED ITEMS

Councillors Taylor / Simpson

That the public be excluded from the following parts of the proceedings of this meeting, namely:

1. HRIS & Payroll Project

Carried

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were as follows:

General subject of each matter to be considered.	Reason for passing this resolution in relation to each matter.	Ground(s) under section 48(1) to the passing of this resolution.
1. HRIS & Payroll Project	7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the

	position of the person who supplied or who is the subject of the information 7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.

The Chief Executive gave the closing karakia at 1.55pm

Approved and adopted as a true and accurate record of the meeting.

Chairperson ....

Date of approval ....