

Audit & Risk Subcommittee Agenda 21 September 2023



Meeting conducted in the Council Chamber, Lvl 2 Philip Laing House
144 Rattray St, Dunedin
Meetings may be viewed live on the [ORC Official YouTube Channel](#)

Members:

Cr Tim Mepham, Co-Chair
Mr Andrew Douglas, Co-Chair (Independent member)
Cr Alexa Forbes
Cr Gary Kelliher
Cr Kevin Malcolm
Cr Gretchen Robertson (ex officio)
Cr Kate Wilson

Senior Officer: Richard Saunders, Chief Executive

Meeting Support: Kylie Darragh, Governance Support Officer

21 September 2023 01:00 PM

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1. WELCOME	
2. APOLOGIES	
3. PUBLIC FORUM	
No requests from members of the public to address the Audit and Risk Subcommittee were received prior to publication of the agenda.	
4. CONFIRMATION OF AGENDA	
Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.	
5. DECLARATIONS OF INTEREST	
Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have. ORC Councillors Declarations of Interests are published on the website.	
6. CONFIRMATION OF MINUTES	4
That the minutes of the Audit and Risk Committee meeting held on 22 June 2023 be confirmed as a true and accurate record.	
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	The Audit and Risk Subcommittee is governed by its Terms of Reference which define the purpose and responsibilities of the Subcommittee. This paper outlines the proposed work programme to be covered at Audit and Risk Subcommittee meetings in the 2023 calendar year to ensure the responsibilities outlined in the Terms of Reference are fulfilled.	
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	To present the quarterly Treasury Reporting Dashboard from Council's Investment Advisor, Bancorp, as at 30 June 2023.	
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9.	RESOLUTION TO EXCLUDE THE PUBLIC	125
	That the public be excluded from the following items under LGOIMA 48(1)(a):	
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3.2	Cyber Risk	
3.3	Managed Fund Report	
3.4	Strategic Risk Register	
3.5	HSW Deep Dive on Contractor Management	

10. CLOSURE



Audit and Risk Subcommittee MINUTES

Minutes of an ordinary meeting of the Audit and Risk Subcommittee held in the Council Chamber, Level 2 Philip Laing House, 144 Rattray Street, Dunedin on Thursday 22 June 2023, commencing at 1:07 PM.

PRESENT

Mr Andrew Douglas *(Co-Chairperson/Chair)*
Cr Tim Mepham *(Co-Chairperson)*
Cr Alexa Forbes *(online)*
Cr Gary Kelliher *(online)*
Cr Kevin Malcolm
Cr Kate Wilson

IN ATTENDANCE/EX OFFICIO

Cr Gretchen Robertson
Cr Alan Sommerville

1. WELCOME

Andrew Douglas welcomed Councillors, and staff to the meeting at 1:00 pm. Staff present included Richard Saunders (Chief Executive) Nick Donnelly (GM Corporate Services), Anita Dawe (GM Policy and Science, online), Gavin Palmer (GM Operations), Amanda Vercoe (GM Governance, Culture and Customer), Kylie Darragh (Governance Support), Sarah Munro (Manager Finance)

2. APOLOGIES

Resolution: Cr Malcolm Moved, Cr Wilson Seconded:

Cr Gary Kelliher leaving from 2pm, be accepted.

MOTION CARRIED

3. PUBLIC FORUM

No public forum was held.

4. CONFIRMATION OF AGENDA

The agenda was confirmed as published.

5. DECLARATIONS OF INTERESTS

Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have. Councillor Declarations of Interests are published on the [ORC website](#).

6. CONFIRMATION OF MINUTES

It was requested that in future, all non-member Councillors of the Committee have their presence noted as 'in attendance' for clarity.

Resolution: Cr Wilson Moved, Cr Mepham Seconded

That the minutes of the (public portion of the) meeting held on 23 March 2023 be confirmed as a true and accurate record.

MOTION CARRIED

9. RESOLUTION TO EXCLUDE THE PUBLIC

Resolution: Cr Wilson Moved, Cr Malcolm Seconded

At 1:07pm it was moved that:

That the public be excluded from the following parts of the proceedings of this meeting, namely:

- *Deloitte ORC Audit Plan*

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under [section 48\(1\)](#)

of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
1.1 Deloitte ORC Audit Plan	<p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information—would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information—would be likely otherwise to damage the public interest – Section 7(2)(c)(ii)</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (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.</p>

This resolution is made in reliance on [section 48\(1\)\(a\)](#) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by [section 6](#) or [section 7](#) of that Act or [section 6](#) or [section 7](#) or [section 9](#) of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public.

MOTION CARRIED

Resolution: Cr Wilson Moved, Cr Robertson Seconded

At 1:46pm it was moved to return to the public portion of the Committee meeting.

MOTION CARRIED

7. ACTIONS (STATUS OF SUBCOMMITTEE RESOLUTIONS)

Open actions from resolutions of the Committee were reviewed. There were two updates, namely that the Health and Safety Briefing and the Climate Change Deep Dive will be completed by the end of the meeting.

8. MATTERS FOR CONSIDERATION

8.1. A&R2301 Legislative Compliance

Janet Ashcroft spoke to the Committee on the Comply With process, which is an assurance tool used by several local government organisations for focused mini audits. There was an opportunity for Councillors to ask questions and discuss.

Resolution AR23-111 Cr Wilson Moved, Cr Robertson Seconded

That the Subcommittee:

- 1) **Notes** this report.

MOTION CARRIED

8.2. A&R2304 Safety and Wellbeing Report

The Safety and Wellbeing team Gina Watts, Team Leader, Mark Olsen, People and Safety, Kelly Stuart, People Services Lead were present for the report and there was an opportunity for the Committee to ask questions.

Items discussed were the managing of violent incidents in the customer service area through duress procedure, de-escalation training and design of customer service areas. Annual leave trends have been actively managed with a healthy average managing the liability for the organisation and the committee was assured that all employees are provided with guidelines for adequate break times.

Resolution AR23-112 Cr Wilson Moved, Cr Mepham Seconded

That the Audit and Risk Subcommittee:

- 1) **Notes** this report.

MOTION CARRIED

Cr Kelliher left the meeting at 1:58 pm.

8.3. A&R2303 Climate Change Deep Dive

Amanda Vercoe, Francisco Hernandez, and Andrea Howard presented the report with an opportunity for questions. This was the first deep dive session as part of the Audit and Risks Key Risks series.

After questions and some discussion Cr Malcolm moved:

Resolution AR23-113 Cr Malcolm Moved, Cr Robertson Seconded

That the Audit and Risk Subcommittee:

- 1) **Notes** the attached deep dive on Council's 'Climate Change' strategic risk.

MOTION CARRIED

8.4. CS2321 Annual Report Timetable and Matters Under Consideration

Nick Donnelly, General Manager Corporate Services and Sarah Munro, Finance Manager, spoke to the paper and there was an opportunity for questions.

Resolution AR23-114 Cr Malcolm Moved, Cr Wilson Seconded

That the Subcommittee:

- 1) **Notes** this report.

MOTION CARRIED

8.5. CS2322 Corporate Policy Overview Report

Nick Donnelly spoke to Committee on the report and there was an opportunity for questions from the Committee.

Resolution AR23-115: Cr Malcolm Moved, Cr Wilson Seconded

That the Subcommittee:

- 1) **Notes** this report.
- 2) **Endorses** a change to the Audit and Risk work programme where this Policy Overview update is only required on an annual basis (noting significant Policy changes may be reported as and when required).

MOTION CARRIED

8.6. CEO2301 Internal Audit Options for Otago Regional Council

Andrew Douglas and Richard Saunders have been working on internal audit options for the Otago Regional Council which has included speaking to other Councils regarding similar frameworks. There was an opportunity for discussion and an additional recommendation (3) was added to the resolution to include reporting back to the Committee, the findings of the audits.

Resolution AR23-116: Cr Wilson Moved, Cr Malcolm Seconded

That the Audit and Risk Subcommittee:

- 1) **Notes** this report.
- 2) **Notes** that the Co-chairs of the Committee will work with the Chief Executive Officer to commence an internal audit programme in the 23/24 year.

- 3) **Notes** that the findings of all internal audits will be reported back to the Audit and Risk Committee.

MOTION CARRIED

9. RESOLUTION TO EXCLUDE THE PUBLIC

Resolution: Andrew Douglas Moved, Cr Wilson Seconded:

That the public be excluded from the following parts of the proceedings of this meeting, namely:

- *Confidential Minutes of the Meeting on 22 March 2023*
- 1.2 *Insurance Renewal*
- 1.3 *Insurance Disclosure*
- 1.4 *Managed Fund – March Report*

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under [section 48\(1\)](#) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
<i>The Confidential Minutes of the 22 March 2023 Meeting</i>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(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.</p>

	<p>authority of any enactment, where the making available of the information— would be likely otherwise to damage the public interest – Section 7(2)(c)(ii)</p> <p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p> <p>To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) – Section 7(2)(i)</p> <p>To prevent the disclosure or use of official information for improper gain or improper advantage – Section 7(2)(j)</p>	
<p><i>1.2 Insurance Renewal</i></p>	<p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(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.</p>
<p><i>1.3 Insurance Disclosure</i></p>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or</p>

	<p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p>	<p>more of the following grounds: (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.</p>
<p><i>1.4 Managed Fund</i></p>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (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.</p>

This resolution is made in reliance on [section 48\(1\)\(a\)](#) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by [section 6](#) or [section 7](#) of that Act or [section 6](#) or [section 7](#) or [section 9](#) of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public.

11. CLOSURE

There was no further business meeting was closed at 3:15pm.

Chairperson

Date

DRAFT

Action Register

Search Criteria

Showing Completed Items: Yes

Include Items Completed From: 04/08/2023

Applied Filters

Start Meeting Date: 1st Oct 2022

Meeting Types: Audit and Risk Subcommittee

Generated By: Kylie Darragh

Generated On: 04/09/2023 at 2:16pm

Audit & Risk Subcommittee Agenda 21 September 2023 - ACTIONS (Status of Subcommittee Resolutions)

Meeting Date	Document	Item No.	Item	Status	Action Required	Assignee/s	Action Taken	Due Date
22/06/2023	Audit and Risk Subcommittee 2023.06.22	8.6	CEO2301 Internal Audit Options for Otago Regional Council	Assigned	Co-Chairs of the Committee to work with the Chief Executive Officer to commence an internal audit programme in the 23/24 year and report results back to the Committee. AR23-116	Chief Executive, Councillor, Andrew Douglas		31/08/2023

8.1. OPS2338 Waka Kotahi Procedural Audit of Otago Regional Council

Prepared for: Audit and Risk Subcommittee

Report No. OPS2338

Activity: Transport: Transport Planning

Author: Lorraine Cheyne, Manager Transport

Endorsed by: Richard Saunders, Chief Executive

Date: 21 September 2023

PURPOSE

- [1] The purpose of this report is to inform Council of the outcome of Waka Kotahi, NZ Transport Agency's Procedural Investment Audit of ORC for the period 1 July 2019 to 30 June 2022.

EXECUTIVE SUMMARY

- [2] Every three years Waka Kotahi completes a procedural investment audit of ORC's transport activities. The latest audit was completed in April and May this year for the 1st of July 2019 to the 30th of June 2022 period.
- [3] The audit found that Funding Assistance claims for the three financial years to the 30th of June 2022 were successfully reconciled against Council's General Ledger records, and that generally, Council has good financial practices in place.
- [4] Only two minor issues were identified during the review of the financial process that required ORC's attention, with overall ORC achieving an excellent result. Steps have been undertaken to address the two minor issues moving forward.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Receives** this report.

BACKGROUND

- [5] As an Approved Organisation (AO) Otago Regional Council (ORC) attracts co-investment in its regional land transport planning and operations (public transport and Total Mobility networks) activities from Waka Kotahi. This co-investment of National Land Transport Funds (NLTF), is to the tune of 51% Funding Assistance Rate (FAR) for all activities approved in the National Land Transport Programme (NLTP)
- [6] Waka Kotahi NZ Transport Agency has a legal obligation to audit organisations that are funded through the NLTP. It's audit programme includes two types of investment audits, being technical investment audits and procedural investment audits. Procedural

audits for AOs other than Auckland Transport, such as this one, typically take place every three years and technical audits every six years.

- [7] This procedural audit of ORC's transport activities was completed by Waka Kotahi in April and May 2023 this year, for the period 1 July 2019 to 30 June 2022.

DISCUSSION

- [8] The procedural audit for the three years to 30 June 2022 concluded that generally Council has good financial practices in place, and that ORC has robust and reliable communication channels with their operators regarding the network. It was found that boardings, reported directly from the RITS ticketing system, are checked daily and that these are reconciled against the monthly patronage figures. When a sample of patronage data was reviewed and traced through to ORC's Annual Achievement Return (AAR) submitted for the 2021/22 financial year, the sample selected correctly matched the AAR figures
- [9] Two minor issues were identified during the review of the financial process that require attention.
- [10] The first issue was regarding the management of the Low Cost, Low Risk (LC, LR) spreadsheet in Transport Investment Online (TIO). It was identified that a condition of funding, being the requirement to update of actual project expenditure by the 31 August of the FY recently completed, had not occurred.
- [11] A second issue identified was couple of instances whereby signing off on key documents by Senior Management had not occurred, however this was noted in the context of ORC's high level of compliance with Waka Kotahi Procurement requirements.
- [12] As noted, these were regarded as minor issues. ORC has updated its Low Cost, Low Risk expenditure spreadsheet for FY 22/23 as required by Waka Kotahi. A higher level of diligence around final signing off on key documents by Senior Management is also being applied

OPTIONS

- [13] Not relevant this report is only for receiving Waka Kotahi Investment Audit Report.

CONSIDERATIONS

Strategic Framework and Policy Considerations

- [14] Not applicable.

Financial Considerations

- [15] Not relevant except to note that achieving a good result in the procedural audit supports future co-investment from Waka Kotahi.

Significance and Engagement

[16] Not applicable.

Legislative and Risk Considerations

[17] Not relevant except to note that achieving a good result in the procedural audit demonstrates that ORC has in place robust processes for mitigating financial and legal risk in its procurement and contracting.

Climate Change Considerations

[18] Not applicable.

Communications Considerations

[19] Not applicable.

NEXT STEPS

[20] Not applicable.

ATTACHMENTS

1. ORC Final Audit Report 2023 [8.4.1 - 12 pages]



INVESTMENT AUDIT REPORT

Procedural Audit of Otago Regional Council

Monitoring Investment Performance

Report of the investment audit carried out under Section 95(1)(e)(ii) of the Land Transport Management Act 2003.

Ben Roddis

28 April 2023


Report Number: RABRI-2261

Approved Organisation (AO):	Otago Regional Council
Waka Kotahi NZ Transport Agency Investment (2021 – 2024 NLTP):	\$46,945,930 (budgeted programme value)
Date of Investment Audit:	17 th - 20 th April 2023
Auditor:	Ben Roddis - Senior Investment Auditor
Report No:	RABRI-2261

AUTHORITY SIGNATURES

Prepared by: 

 Ben Roddis, Senior Investment Auditor

Approved by:  12/06/2023

 Yuliya Gultekin, Practice Manager Audit & Assurance Date

DISCLAIMER

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.

Report Number: RABRI-2261

EXECUTIVE SUMMARY

Waka Kotahi NZ Transport Agency's (hereafter Waka Kotahi) funds Otago Regional Council's (ORC) land transport activity through its National Land Transport Programme (NLTP). ORC is responsible for the public transport and Total mobility network to keeping people moving around the region and delivers transport services to the regional population, within the Otago Region.

This procedural investment audit was completed for the 1st of July 2019 to the 30th of June 2022 period. Funding assistance claims for the three financial years to the 30th of June 2022 were successfully reconciled against Council's General Ledger records. Generally, Council has good financial practices in place, however an issue was identified during the review of the financial process that requires the Council's attention regarding the management of the Low Cost, Low Risk (LC, LR) spreadsheet, whereby a condition of funding is not being met and needs to be rectified for future audits.

The review of the procurement procedures revealed a couple of issues regarding the signing off on key documents by Senior Management. Albeit there was a high level of compliance with Waka Kotahi Procurement requirements.

ORC has robust and reliable communication channels with their operators regarding the network. Boardings are reported directly from the RITS ticketing system and are checked daily. The daily figures are then reconciled against the monthly patronage figures. Missed trips and the reduction of services process were discussed and examples shown of how they are recorded.

Additional funding to support Government's decision to temporarily provide half price public transport fares was introduced in April 2022, and claims made from April 2022 to June 2022 were all eligible.

A sample of patronage data was reviewed and traced through to ORC's Annual Achievement Return submitted for the 2021/22 financial year. The sample selected correctly matched the Annual Achievement Return figures.

Like other Councils, the ability to cancel temporary Total Mobility cards is difficult to enforce in the current Ridewise software/system, however Council staff monitor the trips daily and are aware of the issue. Total Mobility is closely monitored and transaction testing from Total Mobility work categories was successful. The scheme is appropriately administered and continues to be managed effectively.

Report Number: RABRI-2261

AUDIT RATING ASSESSMENT

Subject Areas		Rating Assessment*
1	Previous Audit Issues	N/A
2	Financial Processes	Effective
3	Procurement Procedures	Effective
4	SuperGold and Fare Revenue	Effective
5	Contract Management and Monitoring	Effective
6	Total Mobility	Effective
Overall Rating		Effective

* Please see Introduction for Rating Assessment Classification Definitions

RECOMMENDATIONS

The table below captures the audit recommendations. Agreed dates are provided for the implementation of recommendations by the approved organisation.

We recommend that Otago Regional Council:		Implementation Date
R2.1	Meets the condition of funding for the LC,LR Programme by updating actual project expenditure by the 31st of August of the FY recently completed.	30/06/2023
R3.1	Makes sure that all procurement documentation is completed and signed off correctly.	30/06/2023

Note: Before being finalised this report was referred to Otago Regional Council for comment. Council's responses are included in the body of this report and appendix D.

Report Number: RABRI-2261

1. INTRODUCTION

1.1. Audit Objective

The objective of this audit is to provide assurance that Waka Kotahi investment in Otago Regional Council's land transport programme is being well managed and delivering value for money. We also seek assurance that Otago Regional Council is appropriately managing risk associated with Waka Kotahi investment. We recommend improvements where appropriate.

1.2. Assessment Ratings Definitions

	Effective	Some Improvement Needed	Significant Improvement Needed	Unsatisfactory
Investment management	Effective systems, processes and management practices used.	Acceptable systems, processes, and management practices but opportunities for improvement.	Systems, processes and management practices require improvement.	Inadequate systems, processes, and management practices.
Compliance	Waka Kotahi and legislative requirements met.	Some omissions with Waka Kotahi requirements. No known breaches of legislative requirements.	Significant breaches of Waka Kotahi and/or legislative requirements.	Multiple and/or serious breaches of Waka Kotahi or legislative requirements.
Findings/ deficiencies	Opportunities for improvement may be identified for consideration.	Error and omission issues identified which need to be addressed.	Issues and/or breaches must be addressed, or on-going Waka Kotahi funding may be at risk.	Systemic and/or serious issues must be urgently addressed, or on-going Waka Kotahi funding will be at risk.

Report Number: RABRI-2261

2. ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

1. Previous Audit Issues											
<p>ORC's previous procedural audit was completed in October 2019 and there were two recommendations arising from the previous audit, they were:</p> <p>RECOMMENDATIONS SUMMARY</p> <p>That Otago Regional Council:</p> <table border="1"> <thead> <tr> <th></th> <th>Recommendation</th> <th>Implementation target date</th> </tr> </thead> <tbody> <tr> <td>4.</td> <td>Reviews its practice for the management of its complaints and compliments platforms including the Queenstown based services.</td> <td>01/05/2020 (subject to contract)</td> </tr> <tr> <td>5.</td> <td>Implements a process to manage the issuing and cancellation of temporary Total Mobility Scheme cards.</td> <td>01/08/2020</td> </tr> </tbody> </table>				Recommendation	Implementation target date	4.	Reviews its practice for the management of its complaints and compliments platforms including the Queenstown based services.	01/05/2020 (subject to contract)	5.	Implements a process to manage the issuing and cancellation of temporary Total Mobility Scheme cards.	01/08/2020
	Recommendation	Implementation target date									
4.	Reviews its practice for the management of its complaints and compliments platforms including the Queenstown based services.	01/05/2020 (subject to contract)									
5.	Implements a process to manage the issuing and cancellation of temporary Total Mobility Scheme cards.	01/08/2020									
<p>Regarding 4. Complaints and compliments process has been improved and there is now direct communication into ORC bases in Queenstown and Dunedin (with an after-hours phone service in Palmerston North, and with an on-call ORC officer available). Complaints, feedback, and enquiries are currently tracked through a Sharepoint file; however, work is underway to build a 'bespoke' system with greater capabilities to enhance this process. This system is due to go live mid-year 2023. This recommendation has been satisfied.</p> <p>Regarding 5. This appears to be a Ridewise software/system issue that is beyond Councils ability to fix. There are effective processes in place to monitor cancelled Total Mobility scheme cards.</p> <p>Also, the previous 2019 audit remarked that there was an overclaim of \$302,019 (total) in FY 18/19 which was due to be paid back to Waka Kotahi in FY 19/20. This audit confirmed this was deducted in FY 19/20.</p>											

* * *

Report Number: RABRI-2261

2. Financial Processes	Effective
<p>Claims for funding assistance for the financial years from the 1st of July 2019 to the 30th of June 2022 were reconciled against Otago Regional Council's (ORC) General Ledger (GL) records.</p> <p>There is a straightforward audit trail between Council's GL and claims to Waka Kotahi for funding assistance. Once the linkages between the two were understood then the reconciliation process was easier to follow via a tab in the claim worksheet which links GL codes to Waka Kotahi work categories.</p> <p>A sample of transactions from a selection of different work categories was tested and were all eligible for funding. Transaction testing of costs completed across Environmental Maintenance (WC 121), Public transport services, LC, LR and Public transport infrastructure Work Categories (W/C) were eligible and correctly applied to the claim.</p> <p>However, there is a condition of funding within W/C 532 Low Cost-Low Risk (LC-LR) that 'The template list is expected to be maintained and updated regularly. A condition precedent also exists for claiming in the new financial year, specifically the template must be updated by the 31st of August of each year. None of the FY's audited had the TIO claims matched with the template. There are differences of \$604,854 (FY 19/20), \$147,500 (FY 20/21) and \$1,873,989 (FY 21/22) in each of the three years audited. These conditions of funding need to be adhered to.</p> <p>In-house business unit overhead costs were reviewed. Charge out rates and cost recovery multiplier all appeared reasonable.</p> <p>There are no historic contract retentions, and the only existing retention was up to date. The retentions account is reviewed monthly.</p> <p><u>Conditions of Approval</u></p> <p>There one outstanding condition for follow-up regarding Public Transport Infrastructure Improvements in Transport Investment Online (TIO) under Condition Id 1551 (see appendix C).</p> <p>The auditor will follow up with the Waka Kotahi Investment Advisor to check the status of these conditions and to confirm if these conditions need closing out.</p>	
Recommendation	<p>We recommend that Otago Regional Council:</p> <p>R2.1 Meets the condition of funding for the LC,LR Programme by updating actual project expenditure by the 31st of August of the FY recently completed.</p>
Otago Regional Council's comment	<p>The task of updating the Low Cost, Low Risk expenditure was missed during the transition of Public Transport managers. A new process has been established to ensure this is updated annually by the 31st of August deadline.</p>

Report Number: RABRI-2261

3. Procurement Procedures		Effective
<p>Council has a current Procurement Strategy which expires on the 14th of April 2025 and is currently published on the Council’s website.</p> <p>One contract was reviewed for compliance with Waka Kotahi approved procurement procedures. The contract was for ‘Unit 3 Pine Hill-City-Calton Hill; Shiel Hill-City-Ōpoho Ridge Runner’ generally complied with Waka Kotahi requirements. However, a Conflict of Interest form for the Tender Evaluation Team (TET) chair, and the recommendation section in Tender Evaluation Report, were not signed off by a senior manager.</p>		
Recommendation	<p>We recommend that Otago Regional Council:</p> <p>R3.1 Makes sure that all procurement documentation is completed and signed off correctly.</p>	
Otago Regional Council’s comment	<p>Staff will ensure that all paperwork will be reviewed for signature with immediate effect. Note that staff that are currently completing the NZQA qualification for procurement to provide resilience in this area.</p>	

* * *

4. SuperGold and Fare Revenue		Effective
<p>ORC has a flat fare rate of \$2 with no zones across the bus network. Most of the fares are paid electronically through ORC’s Bee Card system meaning transport operators collect minimal cash fares on behalf of ORC (78% of fares collected in June 22 were through the Bee Card system). The process was reviewed for receipting and recording of fare revenue. With the Bee Card a passenger tags onto the bus and then tags off the bus. If the customer tags off, then they receive 50c back onto their card. This was verified in patronage validation and claims. If a customer doesn’t tag off, then the full flat fare rate applies.</p> <p>It was also confirmed that SuperGold fare revenue was offset against claims made under the Bus Services Category. Also, SuperGold is linked into the Bee Card, which administers the correct price for travel on and off peak.</p> <p><u>Reduced Public Transport Fares Scheme (Crown Funded)</u></p> <p>Government’s decision to temporarily provide half price public transport fares was introduced in April 2022. Claims for funding assistance were checked to ensure they matched actual fare revenue received. All claims across bus modes were verified as correct over the eligibility period (April - June 2022).</p>		
Otago Regional Council’s comment	<p>None from Council</p>	

* * *

Report Number: RABRI-2261

5. Contract Management and Monitoring	Effective
<p>ORC has fixed fortnightly meetings with operators, and meeting minutes were documented and readily available for the audit team's review. The minutes showed clear agenda, actions and follow ups. ORC also has constant communication with the operators daily regarding the network, timings, issues on routes/sites etc.</p> <p>Boardings are reported directly from the RITS ticketing system and are checked daily. The daily figures are then reconciled against the monthly patronage figures. The processes for missed trips and the reduction of services were discussed and examples shown of how they are recorded and the Council's deduction of payments was cited. Real time information is manually uploaded to the Transit app for passengers. A new ticketing system (Init) is in the process of being implemented which will give Council greater functionality and reporting on i.e., real time date, missed trips etc.</p> <p>A sample Bee Card transaction was reviewed for a month, also the process was checked for passengers who refuse or cannot pay the fare. These were both recorded correctly in patronage and through to claims.</p> <p>A sample of patronage data was reviewed and traced through to ORC's Annual Achievement Return submitted for the 2021/22 financial year. The sample selected correctly matched the Annual Achievement Return figures.</p>	
Otago Regional Council's comment	None from Council

6. Total Mobility	Effective
<p>ORC's management of this activity was discussed with the key staff who administer the Total mobility scheme. The scheme is appropriately administered and continues to be managed effectively.</p> <p>ORC has a \$50 maximum fare limit with the highest fares in the region tending to be Mosgiel to Dunedin and Dunedin to Port Chalmers trips which cost approx. \$70. Transactions were tested from Total Mobility work categories and all costs were eligible and claimed correctly.</p> <p>Like other Councils, the ability to cancel cards is difficult to enforce with the current Ridewise software/system, however Council staff monitor the trips daily and aware of the issue as noted in the previous audits recommendation.</p>	
Otago Regional Council's comment	None from Council

Report Number: RABRI-2261

APPENDIX A

Audit Programme

Previous audit outcomes - Procedural Audit – October 2019
Land Transport Disbursement Account
Final claims for 2019/20, 2020/21 & 2021/22
Reconciliation between ledgers supporting final claim and the audited financial statements
Transactions (accounts payable)
PT contract Management and service delivery
Fare revenue protection
Procurement Procedures – PT
Low-cost Low Risk – PT
Public Transport - AAR Data
Total Mobility
SuperGold Scheme

Report Number: RABRI-2261

APPENDIX B

Contracts Audited

Contract Number	Tenders Received	Date Let	Description	Contractor	Cost Type	Cost GST incl.
PTC 2022-1	4	31/03/22	Unit 3 - Pine Hill-City-Calton Hill; Shiel Hill-City-Ōpoho Ridge Runner	Ritchies Transport Holdings Ltd	Estimate Let Price Final Cost	\$2,585,000 \$2,835,248 Ongoing

APPENDIX C

Otago Regional Council → Public Transport Infrastructure Improvements

Phase details
Submit for review
Review request list (5)
Conditions (1)

Condition Id	Type	Status	Created	Follow up date	Signed off	Request Id
1551	Subsequent	Outstanding	02 Jul 2015	01 Jul 2016		60802

Conditions of approval

* Condition type

* Condition

i. resource consent or other mechanism that authorises the activity is obtained for the central city bus hub;
 ii. a safety audit is completed for the central city bus hub and recommendations are addressed in the hub's final design;
 iii. confirm the scope and final design (including any intersection changes), and provide an updated cost estimate for the central city bus; and
 iv. confirm the scope and cost estimate of the real time information system is appropriate, and works with the Transport Agency to construct an RFT which facilitates a system that can be used by other regional councils, and is put out for tender to test the supplier market;

* Follow up date (dd/mm/yyyy)

Report Number: RABRI-2261

APPENDIX D

RE: Draft Audit Report for Otago Regional Council



Julian Phillips <julian.phillips@orc.govt.nz>
To: Ben Roddis

You replied to this message on 2/06/2023 3:33 pm.

Reply Reply All Forward

Thu 1/06/2023 12:22 pm

CAUTION: The sender of this email is from outside Waka Kotahi. Do not click links, attachments, or reply unless you recognise the sender's email address and know the content is safe.

Hi Ben –

Further to the auditee form, I can confirm that:

- The facts disclosed have been stated correctly;
- No facts material to an issue have been omitted; and
- No unfair inference has been conveyed, either generally or in particular.

Regarding the recommendations in the report:

R2.1 Meets the condition of funding for the LC,LR Programme by updating actual project expenditure by the 31st of August of the FY recently completed.

ORC Response: The task of updating the Low Cost, Low Risk expenditure was missed during the transition of Public Transport managers. A new process has been established to ensure this is updated annually by the 31st August deadline.

R3.1 Makes sure that all procurement documentation is completed and signed off correctly.

ORC Response: Staff will ensure that all paperwork will be reviewed for signature with immediate effect. Note that staff that are currently completing the NZQA qualification for procurement to provide resilience in this area.

Ngā mihi, Julian



Julian Phillips
SARAH BENTON (LEAD)
TRANSPORT

021 621 8643

Queenstown office
Tennies Junction
1882 Tennies Road
Queenstown 9300

Dunedin office
Level 2, 77-79
Rattray Street
Dunedin 9054

Phone: 03 478 9054
jphill@orc.govt.nz

8.2. A&R2305 Quarterly People and Safety Reporting

Prepared for: Audit and Risk Subcommittee
Report No. A&R2305
Activity: Internal Projects: Corporate - Health & Safety
 Internal Projects: Corporate - Human Resources
Author: Gina Watts, Team Leader HSW, Kelly Stuart, People Services Lead, Mark Olsen, Manager People and Safety
Endorsed by: Amanda Vercoe, General Manager Governance, Culture, Customer
Date: 21 September 2023

PURPOSE

- [1] This report summarises year to date information on health, safety and wellbeing (HSW) and people (HR) at ORC (Otago Regional Council).

EXECUTIVE SUMMARY

- [2] ORC’s approach to health, safety and wellbeing is continuing to deepen and strengthen, evidenced by continued incident reporting, and increasing staff engagement with health, safety and wellbeing information and initiatives.
- [3] The People & Culture team are continuing to maintain day to day support, advice and service delivery whilst progressing key priorities including collective bargaining with the PSA union, review of the Remuneration Policy and updating the approach to performance planning, tracking and review.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) *Notes this report.*

HEALTH, SAFETY AND WELLBEING

Summary of ORC’s Critical Risks

Critical Risk	Residual Risk	Current work on controls (in addition to existing controls)	Change
Contractor Management	Moderate	Contractor Safety Framework is currently under review	No change to risk level
Vehicle/Vessels	Moderate	Alcohol and drug policy to be considered	No change to risk level
Lone, Remote, or Isolated Work	Moderate	Lone Worker Safety Management – System Guide is under development; this is to replace the current Lone, Remote and Isolated Working Policy	No change to risk level
Fatigue	Moderate	Mental Health Strategy	No change to risk level

		Upcoming review of Fatigue Management Policy and toolbox	
Violence and Aggression	Moderate	Revision of duress procedures is in development	No change to risk level
Fall from height or between levels	Moderate	Working from height project is underway	No change to risk level
Mental Health	Moderate	Mental Health Strategy to be developed	No change to risk level
Hazardous Substances	Low	Recurring audit regime is in place	No change to risk level
Water Hazards	Low	Working around water guideline is under development	No change to risk level

[4] Refer to appendix 1 'Critical Risk Profiles' for critical risk profiles

Performance reporting

2022-2023 Full Year H&S Summary

[5] 106 reports were completed within Haumaruru during the 2022/2023 year, of that number 77 were ORC incidents, and 27 were contractor incidents. A reduction of 7% in total incidents reported in comparison to the 2021/2022 financial year 114 reports, 57 ORC incidents and 57 contractor incidents. ORC incident reports increased by 35% during the 2023/2023 financial year when compared to 21/22FY, amongst other reasons this reflects an improving culture of safety. The top 3 incidents by type were 'vehicle related (ORC vehicle)' 17%, 'Slip, trip or fall at the same level 16%', and 'violence, aggression or abuse' 13%.

[6] 19 hazard reports were completed in the same period (FY 2022/2023), all relating to ORC hazards. An increase of 111% increase in hazard reporting when compared to the previous year (FY 2021/2022), this increase in hazard reporting is positive, among other benefits this reporting enables action to be taken before an incident occurs.

**Refer to the Audit and Risk Incident and Near Miss Dashboard 22 23 Summary*

Current state H&S reporting – Quarter 1 23/24 to date (4 September)

[7] 9 Incidents and near misses relating to ORC staff occurred during quarter one 23/24 to date (4th September).

[8] Four incident reports were vehicle-related, three were related to equipment failure/unsafe equipment, and the other incidents were muscular or soft tissue stress/strain, slip, trip or fall at the same level and contact with a fixed/stationary object. Of the equipment failure incidents two were related to heating issues at Philip Laing House, and one was due to a faulty multi-box. Of the vehicle-related reports, all were near-miss reports relating to behaviour, environmental conditions, and vehicle condition.

[9] Post-incident actions have included:

- vehicle-related incidents; team safety communication regarding pre-travel checks (vehicle and environment), planned communication regarding adjustment to parking practices on site, and investigation of vehicle storage practices.
- Equipment-related incidents are being worked through with the relevant teams, which includes ongoing monitoring and maintenance of equipment in place.
- Soft tissue /slip, trip and fall-related included team messaging regarding the suitability of footwear.

[10] 3 hazard reports were completed in Quarter 1 2023/2024 to date (15 August), which all related to electrical safety. These hazard reports followed the publication of the recent Health, Safety and Wellbeing quarterly newsletter which included an electrical safety segment (good practice, and what to look out for).

[11] 2 contractor incidents have been reported in quarter 1 to date (4th September), both relating to bus operations. 1 was a near miss reported by a member of the public in relation to a close call at an intersection, and the other was an incident related to physical violence and aggression. **Refer to the Audit and Risk Incident and Near Miss Dashboard 23 24 Quarter 1.*

Legislative Compliance

[12] The Health and Safety Committee continues to meet quarterly to discuss any risk areas and ideas for improvement. Health and Safety Representative (HSR) nominations are currently underway, seeking an additional 2 representatives to meet the worker to HSR ratio (1:19). The

[13] The Health and Safety Committee and HSR group have provided valuable contributions to the Health, Safety and Wellbeing (HSW) newsletter, a new initiative aimed at enhancing staff engagement with HSW activities and information. The second issue so far has 161 views.

[14] Overall, staff engagement has improved during the year with the introduction of the HSW newsletter and the 'health, safety and wellbeing ideas for improvement form' a live feedback form for staff to contribute insights and suggestions on matters relating to health, safety and wellbeing. Both initiatives have been designed in line with worker engagement, participation and representation requirements outlined within the Health and Safety at Work Act 2015.

Training and Development

[15] A total of 300 safety training courses were completed in 2022/2023. 25 training courses have been completed in quarter one 23/24 to date. Figure 1 and 2 shows the number of participants per course.

Figure 1: Training Participation Numbers 1st July 2023 to 4th September 2023.

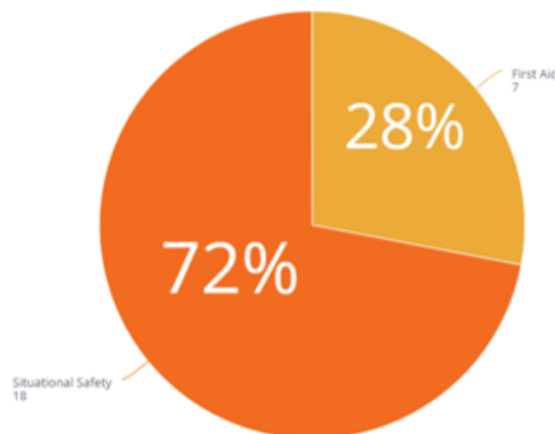
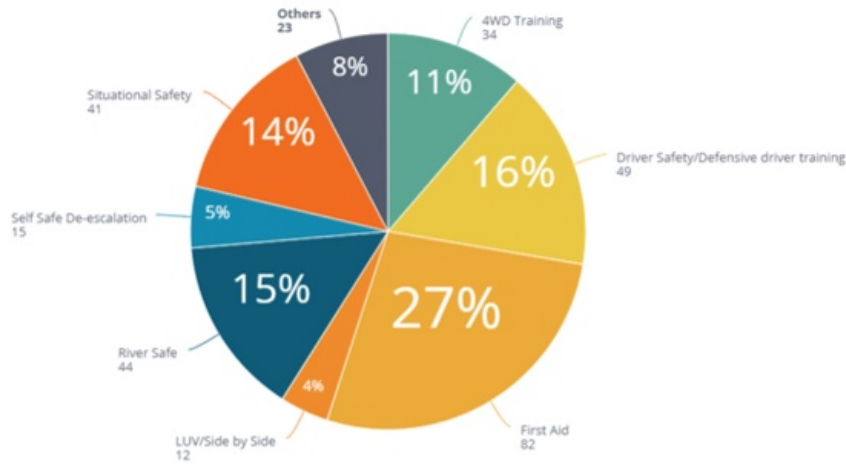


Figure 2: Training Participation Numbers 1st July 2022 to 30th June 2023.



Employee Wellbeing

[16] Notable wellbeing activities in quarter 1 included the 15 minute challenge with 104 staff participating. An overview of initiatives is summarised below for the remainder of the year; noting several initiatives are still under consideration.

Table 1: Wellbeing Initiatives June – December

Wellbeing Initiative	Proposed Date	Status	Statistics
15 Minute challenge	June – August	Completed	104 participants
Ergonomic Webinar	August 22 nd	In progress	26 participants
Mental Health Awareness Week	September	In development	
Introduction to Investing	October	In development	
Blood drive & What's your type seminar	October	In development	
Nutrition Seminar / Workshop	TBC – October/ November	In development	
Festive wellbeing	December	TBC	

PEOPLE AND CULTURE

Key projects for May 2023 – September 2023

[17] **Collective bargaining** is underway with the Public Services Association (PSA) as the current Collective Agreement expired July 2023.

[18] **Annual performance reviews** were completed. Results were documented and reviewed by ELT.

[19] A review of ORC's **Remuneration Policy** to ensure it is fit for purpose is well advanced and will progress to consultation with PSA and staff over the next two months.

[20] Project planning for an **HR System** is continuing with increased emphasis on determining our requirements.

- [21] **Recruitment support** and preparation of employment documentation is ongoing and a significant time commitment due the large volume of recruitment activity and internal movements.

Human Resources Dashboard Reporting

[22] Workforce snapshot information

- 309 total staff, 279 permanent / 30 fixed term
- Average tenure is 4.4 years, median tenure is 2.2 years
- Average annual leave balance, 17.5 days (last 12 months)
- Average sick leave taken, 5.5 days (last 12 months)
- Turnover of 22.1% for 2022/23. Turnover of 3.9% for Q1 2023/24 to 29 August 2023

[23] Workforce mobility

2022/23 Financial Year

- 10 Internal sideways moves
- 24 Internal promotions/upwards moves
- 16 Internal secondments commenced

Q1 2023/24 to 29 August 2023

- 2 Internal sideways moves
- 6 Internal promotions/upwards moves
- 6 Internal secondments commenced

[24] Recruitment snapshot

2022/23 Financial Year

- Roles that have gone to market: 152
- Roles successfully filled: 139

FTE Report

[25]



23/24 FTE Report as at pay period ending 18/08/2023

Report generated on 5 September 2023 at 5:08:07 PM

Directorate	Homebase Desc	Staff Name	Position Description	Employee Status	FTE	Bgt FTE
☐ Chief Executive					2.0	2.0
☐ Corporate Services					49.2	56.5
☐ Governance, Culture & Customer					23.9	26.7
☐ Operations					79.5	95.0
☐ Regulatory & Communications					79.7	90.0
☐ Science, Environmental Monitoring & Policy					55.2	69.0
☐ Transport					10.5	13.0
Total					300.0	352.2

Significance and Engagement Considerations

[26] Nil.

ATTACHMENTS

1. Audit and Risk Incident and Near Miss Dashboard 22 23 Summary [**8.2.1** - 4 pages]
2. Audit and Risk Incident and Near Miss Dashboard 23 24 Quarter 1 [**8.2.2** - 4 pages]
3. HSW Critical Risks Profiles (1) [**8.2.3** - 6 pages]

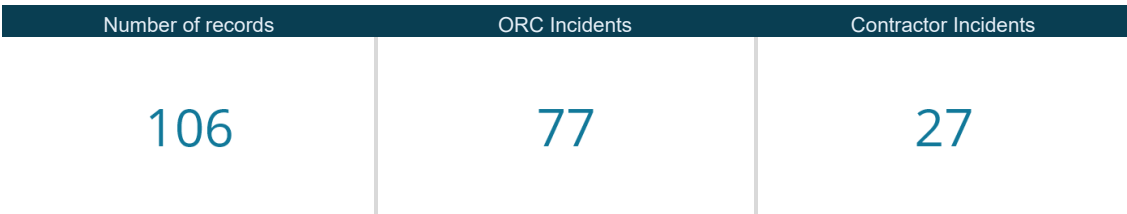
[Critical Risk Profiles September 2023](#)

Audit and Risk Incident and Near Miss Report 4 Sep 2023 12:00:10 [Incident](#)

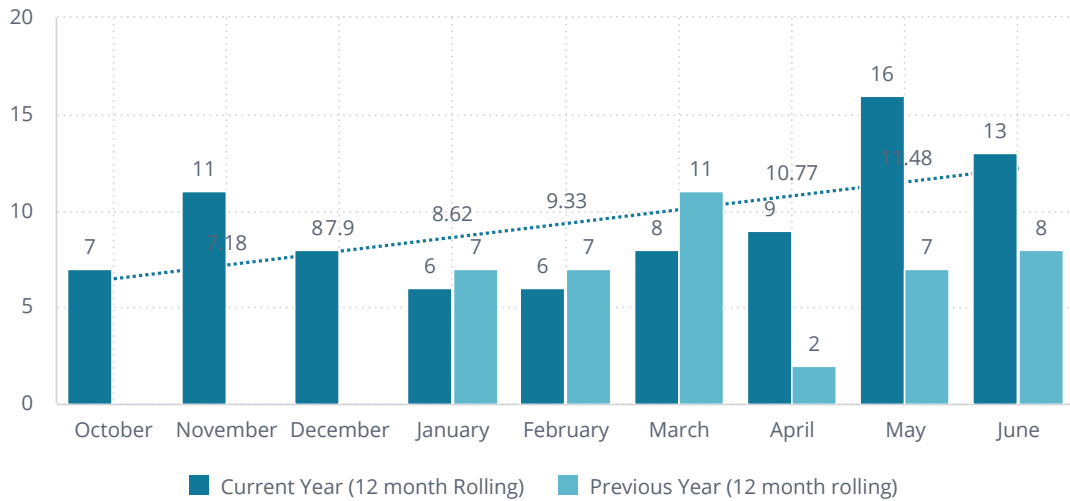
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Incident / Near Miss Dashboard

- See bottom of screen for a list of records.
- Click on a graph segment to filter the rest of the dashboard based on that selection.
- To see other data relating to a segment right-click and 'Drill' to the desired field.
 - Access other filters using the right-hand filters panel.
 - NOTE: counters may be affected by any filters you apply.



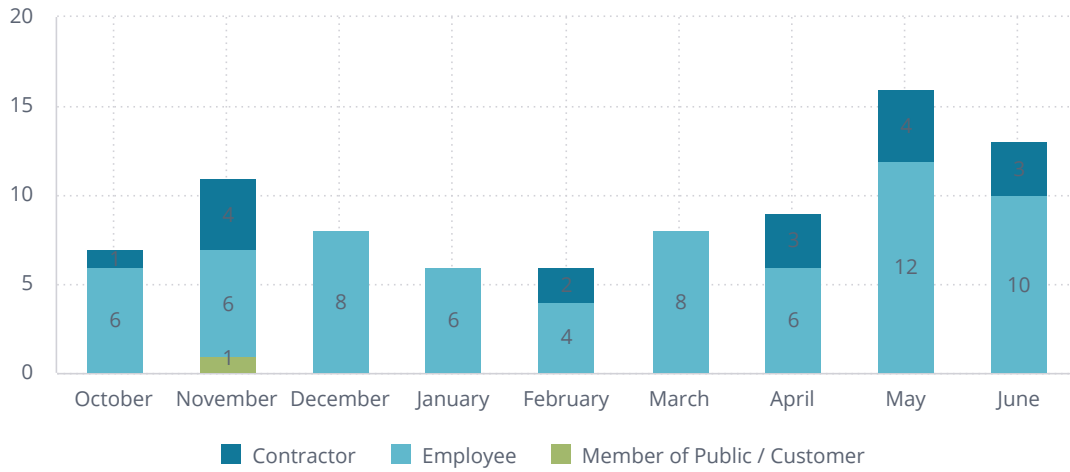
No. of Incidents by Month



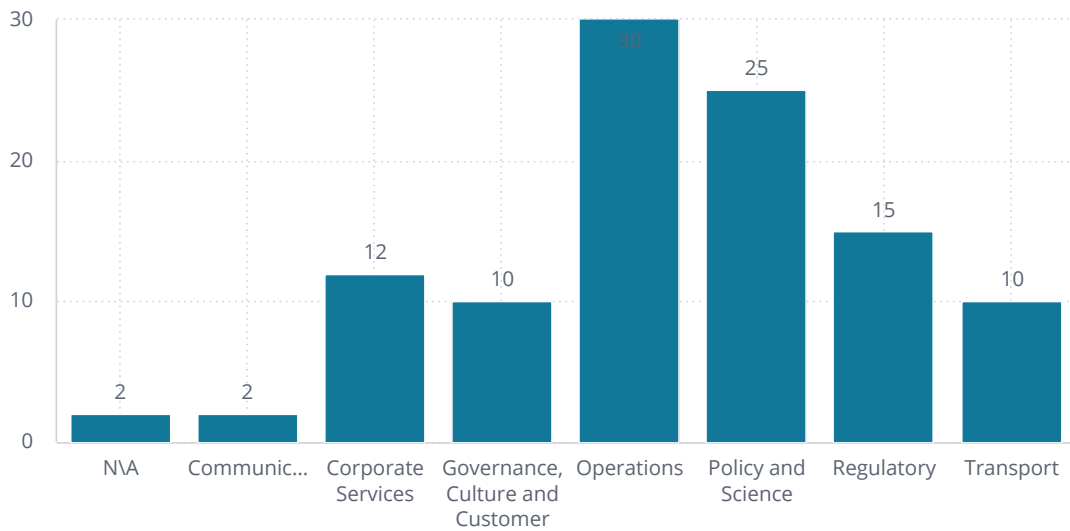
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No. of Incidents by Month and Who Was Involved



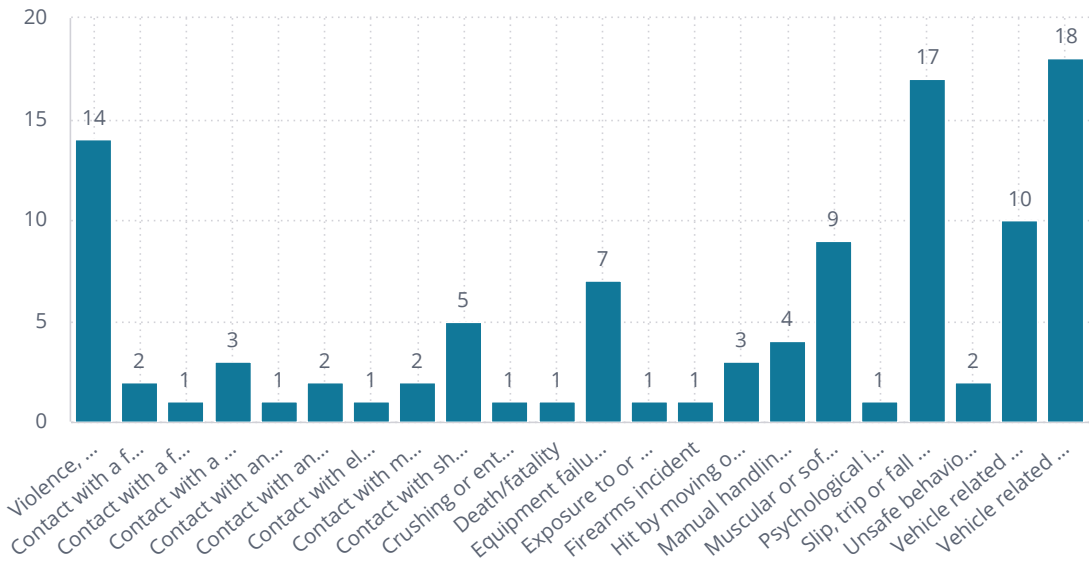
Incidents by Org Unit



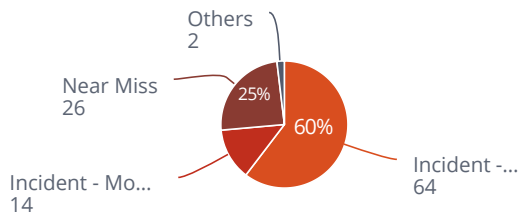
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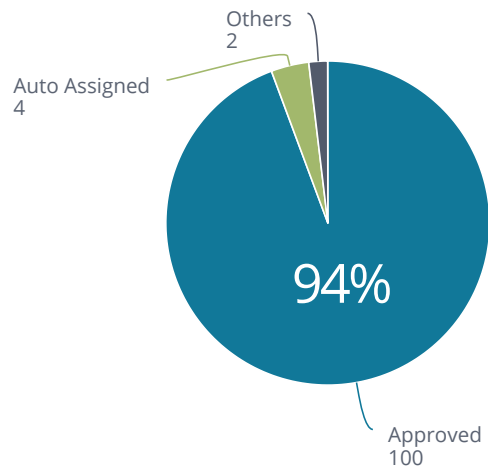
No. of Incidents by Type



Incidents by Severity



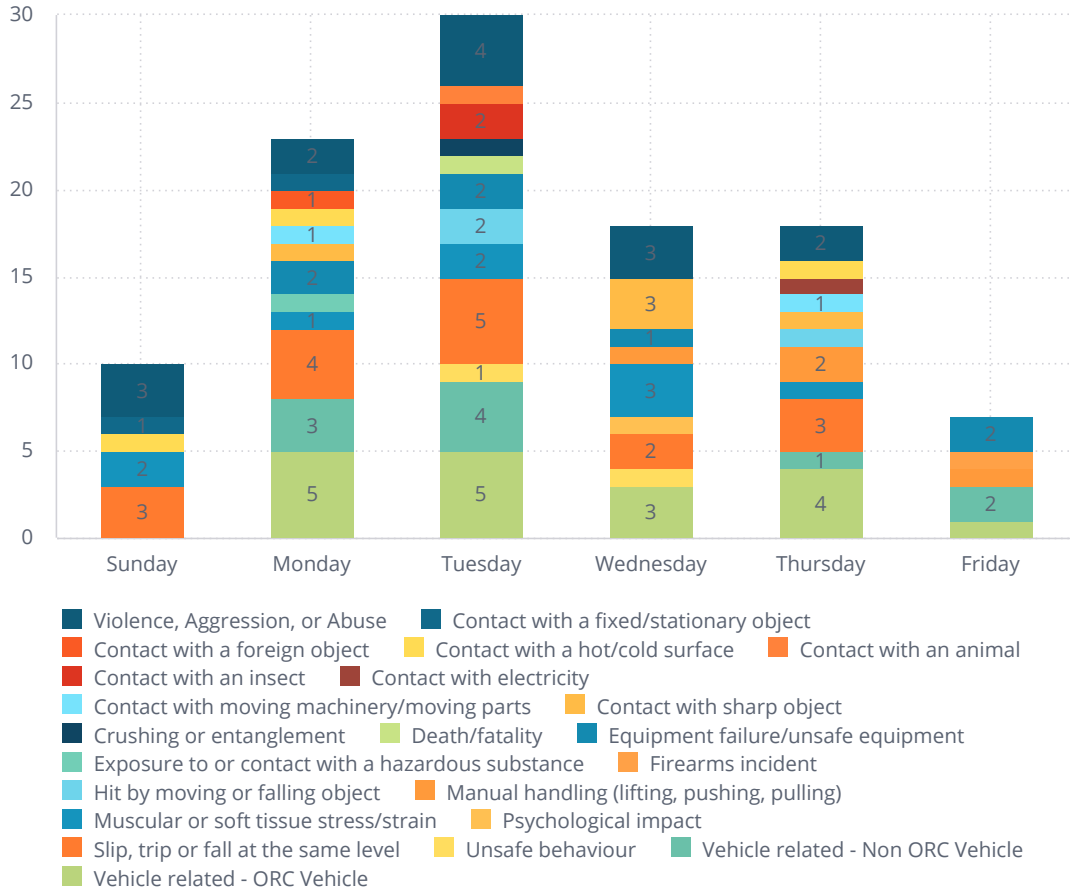
Incidents by Approval Stage



Audit and Risk Incident and Near Miss Report 4 Sep 2023 12:00:10 Incident

Filters Incident Date 7/1/22 to 6/30/23 | TimeZone New Zealand Standard Time

No. of Incidents by Weekday by Incident Type



Audit and Risk Incident and Near Miss Report 4 Sep 2023 12:00:10 [Incident](#)

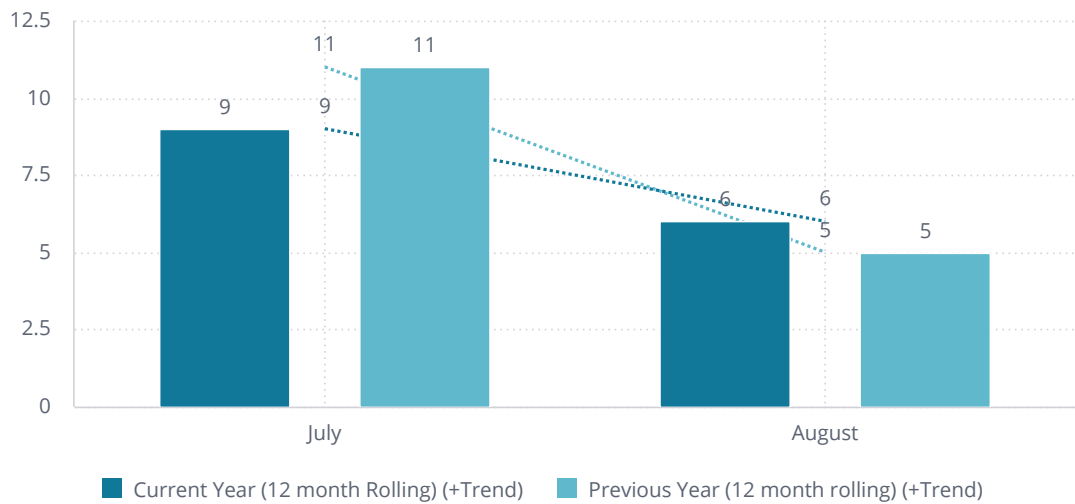
Filters **Incident Date** 7/1/23 to 9/4/23 | **TimeZone** New Zealand Standard Time

Incident / Near Miss Dashboard

- See bottom of screen for a list of records.
- Click on a graph segment to filter the rest of the dashboard based on that selection.
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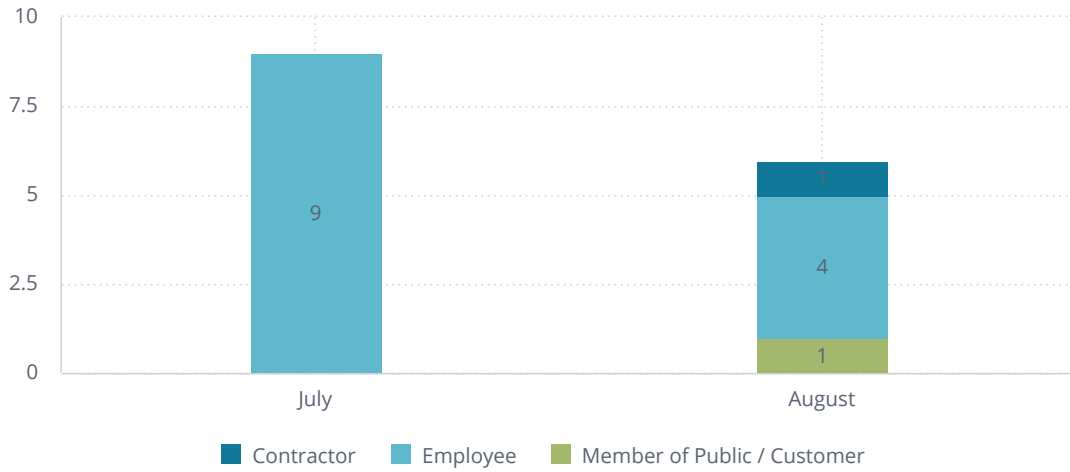
No. of Incidents by Month



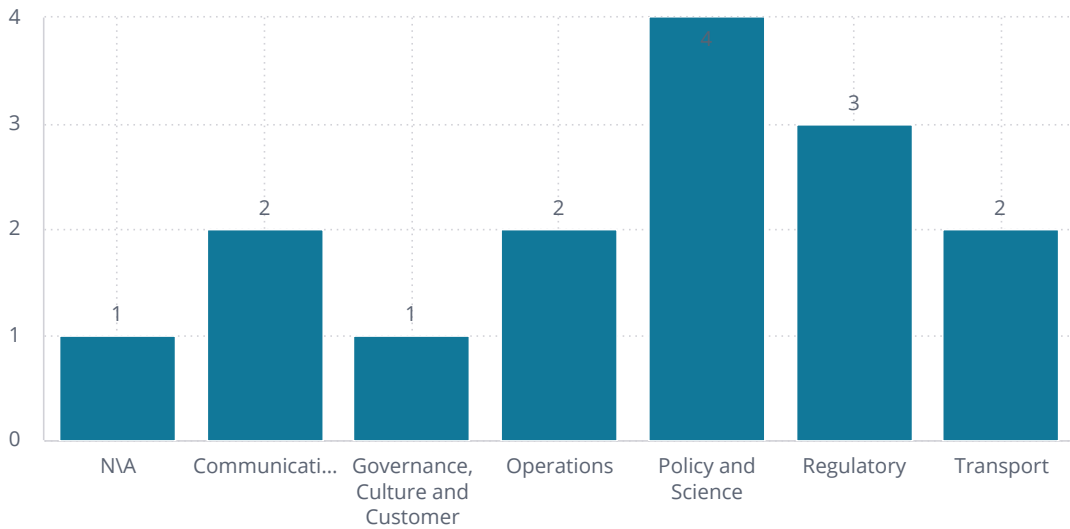
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No. of Incidents by Month and Who Was Involved



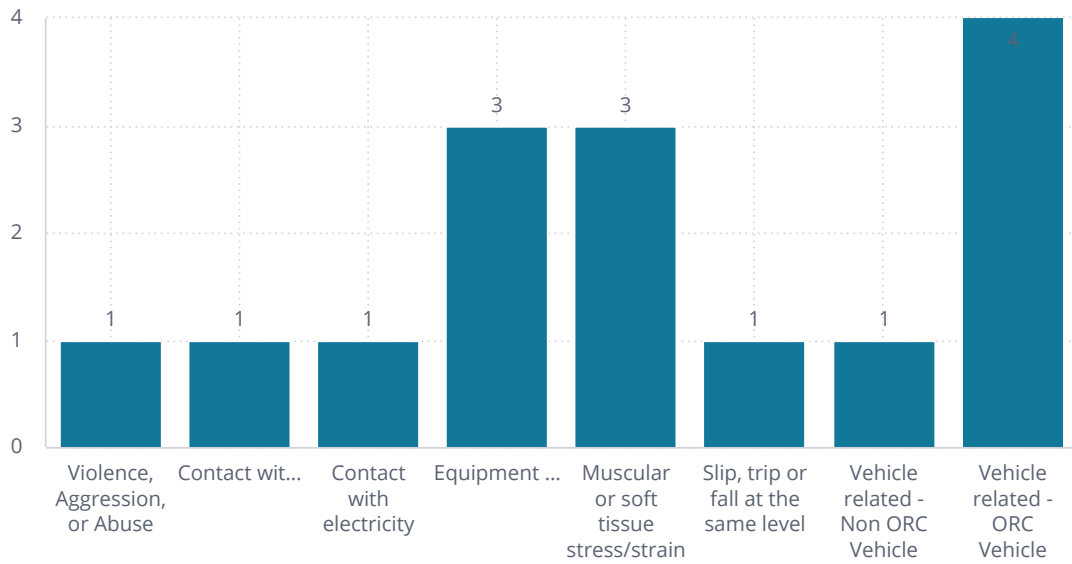
Incidents by Org Unit



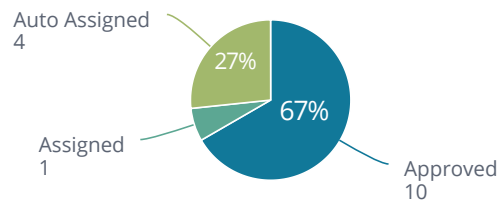
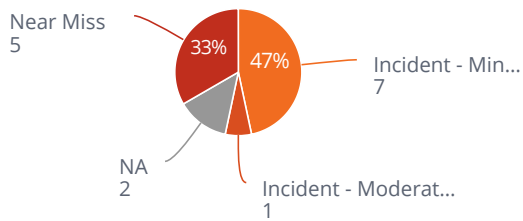
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Filters Incident Date 7/1/23 to 9/4/23 TimeZone New Zealand Standard Time

No. of Incidents by Type



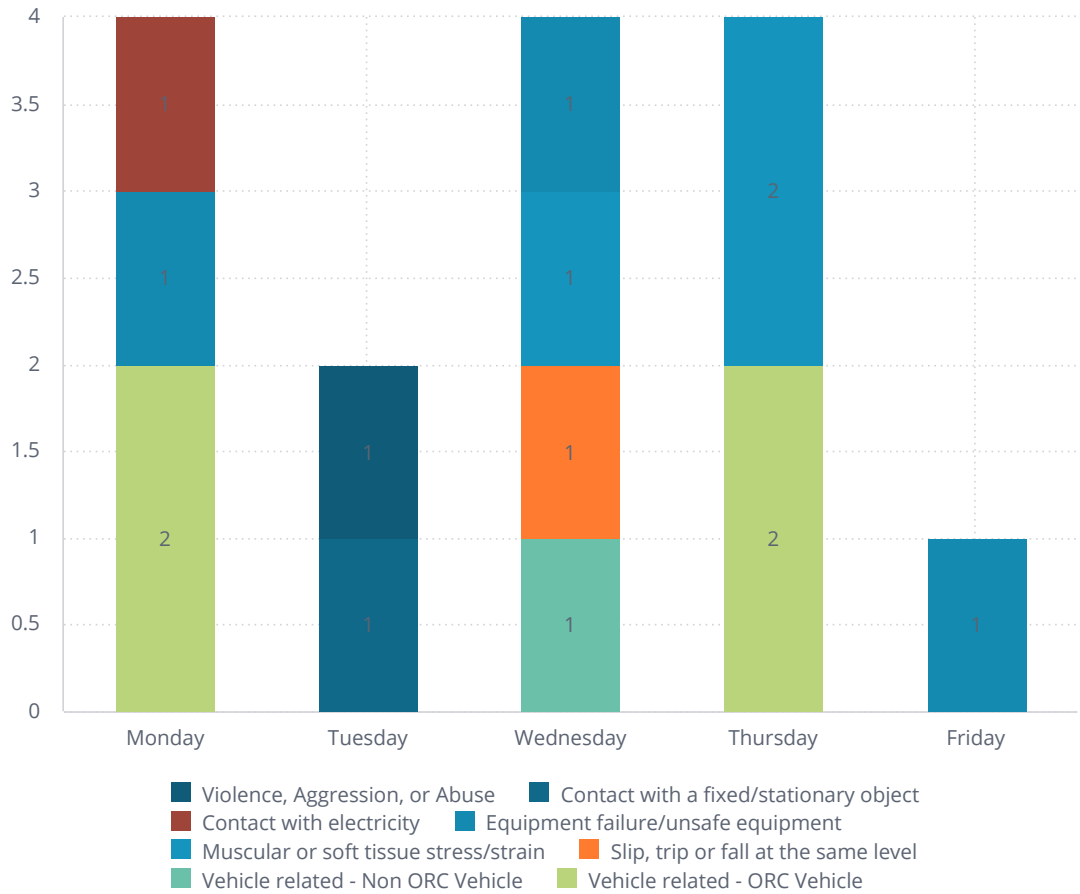
Incidents by Severity Incidents by Approval Stage



Audit and Risk Incident and Near Miss Report 4 Sep 2023 12:00:10 Incident

Filters Incident Date 7/1/23 to 9/4/23 | TimeZone New Zealand Standard Time

No. of Incidents by Weekday by Incident Type



Health, Safety & Wellbeing Critical Risk Profiles as of 4 September 2023

Author: Gina Watts, Team Leader Health, Safety & Wellbeing

Nine critical risks are outlined within Otago Regional Council's Critical Risk Management Plan, including lone remote or isolated working, falls from height or between levels, water hazards, contractor management, hazardous substances, vehicle/vessel driving/operation, mental health, fatigue, and violence and aggression.

There will be additional layers of detail that sit beneath these risk profiles that are managed by managers, team leaders and staff. That information (risk assessments, task analysis, job safety analysis) will ensure the understanding and management of these risks are relevant to the specific activities and tasks undertaken through the layers of the business.

Contractor Management			
Risk Description	<p>Inadequate contractor management risks the health and safety of employees, contractors, visitors, and members of the public.</p> <p>The risk arises when the contractor engager fails to effectively plan, monitor, and control the activities of contractors working on their premises or carrying out work on their behalf.</p> <p>A range of potential hazards and risks may arise from inadequate contractor prequalification, training, supervision, and communication.</p>	Initial risk level	High
What we know about this risk in our business	<p>Contractor engagement occurs across the Otago Regional Council including construction, maintenance, and specialised tasks such as aviation, public transport, and pest management.</p> <p>We've had 52 contractor related incidents in the past 2 years. 55% percent of these incidents were minor, 22% moderate and 22% near miss occurrences.</p>	Residual risk level	Moderate
How we manage the risk	Contractor Health and Safety Policy including prequalification selection procedures, procurement policy & planning processes, organisational induction for onsite contractors, H&S assurance check regimes, regular review of contractor H&S plans, and staff training in contractor safety.		
Control development	The contractor safety framework is currently under review		

Vehicles - Driving Operations			
Risk Description	There is a risk people could be harmed while driving to jobs, meetings and site visits. Drives can be long because we cover a large region. People also	Initial risk level	High

	occasionally drive to places like mines, ports and commercial sites, off-road and rural areas, and places with extreme temperature fluctuations, ice, snow, and sunstrike. CODC vehicle operation in an emergency. Driving, therefore, requires on and off-road capability and involves the use of various types of vehicles. All staff who drive for work are exposed, particularly those who drive in remote locations or off-road.		
What we know about this risk in our business	We've had 27 driving-related incidents in the past 2 years. These involved property damages and minor injuries. Investigations indicated that driver behaviour was a key contributing factor.	Residual risk level	Moderate
How we manage this risk	Fatigue management policy: Driving/ working time restrictions, break/rest and overnight requirements to manage fatigue risks. Recruitment policy (recruitment processes asks if any health issues could impact ability to drive). Organisational inductions. Training, Safe Operating Procedures, vehicle servicing, vehicle GPS tracking with 24/7 impact/rollover alert monitoring service, incident reporting		
Control development	Alcohol and Drug Policy to be developed		

Lone, Remote or Isolated Work			
Risk Description	Work can be remote because of the nature of work, location, and time, such as visiting sites, inspecting sites, working in remote sites, or responding to calls after hours. The potential risks associated with performing work activities increase significantly when the activity is performed in remote, or isolated situations as assistance may not be readily available to an employee in the event of an injury, ill health, or an emergency. Whether a situation is a high or low risk will depend on the location, type of work, interaction with the public, or the consequences of an emergency, accident, injury, etc. Given that there are a wide variety of situations where employees can be working alone with varying levels of risk.	Initial risk level	High
What we know about this risk in our business	Lone, remote, and isolated work and the risks it presents occurs across Council operations including teams such as environmental monitoring and environmental implementation. Lone, Remote and isolated work has not been a contributing factor to incident reports in the past 2 years.	Residual risk level	Moderate
How we manage this risk	Emergency response planning, task-specific training, Lone Remote or Isolated Work Policy, worker welfare checks 'buddy' system, vehicle fleet use GPS monitoring. 2-way communication with emergency response procedures tailored to the team level. Personal Locator Beacon to be carried.		
Controls development	Lone Worker Safety Management – System Guide is under development; this is to replace the current Lone Remote and Isolated Working Policy		

Fatigue			
Risk Description	Fatigue related hazards pose significant health and safety risks. Fatigue occurs when individuals experience physical and or mental exhaustion, leading to impaired decision-making, and increased likelihood of accidents or errors.	Initial risk level	High
What we know about this risk in our business	ORC fatigue risk factors include long hours/shift work (emergency responses, flood etc), nature of work (physical or cognitive demands), personal factors (workload/work pace), and lone, remote, or isolated work.	Residual risk level	Moderate
How we manage this risk	Administrative: roster planning during emergency/flood response, fatigue management policy & toolbox, leave arrangements to be used to manage fatigue as needed. Wellbeing programme including EAP for all staff support and coping skills, workload management including managing long hours and work travel. Role-specific training, role-specific risk management and assessment, support from management, organisational return to work/ stay at work support pathways.		
Controls development	Mental Health Strategy Upcoming review of Fatigue Management Policy and toolbox		

Violence & Aggression			
Risk Description	This risk refers to any behaviour or action that involves physical or verbal aggression, threats, harassment, intimidation, or any other form of violence, whether initiated by an employee, customer, or any other individual present in the workplace environment.	Initial risk level	High
What we know about this risk in our business	ORC staff interact with individuals and communities on a wide range of issues, including contentious matters such as policy decisions, enforcement actions, or public service delivery. These interactions, coupled with other factors, can potentially escalate into situations where violence and aggression become a significant concern. We've had 21 violence and aggression related in the past 2 years, 71% of these incidents were minor, 14% moderate and 10% near miss, most of the violence and aggression incidents are experienced within the Customer Experience, Compliance and Transport Teams.	Residual risk level	Moderate
How we manage this risk	Occupational Violence and Aggression Policy, de-escalation training, duress and emergency management procedures, provision of fit for purpose workplace layout (e.g. wide and high customer service counters), Security and duress systems (e.g. duress alarms and CCTV at customer-facing points), EAP for staff support & debrief post-incident to reduce further harm, reporting and investigation, team/task specific safe operating procedures, support from management, reducing frustration points/known triggers for customers/ members of the public where possible.		

Controls development	Revision of duress procedures is in development
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Falls from height or between levels			
Risk Description	Working at height means working in a place where a person could be injured if they fell from one level to another, this can include when working on the ground near an excavation.	Initial risk level	High
What we know about this risk in our business	This risk is applicable to pump stations at weed screens and installation works completed by the Environmental Monitoring Team. Contributing factors include adverse working conditions (e.g., weather, housekeeping, terrain), unsafe practices/behaviour, unsafe/faulty equipment, and working at an exposed edge. No incidents have been related to this risk in the last 2 years.	Residual risk level	Moderate
How we manage the risk	Railing and fall arrest system installation and height safety training were completed in July/August, with minor system changes to be completed. Pump station fall arrest engineering controls include unrail systems, fixed anchors, cable retractors, and fall arrest cable systems.		
Control development	Safe operating procedures development alongside training.		

Psychosocial / Mental Health			
Risk Description	Mental health harm or mental ill-health is the significant cognitive, emotional, or behavioural impact arising from, or exacerbated by, work-related risk factors. Mental health harm may be immediate or long-term and can come from single or repeated exposure. Psychosocial risks can be grouped into four key areas; task (<i>demands, role clarity, workplace environment, remote and isolated work</i>), individual (<i>role autonomy, development opportunities, work-life balance, meaning and purpose</i>), social (<i>workplace culture, support, violence and aggression, workplace relationships</i>), and organisational (<i>psychological safety, organisational justice, reward and recognition, change</i>).	Initial risk level	High
What we know about this risk in our business	Psychosocial risk factors are present across the organisation, and current information on mental health is gathered via high-level (anonymous) reporting from EAP, Incident data, wellbeing survey data and engagement survey.	Residual risk level	Moderate

	<p>The Health, Safety and Wellbeing Team have developed four Stay at Work plans in the last 2 years to support employee mental wellbeing.</p> <p>We have had x1 incident relating to mental health in the last 2 years, this incident was related to personal factors and was not directly work-related</p>		
How we manage the risk	Employee assistance programme, leave arrangements, flexible work options, manager support and leadership training, and communication from senior leadership regarding staying mentally well. Staff awareness training and workshops, staff wellbeing programme.		
Control development	<p>Stay at work & return to work procedure</p> <p>Mental health strategy</p>		

Water Hazards			
Risk Description	Working around waterways is one of the most potentially hazardous activities that staff will encounter. The primary hazards associated with rivers, streams and oceans include drowning, slipping (losing footing and control), being caught by snags or whirlpool currents, polluted water, and hypothermia.	Initial risk level	High
What we know about this risk in our business	<p>Working around water and the risks it presents occurs across Council operations and includes boating, flood response, environmental monitoring, pollution response, community education and infrastructure inspection and maintenance.</p> <p>Working around water has not been a contributing factor to incident reports in the past 2 years.</p>	Residual risk level	Low
How we manage the risk	Role-specific training – RiverSafe, maintenance regimes, safe operating procedures for specific tasks. Assurance check regimes, personal protective equipment; custom waders, life jackets, footwear, thermal protection, and 2-way communication devices.		
Control development	Working around water guideline under development.		

Hazardous Substances			
Risk Description	Hazardous substances are substances that are explosive, flammable, oxidising, toxic, corrosive, or toxic to the environment. A hazardous substance may be a single chemical or a mixture of both hazardous and non-hazardous chemicals.	Initial risk level	Moderate

<p>What we know about this risk in our business</p>	<p>The Engineering, Environmental Monitoring and Environmental Implementation Teams are the predominant users of hazardous substances. Hazardous substances that ORC use include agricultural substances for weed control (flood banks, monitoring stations), preservation chemicals (specimen and sample preservation), fuels, oils, aerosols, and general cleaning products. Minimum quantities are stored at sites.</p> <p>There has been 1 minor incident related to hazardous substances in the last 2 years which was related to a broken hazardous substance container.</p>	<p>Residual risk level</p>	<p>Low</p>
<p>How we manage the risk</p>	<p>Personal protective equipment including respirators, protective eyewear, coveralls, non-porous footwear, safety equipment such as eye wash stations and first aid equipment, health monitoring & respirator fit testing, safety/technical data sheets are maintained at each site, safety plans, emergency response plans and safe operating procedures. Training: Hazardous substance awareness training, GrowSafe training. Assurance check regimes during site visits, hazardous substance policy & procedure, and elimination of hazardous substances from ORC depots where possible.</p>		
<p>Control development</p>	<p>Upcoming review of hazardous substance policy & procedure</p> <p>Health monitoring procedure</p>		

8.3. CS2327 Revised Audit & Risk Work Programme 2023

Prepared for: Audit and Risk Subcommittee
Report No. CS2327
Activity: Governance Report
Author: Nick Donnelly, General Manager Corporate Services and CFO
Endorsed by: Nick Donnelly, General Manager Corporate Services and CFO
Date: 21 September 2023

PURPOSE

- [1] The Audit and Risk Subcommittee is governed by its Terms of Reference which define the purpose and responsibilities of the Subcommittee. This paper outlines the proposed work programme to be covered at Audit and Risk Subcommittee meetings in the 2023 calendar year to ensure the responsibilities outlined in the Terms of Reference are fulfilled.

EXECUTIVE SUMMARY

- [2] The Audit and Risk work programme is provided to the Subcommittee at the start of the calendar year. For 2023 this was provided to the March 2023 meeting.
- [3] At the previous Audit and Risk Subcommittee meeting in June 2023 some amendments to the work programme were approved. This paper now provides the amended work programme for the remainder of the 2023 year.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Notes** this report.
- 2) **Endorses** the proposed work programme for the remainder of the 2023 calendar year.

BACKGROUND

- [4] Audit and Risk Subcommittee meetings are held quarterly in March, June, September, and December 2023. The meetings are scheduled to be held the month following Finance Committee meetings which allows finance matters to be referred to Audit and Risk for further consideration.
- [5] The responsibilities of the Audit and Risk Subcommittee as defined in the Terms of Reference are:
- Council's risks and the management of those risks.
 - Strategic risk register and management of risks on the register.
 - Insurance renewals and notifications.
 - Annual audit process, including audit plan, management letter, and management response, and reviewing the draft annual report before it goes to Council.
 - Internal audit and control process.
 - Health and Safety reporting.

- Investment management, including managed fund, performance of Council's investment manager including compliance of the managed fund with the Statement of Investment Policies and Objectives (SIPO), and appointment of the investment manager.
- Legal compliance.
- Other (any other matters referred by Council or the Finance Committee).

[6] A proposed timetable to cover these matters is attached.

DISCUSSION

- [7] Changes to timing of items in the work programme include:
- Risk report – was six monthly, now quarterly (every meeting).
 - Legislative compliance and legislation changes – was annual, now six monthly as the Comply With survey is completed by staff every six months.
 - Corporate policy overview – was quarterly, now annual but note any significant internal policy changes can be reported at any meeting.
- [8] Review of the Treasury Management Policy (TMP) and SIPO has been moved from the Investment Management section to the Risk Management section as the TMP includes debt management and isn't solely investment focused.
- [9] These two documents are on the agenda for review at this Audit and Risk meeting and follow any amendments will be on a 3 yearly review cycle. Accordingly, they are marked in the work programme for review in September (the next review being September 2026) however this can be presented to any meeting if a review / amendment is required before that date.
- [10] A new responsibility has been added under the Risk Management section to oversee liquidity and interest rate risk. This relates to Council's borrowings from the Local Government Funding Agency (LGFA). Council commenced long-term borrowing through the LGFA in March 2023. A treasury report will be provided quarterly for this item.
- [11] The appointment of the Investment Manager has had a comment added that this is required at least every 3 years (SIPO section 3.2 requires contract review at least every 3 years). JB Were was appointed in late 2018 and began managing the fund in the first quarter of the 2019 calendar year so this review is now overdue. It is proposed to bring this to the next Audit and Risk Subcommittee meeting and the work programme reflects that.

OPTIONS

- [12] Not applicable.

CONSIDERATIONS

Strategic Framework and Policy Considerations

- [13] Not applicable.

Financial Considerations

[14] There are no financial considerations. The cost of the proposed work programme is included in existing budgets under the assumption it is completed by existing staff. No provision has been made for engagement of external consultants to undertake any of the work programme.

Significance and Engagement Considerations

[15] Not applicable.

Legislative and Risk Considerations

[16] There are no legislative or risk considerations in setting the work programme itself.

[17] Specific pieces of work defined in the programme are included to ensure the Audit and Risk Subcommittee has oversight over various legislative requirements i.e., statutory reporting and audit requirements under the Local Government Act 2002 and health and safety requirements under the Health and Safety at Work Act 2015.

[18] The Terms of Reference of the Audit and Risk Subcommittee include responsibility for maintaining oversight of Council's management of risk. Not having a defined work programme and not adhering to that programme increases the risk that the Audit and Risk Subcommittee will not fulfil its purpose and responsibilities including risk management.

Climate Change Considerations

[19] Not applicable.

Communications Considerations

[20] Not applicable.

NEXT STEPS

[21] Not applicable.

ATTACHMENTS

1. Audit and Risk Work Programme 2023 amended Sep-2023 [8.1.1 - 1 page]

Audit & Risk Subcommittee Agenda 21 September 2023 - MATTERS FOR CONSIDERATION

AUDIT AND RISK SUBCOMMITTEE						
Purpose: To provide advice about governance, risk management and internal control matters, external reporting and audit matters.						
Terms of Reference	Responsibility	Comments / Agenda Items	Mar	Jun	Sep (Annual Report)	Dec
Audit and Annual Report	Review the external Auditor's audit plan, audit management letter and management response to any issues raised during the external audit	Audit plan presented prior to year end (Auditors to attend)		Auditors to attend		
		Audit management letter (Auditors to attend)			Auditors to attend	
		Management response (initial response November, follow up February if required)				
	Consider changes in accounting policies, standards or reporting requirements and make recommendations for Council adoption	Matters under consideration prior to year end				
	Oversee internal control processes and procedures including financial policies, delegations and sensitive expenditure.	As required				
	Review the draft Annual Report including the Statement of Service and Performance and Financial Statements and make recommendation for Council adoption.	Draft Annual Report			Annual Report	
	Oversee any internal audit functions or reviews and consider any matters referred to it by that function	As required				
Risk Management	Ensure a corporate risk management framework is in place and review risk reports	Risk report				
	Review Council's insurance matters and annual renewal process	Insurance renewal prior to 1-July renewal				
		Insurance disclosures (six monthly)				
	Oversee liquidity and interest rate risk including compliance with the Treasury Management Policy and lending covenants	Treasury report				
	Review the Treasury Management Policy and SIPO and recommend changes to Council	At least every 3 years			Sep-2026	
	Review Council's business continuity and disaster recovery matters	As required				
Health, Safety and Wellbeing	Review Council's adherence to the Health and Safety at Work Act 2015 including monitoring health and safety performance, incidents and response	Safety and wellbeing quarterly report				
Investment Management	Review the performance of Council's investment portfolio including the long-term managed fund	Managed fund quarterly performance reports provided to each meeting (Fund Manager to report in person annually)				Fund Manager to attend
	Oversee the performance of Council's investment manager including compliance of the managed fund with the Statement of Investment Policies and Objectives (SIPO)					
	Oversee the Investment Manager appointment process and make recommendations to Council on that appointment	Investment Manager review required every 3 years				
Legal Compliance	Review Council's adherence to legislation that affects Council	Legislative compliance and mandatory documents register				
		Corporate policy overview				
	Receive and consider updates on legislation that Council is required to operate under and/or enact	Report as legislation changes occur				
Other	Review any other financial matters referred to the Subcommittee by Council or the Finance Committee	As required				

Key: meeting this item will be covered in item as required or by request at any meeting

8.4. CS2328 Treasury Management Policy and Statement of Investment Policy and Objectives

Prepared for:	Audit and Risk Subcommittee
Report No.	CS2328
Activity:	Governance Report
Author:	Nick Donnelly, General Manager Corporate Services and CFO
Endorsed by:	Nick Donnelly, General Manager Corporate Services and CFO
Date:	21 September 2023

PURPOSE

- [1] To consider amendments to Council's Treasury Management Policy and Statement of Investment Policy and Objectives to include considerations regarding ethical investing.

EXECUTIVE SUMMARY

- [2] Options for consideration of ethical investing are included in this paper and a placeholder option included in the attached Draft Statement of Investment Policies and Objectives (SIPO). The Audit and Risk Subcommittee can indicate their preferred option for an ethical investing section to be included in the SIPO for presentation to Council.
- [3] Staff have also undertaken a review of the entire SIPO and associated Treasury Management Policy (TMP) and made a number of administrative changes as well as proposed amendments to align with current treasury processes. That includes clarifying what investments are covered under the short-term liquidity, the long-term investment portfolio and on-call cash management sections of the TMP.
- [4] A responsible investing policy section (4.2) has been added to the SIPO. This section outlines investments that will be excluded based on Council's responsible investing criteria. This only applies to the long-term investment portfolio as only retail bank deposits and specific investment like Port Otago, investment property and irrigation scheme investments are permitted outside of the long-term investment portfolio.
- [5] Marked up copies of the TMP and SIPO are attached.
- [6] Once a revised SIPO incorporating a responsible investing policy is approved by Council, Council's Investment Manager, JB Were, will ensure those exclusions are applied and the Portfolio conforms to those parameters.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Notes** this report and the attached Draft Treasury Management Policy and Draft Statement of Investment Policy and Objectives.
- 2) **Approves** the administrative changes that have been made to the documents.

- 3) **Directs** staff to make any changes required to include a preferred option for a Responsible Investing Policy to be added to the Statement of Investment Policy and Objectives.
- 4) **Recommends** the Treasury Management Policy and Statement of Investment Policies and Objectives (following the above amendments) are presented to Council for consideration and approval.

BACKGROUND

- [7] Prior to the 22 June 2023 Audit and Risk Subcommittee meeting, Council's Investment Manager, JB Were conducted a workshop on ethical or "ESG" (environmental, social and governance) investing.
- [8] At the Audit and Risk Subcommittee meeting that followed that workshop it was resolved that staff and JB Were would prepare options for ethical investing considerations that could be incorporated in the SIPO.
- [9] A new section has been added to the SIPO to include a Responsible Investment Policy. This is section 4.2 in the attached draft SIPO. This content is included as a placeholder which can be amended by the Audit and Risk Subcommittee following discussion at this meeting.
- [10] Staff have also taken this opportunity to review the TMP and remainder of the SIPO and have made a number of other changes to tidy up administrative aspects of the documents and to better reflect Council's current treasury processes.
- [11] Currently the SIPO is embedded within the TMP itself. This is administratively cumbersome and can create confusion for readers of the document. The TMP is intended to meet Council's legislative requirements under section 102 of the Local Government Act 2002. That required Council to have a Liability Management Policy and an Investment Policy. These do not have to be separate documents. It is permitted to combine them, and Council has done so under a the Treasury Management Policy. A number of other Council's also follow this approach.
- [12] The SIPO is not required under legislation but is a document commonly used in investment management. It provides the framework for the management of Council's long-term investment portfolio which is permitted under section 4.8 of the TMP.

DISCUSSION

- [13] Amendments to the TMP and SIPO are discussed below. This discussion covers the substantive changes to the documents and doesn't cover simple administrative and formatting changes. The attached drafts are in marked up form and those changes are clearly highlighted.

Treasury Management Policy

Section 4 – Internal Debt Management

- [14] Has been amended to state that the interest rate used on internal borrowing will be set in advance for the year through the Long-term Plan (LTP) and Annual Plan (AP) processes.
- [15] The current policy states the rate will reflect the rate Council would have earned if those funds had been invested ie opportunity cost, which is effectively term deposit rates.
- [16] This issue with this approach is that these rates can move significantly in line with market movements and that in turn may result in a significant reallocation of interest from general purpose reserves to targeted reserves that are in deficit which is not planned for or sustainable.
- [17] Setting the rate in advance will ensure rates are being used to reduce reserve balances rather than only being sufficient to service debt.
- [18] Reserves available for internal borrowing has been redefined to mean total equity excluding revaluation reserves. Total equity as at 30 June 2023 is \$848M and the revaluation reserves are \$704M (Port Revaluation) and \$14M (Asset Revaluation). These are non-cash reserves and excluding them reduces total equity to \$130M. That would allow an internal borrowing limit of \$65M. Current internal borrowing (reserve deficits) as at 30 June 2023 is \$33M

Section 4.7 – Short Term Liquidity

- [19] The definition has been clarified to state this refers to term deposits up to 365 days. On-call funds are dealt with in section 5 and investments greater than 1 year are covered in section 4.8
- [20] Investments are limited to retail bank deposits at institutions that are rated at least “A-” S&P (or equivalent). This is consistent with the debt counterparty parameter in section 3.4 which requires an “A-” rating although that is not limited to retail banks and applies to any NZ registered bank or financial institution.
- [21] Currently the above parameter would limit short term deposits to ANZ, ASB, BNZ, Kiwibank, Rabobank, TSB and Westpac. It would exclude Heartland Bank, SBS and the Co-operative Bank as they are “BBB” rated. Also excluded are non-retail institutions which do hold credit ratings of “A-” or better being Bank of China, China Construction, Citibank and JPMorgan Chase.
- [22] The draft policy requires no more than 50% of total deposits or \$10M, whichever is the greater, to be with any one institution. Current policy is no more than 30% but that isn’t workable especially if only small amounts are to be deposited or deposits reduce but remainders are still locked into specific institutions and terms.
- [23] The deposition of revenue section has been amended to reflect the internal interest allocation process now that external debt has been introduced and aligns with the internal debt management section above.

Section 4.8 – Long Term Investment Portfolio

- [24] This section has not been amended other than for administrative tidy ups. It covers equity and fixed interest investments held to periods greater than 1 year. Revenue earned remains allocated to offset general rates.

Section 5 – Cash Management

- [25] Amendments reflect how cash is actually managed. On-call funds are the primary source of cash for payments. A bank overdraft has been utilised in the past prior to Council going the Local Government Funding Agency (LGFA) however it is not retained when cashflow forecasts indicate it is no longer required. This reduces ongoing fees, and the facility can be reinstated quickly as required. Council also has access to short term debt through the LGFA which can also be accessed quickly so there is no need to maintain a committed overdraft and incur fees for doing so.

Appendix 1 – Approved Credit Ratings and Limits

- [26] These tables have been amended to align to the parameters included in the SIPO and make it clear that they relate to Long-Term Investment Portfolio.
- [27] Investment in irrigation schemes has been amended to clarify that 10% is of the total income assets held in the Long-Term Investment Portfolio. Even though these investments would be held outside that portfolio it sets an investment limit that is benchmarked off the long-term portfolio.

Statement of Investment Policies and Objectives

Section 1 – Purpose and Section 2.1 - Introduction

- [28] Have been amended to clarify that this relates solely to the Long-Term Investment Portfolio as the only investments outside of that are short-term or specifically covered in other sections of the TMP.

Section 4.2 – Responsible Investment Policy

- [29] This section has been added as a placeholder. Text highlighted in yellow is intended to be replaced by whatever parameters the Audit and Risk Subcommittee decides should be recommended to Council for approval.
- [30] Further information and options are included in the options section of this paper below.

OPTIONS

- [31] Responsible Investing Policy (RIP) – three options for section 4.2 of the SIPO are outlined below.
- [32] The options are based on the level of exclusions Council wishes to introduce. The more exclusions (or the lower the thresholds for those exclusions) the higher the number of companies in the “investible universe” excluded as investment options.
- [33] Decreasing the number of companies available for investment will impact diversification of the portfolio which in turn is likely to increase volatility particularly over the short term. Over the long-term returns may be impacted but this impact is unlikely to be material.

- [34] The table below outlines the common ESG exclusions and shows the impact of those exclusions on the companies available to invest in (the investible universe). Exclusions can be based on a category and/or factors within that category. The total number of companies in the global investment universe for each category is shown in the first column and the remaining 4 columns provide the number of companies that would be excluded if 5% to 20% revenue thresholds are applied.
- [35] The total number of companies in the global investment universe is 14,500 so the percentage of companies excluded depends on the category and factor selected eg if tobacco producers are selected 78 of 14,500 or 0.005% of companies are excluded. If companies with any involvement in tobacco are selected 905 of 14,500 or 6.2% are excluded. If a 10% revenue threshold is applied, excluded companies decreases to 568 or 3.9%.

Impact of Exclusion Screens and Thresholds

General Description	Factor Name	# Companies Exceeding Rev. Threshold					
		0%	5%	10%	15%	20%	
Controversial Weapons	Any Tie (T/F)	33					
Nuclear Weapons	Any Tie (T/F)	54					
Civilian Firearms	Producer - Automatic (T/F)	0					
	Producer - Semi-Automatic (T/F)	8					
	Producer - Ammunition (T/F)	8					
Conventional Weapons	Producer (% of Revenue)	437	434	429	426	422	
Tobacco	Producer (T/F)	78					
	Producer (% of Revenue)	77	77	77	77	77	
	Total Involvement (% of Revenue)	905	721	568	561	545	
Recreational Cannabis	Produce and/or Retail (T/F)	116					
Nuclear Power	Utility (% of Revenue)	102	102	100	100	100	
Thermal Coal	Extraction & Production (% of Revenue)	106	101	101	101	101	
Oil & Gas	Extraction & Production (% of Revenue)	255	252	249	245	244	
	Equipment and Services (% of Revenue)	156	151	151	151	149	
	Pipelines & Transportation (% of Revenue)	257	254	254	254	252	
	Refining (% of Revenue)	96	96	96	96	96	
	Distribution / Retail (% of Revenue)	292	290	288	287	286	
All Related Activities (% of Revenue)		833	828	826	823	820	
	Controversies	Environment (Flag)	1				
	Governance (Flag)	5					
	Social (Flag)	0					
	Gambling	Operations (% of Revenue)	265	257	239	238	234
All Related Activities (% of Revenue)		418	406	381	379	375	
Alcohol	Producer (% of Revenue)	442	431	423	421	416	
	All Related Activities (% of Revenue)	2640	2448	2284	2265	2184	
Pornography	Producer (T/F)	12					
Predatory Lending	Direct Link to Predatory Lending (T/F)	40					
No. Companies Excluded Out of 14,500							
<i>Percentage of global investment universe excluded</i>							

Option 1 – Status Quo

[36] This option would leave the SIPO unchanged with no Responsible Investing Policy section added. JB Were is a member of the Responsible Investment Association Australasia (RIAA) and already integrates ESG considerations in its own investment processes.

[37] While this provides Council with a level of assurance regarding ESG it may not meet the level of screening Council desires, and this isn't formally documented in the SIPO. Even if Council was happy with this as the level of exclusions it should still be included in the SIPO (which is effectively Option 2).

Option 2 – Common Exclusions

- [38] This option adds a list of common exclusions into a RIP section in the SIPO. This reflects the table show in the attached draft SIPO and excludes:
- cannabis – recreational
 - civilian firearms – producer
 - controversial weapons – any tie
 - nuclear weapons and – any tie
 - tobacco – producer
- [39] Adding this level of exclusions is simple and effectively already reflected in the portfolio as this aligns with JB Were’s own ESG exclusions. It will exclude 2% of companies from the global investible universe and won’t impact volatility or returns beyond what is already inherent in the current portfolio.
- [40] Variations on this option would be to exclude tobacco based on total involvement / % of revenue and exclude producers of conventional weapons. Each of these exclusions would remove approximately 3% of companies from the global investible universe (based on a 10% revenue threshold).

Option 3 – Common Plus Additional Exclusions

- [41] This option is option 2 plus any other additional exclusions Council wants to exclude. Additional exclusions and the impact on the investible universe are:
- ESG controversy, pornography and predatory lending – don’t materially impact the investible universe, approximately 1% excluded in total.
 - Nuclear power, thermal coal and oil and gas – excluding these based on a 10% of revenue would exclude approximately 7% of investible companies.
 - Gambling and alcohol may have a material impact depending on the level of involvement and thresholds applies.
 - Gambling operations would exclude 1.6% (at a 10% revenue threshold) and all related activities would exclude 2.6% (at a 10% revenue threshold).
 - Alcohol producer would exclude 2.9% (at a 10% revenue threshold) and all related activities would exclude 15.8% (at a 10% revenue threshold).
- [42] Council could choose to add exclusions relating to any or all of the above.
- [43] The other criteria Council could also consider is a “Council Discretion” exclusion ie a list of any companies that Council identifies and wishes to prohibit investment in.

CONSIDERATIONS

Strategic Framework and Policy Considerations

- [44] Investment activities are covered by Council’s Treasury Management Policy and Statement of Investment Policy and Objectives.

Financial Considerations

[45] A more restrictive investment policy may impact returns as it may limit diversification of the portfolio.

Significance and Engagement

[46] Changes to the TMP and SIPO outlined in this paper do not trigger Council's He Mahi Rau Rika: Significance, Engagement and Māori Participation Policy.

Legislative and Risk Considerations

[47] There are no legislative considerations.

[48] There is inherent risk associated with investment decisions. The TMP and SIPO are designed to manage and mitigate that risk.

Climate Change Considerations

[49] Climate change is a key consideration in including a responsible investing policy in the SIPO.

Communications Considerations

[50] There are no communication consideration.

NEXT STEPS

[51] Staff will make any changes as directed by the Audit and Risk Subcommittee and the revised TMP and SIPO will be presented to Council for approval.

ATTACHMENTS

1. Treasury Management Policy - September 2023 DRAFT [8.2.1 - 24 pages]
2. Statement of Investment Policy and Objectives - September 2023 DRAFT [8.2.2 - 21 pages]



Otago Regional Council
Treasury Management Policy

incorporating
~~Liability Management Policy and~~
~~Investment Policy~~

~~March 2022~~ October 2023

	Document Name: Treasury Management Policy
	Document Owner: Manager <u>General Manager</u> Corporate Services <u>and CFO</u>
	Authorised By: Chief Executive
	Implementation Date: March 2022 <u>October 2023</u>
	Review Period: xxxxx <u>3 Yearly</u>
	Last Reviewed: xxxxx <u>March 2022</u>
Next Review: xxxxx <u>October 2026</u>	

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1. INTRODUCTION

Section 102 (2) of The~~the~~ Local Government Act 2002 requires local authorities to adopt a Liability Management Policy and an Investment Policy. The Otago Regional Council's ("Council") prepared policies have been combined into one document called the Treasury Management Policy.

The Liability Management Policy is designed to provide a framework for prudent debt management and sets out how Council may wish to use debt as a funding mechanism.

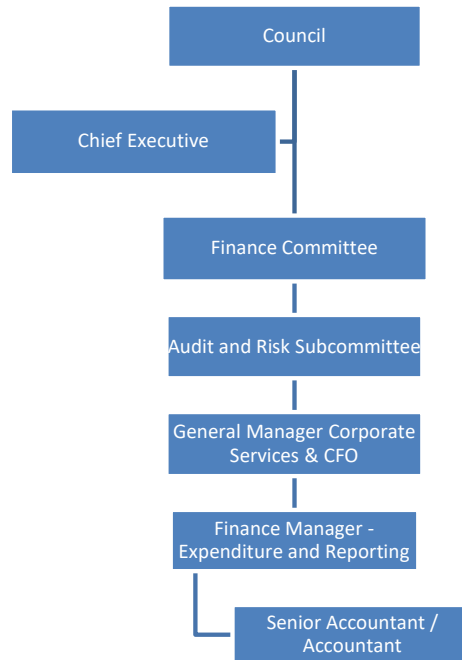
The Investment Policy is designed to ensure that the financial resources of the Council are managed in an efficient and effective way. It sets out how Council can utilise funds from the sale of assets and what should be done with the investment income.

Council has set up a structure of responsibilities and reporting lines to ensure the appropriate management and accountability of the liability management and investment management activities.

2. STRUCTURE

2.1 Introduction

The organisation chart for the treasury and investment activity is as follows:



2.2 Treasury and Investment Responsibilities

The key responsibilities of the above positions are as follows:

Council

The primary responsibilities of Council are planning, policy and governance:

- Approve and adopt the Liability Management and Investment Policies.
- Review at least on a three yearly basis the Liability Management and Investment Policies, and approve any revisions or amendments as required.
- Approve by resolution all external Council borrowing.
- To encourage the appointment of Audit and Risk Subcommittee members with the relevant experience and competencies to achieve the stated objectives.
- To ensure that the roles and responsibilities of all parties are documented and clearly defined.
- Reviewing and assessing budgets during the budget review process.
- Appointment of Investment Managers.

- Reviewing investment performance and investment reports periodically throughout the year and at year end.
- Approve any transaction that falls outside the guidelines of the [IP-Investment Policy](#) and Statement of Investment Policy and Objectives (“SIPO”).

Finance ~~and Corporate~~ Committee

The Council has established the Finance ~~and Corporate~~ Committee and has delegated such powers and duties to the Committee as the Council sees fit. The Finance ~~and Corporate~~ Committee operates as per the Council’s constitution. Members serving on the Finance ~~and Corporate~~ Committee are appointed by the Council. ~~The Audit and Risk Subcommittee is a subcommittee of the Finance and Corporate Committee.~~

Audit and Risk Subcommittee

The Council has established the Audit and Risk Subcommittee and has delegated such powers and duties to the ~~Committee Subcommittee~~ as the Council sees fit. The Audit and Risk Subcommittee operates as per the Council’s constitution. Members serving on the Audit and Risk Subcommittee are appointed by the Council.

- To provide guidance and leadership on the appointment, management, monitoring and review of appropriate Investment Managers.
- Reviewing all matters concerning the SIPO, considering any changes or amendments to the SIPO and making appropriate recommendations
- Regularly reviewing the Investment Managers reports and reporting exceptions.
- Ensuring that all parties overseeing, advising and managing ORC’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.
- Ensuring that an appropriate SIPO is developed and maintained.
- Ensuring that contracts for investment advisory/management, custodial and consultancy services are reviewed at least every three years.
- To recommend the appointment and removal of Investment Managers as appropriate.
- Ensuring investment portfolios are prudently diversified to meet the agreed risk/return profile.
- Approving the asset classes and sub-asset classes to be included in any investment portfolios.
- Ensuring that all service agreements and contracts are in writing and are consistent with fiduciary standards of care.
- To ensure that the practices and policies set out in the SIPO are adhered to.
- To follow formal criteria to monitor, evaluate and compare the investment performance results achieved against relevant benchmarks and objectives on a regular basis.
- To 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.

General Manager Corporate Services and CFO

- Responsible for setting investment, borrowing and risk management strategy in conjunction with the Finance Manager ~~and the Manager Projects~~.
- Responsible for recommending the level of cash available for investment and that held for working capital purposes.
- Recommend to Council amendments to the Liability Management Policy and Investment ~~Policies~~ Policy as required.
- Manages the funding and liquidity activities of the Council.
- Determines the level of future core debt is to be used for interest rate risk management purposes.
- Maintains lender relationships with the banks and the capital markets including the LGFA.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure compliance with the policy parameters.
- Review internal audit reports and approve as appropriate any recommendations made.
- Administering and attending to the day-to-day financial matters associated with the management of investment portfolios, including serving as the primary point of contact for the Investment Manager.

Finance Manager – Expenditure and Reporting

- Responsible for all activities relating to the daily implementation and maintenance of the Liability Management Policy and Investment ~~Policies~~ Policy.
- To control and account for all investment, recordkeeping and administrative expenses associated with management of the funds.
- Prepares quarterly treasury reports.
- To report at least annually to the Audit and Risk ~~Sub-committee~~ Subcommittee 'Total cost of Delivery' being the sum of:
 - Investment Advisory Fees,
 - Custodial Fees,
 - Administration Fees, and
 - Total Fund Fees – made up of; annual management fees (including annual management fees of underlying investments), performance-based fees (including performance based fees of underlying investments), and any other fees and costs.
- Assist in determining the most appropriate sources and terms for borrowing and investing.
- Negotiate investment and borrowing transactions.
- Responsible for keeping the General Manager Corporate Services & CFO informed of significant treasury activity and market trends.
- Responsible for reviewing/approving the weekly cashflow and cash management transaction requirements completed by the Senior Accountant / Accountant.
- Responsible for confirming adherence to Liability Management Policy and Investment ~~Policies~~ Policy, through internal audit reviews, to be performed on an annual basis. Reports findings to the General Manager Corporate Services & CFO.
- Assist in identifying amendments to the investment, borrowing and risk management strategy, which may require amendment of the Liability Management Policy and Investment ~~Policies~~ Policy.

Senior Accountant / Accountant

- Prepare and manage Council's cashflow and cash requirements.
- Report to the Finance Manager on the weekly cashflow position and resulting cash management transactions required.

Council may also appoint an Independent Treasury Advisor ("ITA") to advise on the management of the treasury risks.

3. LIABILITY MANAGEMENT POLICY

3.1 General Liability Management Policy

The Council, on such terms and conditions as it considers appropriate and by resolution, exercises its borrowing powers pursuant to [sections 113 to 116 of](#) the Local Government Act 2002.

Council may borrow for the following primary purposes:

- Fund special one-off type projects.
- Fund expenditure for items of an intergenerational nature.
- Short-term borrowing to manage timing differences between cash inflows and outflows.
- On-lending to Port Otago Limited.

Council can borrow from external sources utilising the following borrowing mechanisms:

- Committed bank facilities.
- The capital markets using Commercial Paper (“CP”), Floating Rate Notes (“FRN”) and Fixed Rate Bonds (“FRB”), also referred to as Medium Term Notes (“MTN”)
- The Local Government Funding Agency using standby facilities, CP, FRNs and FRBs, also referred to as MTNs.

When evaluating new borrowings, the Council will take into consideration the following:

- The impact on its borrowing limits (refer Section 3.5).
- The impact on its interest rate exposure limits (refer Section 3.2).
- The available terms of borrowing including interest rates, level and timing of repayments and security.
- The size and economic life of the asset / project being funded.
- The level and timing of earnings which may flow from the asset / project.
- The advantages and disadvantages of various borrowing mechanisms including the relevant margins under each borrowing source.
- Council’s overall debt maturity profile, to ensure concentration of debt is avoided at reissue / rollover time.
- Consistency with the Council’s long-term financial strategy.
- Legal documentation and financial covenants.
- The Council cannot borrow in foreign currencies.

3.2 Interest Rate Exposure Policy

Interest rate risk management has the objective of managing Council’s interest rate exposures in order to:

- Give a sufficient level of certainty to Council’s funding costs while, at the same time, allowing Council to participate if interest rates and credit spreads move favourably.
- Control variations in interest expense for the debt portfolio from year to year, taking into consideration relevant budgetary assumptions.
- Recognise Council’s exposure to the local and international economies and maintain sufficient flexibility in its interest rate risk management profile to enable TDH to respond as appropriate.

Hedging controls relate to the level of core debt. Core debt is defined as the level of current and projected future debt as determined by the [General Manager Corporate Services and CFO](#). Core debt projections should be supported by appropriate budgetary analysis.

Council will maintain fixed interest rate cover for core debt within the control limits detailed in the table below. Fixed rate debt is defined as all debt that has at least one more rate reset outstanding (typically quarterly) or has more than three months to maturity in the case of a fixed rate term loan. Compliance with these parameters is at the discretion of the [General Manager Corporate Services and CFO](#) if core debt is less than \$10.0 million. Any hedging in excess of 8 years must be approved by the full Council.

The following interest rate risk management parameters apply if debt (excluding debt obtained for on-lending to Port Otago Limited) is greater than \$10.0 million:

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0-2 years	40%	100%
2-4 years	20%	80%
4-8 years	0%	60%

The approved interest rate risk management instruments are as follows:

- Fixed interest rate swaps, including forward starting swaps.
- Interest rate options – includes caps, swaptions and collars. For a collar the amount of the sold option must match the amount of the purchased option.
- Fixed rate term loans.

Options that hedge floating rate debt with an exercise rate greater than 1.50% above the equivalent period fixed interest rate at the time of inception cannot be included as part of the fixed rate cover percentage calculation. For example, a two-year cap at 2.00% would only count as a fixed rate hedge if the underlying two-year swap rate at the time of inception was higher than 0.50%.

3.3 Liquidity and Funding Risk Management

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level may lead to Council being unable to meet its day-to-day obligations.

Liquidity risk management has the objective of ensuring that adequate liquid assets and funding sources are available at all times to meet both the short and long-term commitments of TDH as they arise, in an orderly manner. The two main sources of liquidity requirements are for working capital and material adverse business events.

To manage liquidity risk Council must maintain a liquidity percentage of 110% above the projected peak borrowing requirement over the following twelve months e.g. if debt was \$25 million, the Council must maintain liquidity of at least \$2.5 million. Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

Appropriate cash flow reporting mechanisms must also be maintained to monitor Council's estimated liquidity position over the next twelve months.

Funding risk is defined as an inability to secure access to external lines of credit sufficient to enable the Council to achieve its strategic short term and long-term objectives where the financial requirements to achieve those goals exceed the funds being generated from operating activities.

Funding risk covers both working capital requirements and core debt.

- The Council must approve all new debt funding facilities and/or revision to the parameters of existing debt funding facilities.
- To ensure that all of the Council's debt is not exposed to excessive refinancing risk at any one time, no more than 40% of all debt facilities should mature within a rolling twelve-month period. Compliance with this provision is not required if total external debt is less than \$10.0 million and excludes debt obtained for on-lending to Port Otago Limited.
- The [General Manager Corporate Services and CFO](#) must renegotiate/replace maturing bank funding facilities on a timely basis. Specifically, the [General Manager Corporate Services and CFO](#) must obtain an indicative letter of offer no later than three months before the maturity of any bank facility.

3.4 Credit Risk Management

The management of counterparty credit risk in relation to the Council's borrowing and interest rate risk management activities has the objective of minimising financial loss through the default of a financial counterparty, usually a financial institution, due to the financial insolvency of the counterparty, the inability of the counterparty to perform due to country decree, or any other circumstance such as an adverse market event. The purpose of counterparty credit limits is to limit the loss that the Council may incur if a counterparty was to default or be unable to meet its obligations.

The Council's exposure to counterparty credit risk will be managed by entering into financial market transactions and funding arrangements with only approved counterparties. Approved counterparties are defined as follows:

- An approved counterparty must be a New Zealand Registered Bank or financial institution with a long term credit rating of 'A-' or above by Standard & Poor's ("S&P"), or the Moody's Investors Service ("Moody's) or Fitch Ratings ("Fitch") equivalents.

3.5 External Borrowing Limits

In managing its borrowings, the Council will adhere to the following limits (based on the Council's latest financial statements):

- **Net debt will not exceed 175% of total revenue (if Council maintains a long-term credit rating of 'A' equivalent or higher net debt will not exceed 280% of total revenue).**
- **Net interest will not exceed 20% of total revenue.**
- **Net interest will not exceed 25% of annual rates income (if Council maintains a long-term credit rating of 'A' equivalent or higher net interest will not exceed 30% of annual rates income).**
- **Liquidity will not be less than 110%.**

"Total revenue" is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

"Net debt" is defined as total debt less liquid financial assets and investments.

"Liquidity" is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

"Net Interest" is defined as the amount equal to all interest and financing costs less interest income for the relevant period.

"Annual rates income" is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local

authorities rate).

Financial covenants are measured on a Council only basis and not a consolidated group basis. Both borrowing and loan amounts associated with on-lending from Council to Port Otago Limited will be included in covenant calculations and may be offset if in covenant calculations if permitted under LGFA covenant calculation rules.

3.6 Local Government Funding Agency

The Council may borrow from the New Zealand Local Government Funding Agency (“LGFA”) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

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

3.7 On-lending to Port Otago

This section applies while Port Otago Limited remains a subsidiary of the Council.

To better achieve the strategic and commercial objectives of the group, Council may provide financial support in the form of debt funding to Port Otago Limited.

On-lending terms and conditions are expected to mirror the underlying loan obtained for that purpose. Council will not provide on-lending on terms and conditions that are more favourable than those Council has obtained in the underlying loan to on-lend.

Any agreement to on-lend to Port Otago must be approved by Council and the following should be considered:

- Credit risk profile of Port Otago Limited, and the ability to repay interest and principal amounts on due dates.
- Impact on Council’s credit standing, lending covenants with the LGFA and other lenders and Council’s future borrowing capacity.
- Whether the loan is unsecured or if secured, the form and quality of any security arrangements provided.
- On-lending arrangements must be recorded in a legally enforceable loan contract (and any associated transaction documentation).
- Accounting and taxation impact of the arrangement.

3.8 Security

It is Council policy to offer security for its borrowing by way of a charge over its rates. In the normal course of business, Council policy is not to offer security over any of the other assets of the Council. However, in special circumstances and if it is considered appropriate, Council may resolve to offer such security on a case-by-case basis.

3.9 Repayment

The Council repays borrowings from rates, surplus funds, investment income, proceeds from the sale of investments and assets, or from specific sinking funds.

4.0 Internal Debt Management

When considered appropriate, the Council uses accumulated reserves as a borrowing mechanism, thereby reducing the level of external borrowings. The following operational guidelines apply to the use of reserves for funding rather than external borrowings:

- Interest is charged on the month end loan balances.
- The internal interest rate charged ~~is equivalent to what Council would earn if it had been invested~~ will be set in advance in Council's Long-term Plan and Annual Plan.
- Reserves available for internal borrowing are limited to 50% of total reserves (total equity) excluding revaluation reserves.

4. INVESTMENT POLICY

4.1 General Investment Policy

Guiding Principles

The guiding principles which govern ~~ORC's~~Council's equity and financial market investment activities are as follows:

- ~~ORC's~~Council's time horizon is long term, i.e. it is greater than 15 years, and it intends to hold investments for the long term.
- There is a positive relationship between risk and return, higher expected returns means higher risk.
- Every investment has an associated level of risk. This risk is best mitigated by diversification.
- Investors who have a Strategic Asset Allocation (“SAA”), and a Statement of Investment Policy and Objectives (“SIPO”) which they follow, generally outperform investors who do not.
- Frequent trading, completely liquidating all investments, or allocating all investments to one specific sector which is predicted to outperform is speculation, not investment.
- Periodic rebalancing back to SAA target weights is likely to enhance investment returns over the long term.
- Periodic review of ~~IP~~Investment Policy and the SIPO is likely to ensure that any material changes in circumstances are captured and reflected in the management of the portfolio. Reviews should occur not less than three yearly.

Objectives

Council's primary objective when investing is the protection of its initial investment. Accordingly, the risk profile of all investment portfolios must be conservative (see Appendix 1).

Within the approved credit limits contained in Appendix 1, the Council also seeks to:

- Maximise investment returns.
- Manage potential capital losses due to interest rate movements, currency movements and price movements.
- Maintain the real value of investment assets in perpetuity.
- Ensure that the real value of distributions can be maintained.
- Maintain intergenerational equity between current and future ratepayers of Otago Regional Council.

4.2 Risk Tolerance

The Council recognises and acknowledges that some risk must be assumed in order to achieve the long-term investment objectives.

Risk tolerance is affected by three factors:

- Capacity to accept risk,
- Willingness to accept risk, and
- Required rate of return.

Capacity to Accept Risk

~~ORC's Council's~~ capacity to accept risk is a function of its investment time horizon, prospective future contributions, current financial condition, level of funding requirements and reserve facilities.

Time Horizon

~~ORC Council~~ is expected to exist in perpetuity. The investment time horizon of ~~ORC Council~~ is therefore long term. This increases capacity to accept risk.

Financial Capacity

~~ORC's Council's~~ current financial condition and level of funding requirements imply reasonable capacity to tolerate short to medium term volatility in the value of its investments. This increases capacity to accept risk.

Based on the combination of time horizon and financial circumstances, ~~ORC's Council's~~ overall capacity to accept risk is assessed as ~~Medium-medium~~ to ~~Highhigh~~.

Willingness to Accept Risk

~~ORC Council~~ is a risk averse entity. The Council seeks, where possible, to minimise volatility or risk. Notwithstanding this risk aversion, the Council, Finance ~~and Corporate~~ Committee and Audit and Risk Subcommittee, acknowledge that investing solely in capital stable investments exposes the Council's asset base to the risk of inflation and is willing to accept some risk in order to increase expected return, subject to ~~ORC's Council's~~ capacity to accept risk.

Required Rate of Return

Careful consideration of cash flow requirements is essential to determine the required rate of return. In order to achieve the desired level of contributions to cash flow, while maintaining the real value of ~~ORC's Council's~~ capital over time, the real (i.e. inflation adjusted) required return for ~~ORC Council~~ must be greater than the spending rate.

Based on a spending rate of \$2,000,000 per annum and an assumed investment asset base of \$40,000,000 to \$50,000,000, inflation expectations of 2.0% per annum, a return of 2.0% to 3.0% may be sufficient to meet ~~ORC's Council's~~ objectives.

4.3 Investment Mix

The Council has a significant portfolio of investments that may be comprised of the following:

- Strategic equity investments-
- ~~Strategic property~~Property investments-
- Kuriwao endowment-
- Short term liquidity-
- ~~Long term fixed interest~~
- Long term investment portfolio
- Investment in irrigation schemes
- Local Government Funding Agency
- On-lending to Port Otago Limited (refer to section 3.7)

4.4 Strategic Equity Investments – Port Otago

Nature of Investments and Rationale for Holding

The Council owns 100% of Port Otago Limited.

Port Otago is a significant strategic asset held by the Council on behalf of the regional community, with its activities complementing and supporting the economic development of the region.

Review of Holding

The Council will from time to time review the equity held in Port Otago Limited, and may, if considered strategically appropriate, amend the percentage shareholding held.

Disposition of Revenue

Port Otago Limited has consistently paid a dividend to the Council. The company's Statement of Corporate Intent, produced annually, specifies the level of dividend that will be paid. These dividends are to be used to subsidise general rate funding. Special dividends received may be used towards special projects of a one-off nature.

Risk Management

The Council's investment in Port Otago Limited is not without risk. Dividends receivables are driven by the level of profitability that Port Otago can continue to generate, and ultimately, the value of the Council's investment in the company.

The Council's risk management procedures include:

- Appointing external directors with appropriate expertise to Port Otago Limited's Board of Directors.
- Reviewing / approving on an annual basis Port Otago Limited's Statement of Corporate Intent.
- Regular reporting to Council as specified in the Company's Statement of Corporate Intent.

Management Reporting Procedures

Management reporting ~~issues~~ procedures have been noted under risk management issues above.

4.5 Property Investment

Nature of Investment and Rationale for Holding

The Council owns investment properties within Dunedin City, the land having been gifted to the Council. The land is leased on commercial terms.

Council considers that holding this investment is in the interests of residents and ratepayers, because the return by way of rentals is at commercial rates.

Review of Holding

The Council will from time to time review the investment properties, and may, if considered strategically appropriate, reduce the holdings.

Disposition of Revenue

Revenue earned from investment properties is used to subsidise general rate funding.

Proceeds from the sale of investment properties would be allocated to the Asset Replacement Reserve.

Risk Management

The risk in respect of holding investment property is evaluated as low given the location of the property and its current and long-term use. A valuation of the property is carried out on an annual basis by an Independent Registered Valuer, with gains or losses in value being taken directly to the property-asset revaluation reserve.

Rental income earned from investment properties is considered low risk, due to the fixed and long-term nature of the lease agreements. Lease rental is negotiated at the time that the leases expire, with independent and expert advice being obtained on the market conditions.

Management Reporting Procedures

Returns from investment properties are monitored on a regular basis.

On an annual basis, the market value of the investment properties is recorded and reported on in the Council's financial statements.

4.6 Kuriwao Endowment

Nature of Investments and Rationale for Holding

This land was vested in the Council by the Otago Regional Council (Kuriwao Endowment Lands) Act 1994 (“the Act”). The Otago Regional Council leases the land to private individuals.

Disposition of Revenue

The Act allows the Council to sell the land if it so desires but stipulates that sales proceeds and any earnings from those proceeds must be used for the benefit of the Lower Clutha district. In accordance with the Act, rental income from the leases is also used for the benefit of the Lower Clutha district, and is used primarily for catchment works in that district.

Risk Management

The risk in respect of holding investment property is evaluated as low given the location of the property and its current and long-term use.

Rental income earned from endowment land is considered low risk, due to the fixed and long-term nature of the lease agreements. Lease rental is negotiated at the time that the leases expire, with independent and expert advice being obtained on the market conditions.

Management Reporting and Procedures

Returns from the leased land are monitored on a regular basis.

The value of the land is recorded and reported on in the Council’s financial statements.

4.7 Short Term Liquidity

Nature of Investment and Rationale for Holding

This type of investment will be in the form of cash term deposits held for various periods ~~from “on-call” up~~ to 365 days ~~or longer~~. It will be held for working capital purposes, emergency funds and as an investment when deemed appropriate. This excludes “on-call” funds held for immediate working capital purposes and cash deposits or fixed interest investment of less than 1 year that are held as part of a Long-Term Investment Portfolio.

Disposition of Revenue

Revenue earned on cash holdings is added to the general reserve balance ~~that the cash holdings relate to, e.g. Emergency Response Reserve. When earned on general cash held from rate takes and other external funding sources it is used to subsidise general rates and used to offset external debt borrowing costs. The net interest amount is allocated over all reserves using an internal interest rate set in advance in Council’s Long-term Plan and Annual Plan. Any surplus revenue is used to subsidise general rates.~~

Risk Management

Investments are only to be held with ~~financial institutions as approved by the General Manager Corporate Services and CFO, and in accordance with the limits set out in Appendix 4~~ New Zealand Registered Retail Banks with a long term credit rating of ‘A-’ or above by Standard & Poor’s (“S&P”), or the Moody’s Investors Service (“Moody’s) or Fitch Ratings (“Fitch”) equivalents.

- No more than ~~30~~50% of total term deposits or \$10.0M, whichever is the greater, of cash is to be invested at any one time with any one institution, ~~unless this is the diversified cash management portfolio managed by a fund manager when 100% can be invested (see Appendix 1).~~

Management Reporting

Cash holdings are managed as part of the Council's daily operational procedures (refer section 5).

4.8 Long Term Investment Portfolio

Nature of Investment and Rationale for Holding

The Council has established a Long-Term Investment Portfolio in order to assist with the subsidising of rates and maintaining intergenerational equity between current and future ratepayers.

Council considers that holding this investment is in the interests of residents and ratepayers, because it provides the opportunity to earn higher investment returns through income and capital growth than is achievable through short term liquidity or long-term fixed interest and it provides a greater chance of maintaining the real value of ~~ORC's~~ Council's asset base in the face of inflation.

Review of Holding

The Council will from time to time review the Long-Term Investment Portfolio, and may, if considered strategically appropriate, reduce or increase the amount of funds allocated to the Long-Term Investment Portfolio.

Disposition of Revenue

Revenue earned from the Long-Term Investment Portfolio is used to subsidise general rates funding.

Risk Management

The Council's investment in the Long-Term Investment Portfolio is not without risk. The income and capital growth likely to be achieved from the Long-Term Investment Portfolio will vary and may not meet Council's expectations in any one quarter or financial year.

The Council's risk management procedures include:

- Appointing an independent Investment Manager with appropriate expertise to manage the Long-Term Investment Portfolio.
- Requiring the Investment Manager to adhere to a Statement of Investment Policies and Objectives ("SIPO") which defines the nature of the investment management mandate including restrictions, exclusions and minimum reporting requirements.
- Requiring the Investment Manager to report compliance with the SIPO.
- Requiring the Investment Manager to report formally against appropriate benchmarks quarterly, and peer group at least annually.

- The Council will conduct a formal review of incumbent Investment Managers not less than three yearly. This may result in a tender process for the Investment Management of the Council's Long-Term Investment Portfolio.

Management Reporting and Procedures

Long-Term Investment Portfolio returns, and portfolio characteristics are monitored on a quarterly basis against relevant benchmarks and compliance reporting criteria established in the SIPO.

On an annual basis, portfolio returns are benchmarked against an appropriate peer group.

4.9 Investment in Irrigation Schemes

Nature of Investment and Rationale for Holding

This type of investment would be in the form of equities in irrigation schemes. Such investments could only be entered into where an equity holding by Council will enable a scheme to proceed, if committed supply contracts alone are not sufficient to enable this, and where an equity holding will enable wider community benefits in water management.

Any consideration of an equity investment will only occur after normal corporate loan and equity funding had been diligently explored by the developers of the irrigation scheme, and reasons for rejection identified.

Any proposed investment in an irrigation scheme must be consulted on before proceeding with the investment.

Disposition of Revenue

Revenue earned from equity investment in irrigation schemes is to be used to subsidise general rates.

Proceeds from the sale of equities will be allocated to the general reserve.

Risk Management

Investment in Irrigation Schemes is assessed as having a high risk. Returns on this type of equity investment may not be earned until such time as the investment is sold, or may not be at levels that may be returned on other types of investment.

Further there is a risk that there will be no readily available option for selling the investment, should the Council wish to do so.

The Council's risk management procedures include:

- Requiring a full business plan that shows a commercial return on investment, and a real opportunity to sell the investment.
- Being entitled to having a representative on the Board of the irrigation scheme company.
- Requiring regular reporting to Council of the activities and progress of the scheme, and the uptake of shares by farmers joining the scheme.

Investments are to be held in accordance with the limits set out in Appendix 1.

Management Reporting

The value of equity investment in irrigation schemes is to be recorded and reported annually in the Council's financial statements.

4.10 Local Government Funding Agency

Council may invest in shares and other financial instruments of the [Local Government Funding Agency \(“LGFA”\)](#) and may borrow to fund that investment. The Council’s objective in making any such investment will be to:

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

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

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

5. CASH MANAGEMENT

The finance department is responsible for managing the Council's cash surpluses and deficits as they arise. These may arise due to a mismatch of daily receipts and payments.

Council maintains ~~weekly—monthly~~ cashflow forecasts ~~and reviews cash payment requirements weekly~~. These cashflows determine the level of cash required for working capital purposes, any surpluses available for investment, and any deficits that may require short-term borrowing. Any ~~surplus~~ cash to be invested ~~for longer than 12 months~~ is covered by sections 4.7 ~~for short-term surpluses~~ and 4.8 ~~for long-term surpluses~~ of this policy document.

The following operational guidelines apply to the cash management processes:

- ~~On-call funds may be held with Council's transactional bank to meet the immediate short term funding requirements.~~
- Cashflow surpluses will be invested in accordance with section 4.7 ~~and section 4.8~~ of this document.
- A committed bank overdraft facility ~~will~~ ~~may~~ be maintained, to meet interim cash and liquidity requirements, ~~as approved by the General Manager Corporate Services and CFO.~~

~~Dedicated cash held in respect of special rating districts or special funds will accumulate interest on those funds to an amount equivalent to that earned by the Otago Regional Council on its cash deposits.~~

APPENDIX 1:

Approved Credit Ratings and Limits

Approved Credit ~~Ratings~~ Rating Guidelines

S&P Rating <u>band (or Moody's or Fitch equivalent)</u>	Maximum Percentage of NZ Fixed Interest Asset Class
AAA to BBB <u>AA-</u>	100%
A+ to BBB <u>A-</u>	55%
BBB+ to BBB-	15%
Sub-investment Grade/Unrated	0%
Government	100%
Equities in Irrigation Schemes*	10%

* Subject to consultation and Council approval as per section 4.9

Maximum Individual Security Guidelines

S&P Rating <u>band (or Moody's or Fitch equivalent)</u>	Individual Security Maximum Percentage of NZ Fixed Interest Asset Class
AAA	15%
AA	10%
A	10%
BBB	5%
Sub-investment Grade/Unrated	0%
Equities in Irrigation Schemes*	10%

* Subject to consultation and Council approval as per section 4.9

Note the above tables provides guidelines for assessing the Long Term Investment Portfolio and an individual security~~securities~~ within that portfolio.

Section 4.7 of the Investment Policy sets the risk management limit on maximum issuer exposure for Short Term Liquidity and Section 4.4 of the SIPO provides further diversification guidelines to manage ~~maximum issuer exposure for~~ the Long-Term Investment Portfolio.


Equities in Irrigation Schemes do not form part of the Long Term Investment Portfolio and the limit above provides a maximum percentage relative to other investments held in the Long Term Investment Portfolio.



Otago Regional Council

Statement of Investment Policy and Objectives

~~September 2019~~ October 2023

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1. PURPOSE

The purpose of this Statement of Investment Policy and Objectives (SIPO) is to provide the policy framework for Otago Regional Council (the Council) to effectively supervise, monitor and evaluate the management of the investment activities undertaken through of the Council's Long Term Investment Portfolio.

The SIPO defines the key responsibilities and the operating parameters within which the investments-Long Term Investment Portfolio and their-it's 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 corporate governance, and reflect the corporate vision of Otago Regional Council.

2. OBJECTIVES

2.1 Introduction

Section 102 (2) of The-the Local Government Act 2002 requires local authorities to adopt an Investment Policy to ensure that the financial resources of the Council are managed in an efficient and effective way. That Investment Policy is incorporated in Council's Treasury Management Policy. The SIPO is an associated document to the TMP and provides guidance specifically related to Council's Long Term Investment Portfolio.

2.2 Objectives

Otago Regional Council's primary investment objectives are:

- To protect and maintain the purchasing power of the current investment assets and all future additions to the investment assets.
- To maximise investment returns within reasonable and 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.

2.3 Time Horizon

The investment guidelines are based upon an investment horizon of greater than seven years. Therefore, interim fluctuations should be viewed with appropriate perspective.

2.4 Risk Tolerance

The Otago Regional Council is a risk-averse entityentity, but some risk must be assumed in order to achieve the long-term investment objectives of the portfolio, given there are uncertainties and complexities associated with investment markets. It is the express desire of the Council to minimise portfolio volatility through the adoption of prudent portfolio management practices. Overall, a conservative investment approach is to be adhered to.

2.5 Performance Expectations

~~Otago Regional~~ Council aims to earn a net real return on the portfolio of 2.3-3.1% per annum after investment management costs and inflation (assumed to average 2.0% per annum), on average over five years.

The Council recognises that the target rate of return is a long term one and will not be achieved in every measurement period.

2.6 Risk Summary and Selection of Asset Allocation

The table below summarises the Council’s level of risk tolerance as measured by the three risk factors:

Risk Measure	Level of Risk
Capacity to accept risk	Medium to High
Willingness to accept risk	Low to Medium
Required rate of return	Inflation plus 2.3% - 3.1% (net)

Over the long term, the average rate of investment return is related to the level of risk within the portfolio, as illustrated in the table below:

Estimated Rate of Return (net of fees) Inflation plus:	Estimated Gross Return	Level of Investment Risk	Growth Asset Strategy
1.5% - 2.3%	6.0% - 6.5%	Low	20% to 40%
2.3% - 3.1%	6.5% - 7.2%	Low to medium	40% to 60%
3.1% - 3.8%	7.2% - 7.8%	Medium to high	60% to 80%
3.8% - 4.3%	7.8% - 8.1%	High	80% to 90%

Returns above are per annum. The table comprises estimates based on standard portfolio and custodial fees and assumes a tax rate of 0%. Estimated gross returns increase as the portfolio allocation to growth assets increases. Actual returns may be higher or lower than those detailed above.

Based on ~~ORC’s Council’s~~ required rate of return, capacity and willingness to accept risk, it is recommended that a portfolio incorporating 40% to 60% growth assets is adopted which is suitable for a low to medium level of risk. Aim is to achieve 50% income assets ,50% growth assets.

2.7 Policy Setting and Management

The Council may from time to time approve/amend the policy parameters set in relation to ~~Otago Regional~~ Council’s investment activities. These changes will be minuted and incorporated into the SIPO and the dates of the changes noted.

3. DUTIES AND RESPONSIBILITIES

3.1 The Council

The primary responsibilities of the Council are planning, policy and governance.

The Council will take cognisance of the prudent person and duty of care rules as set out in the Trustee Amendment Act 1988.

As fiduciaries, the primary responsibilities of the Council are:

- To state in a written document the Council' attitudes to risk, expectations, objectives and guidelines for the investment of their assets.
- To review this SIPO on a regular basis.
- To ensure ~~Otago Regional~~ Council's investment assets are prudently diversified to meet the agreed risk/return profile.
- To establish formal criteria to select, monitor, evaluate and compare the investment performance results achieved by the investment adviser and the overall portfolio against agreed benchmarks, peer groups and ~~Otago Regional~~ Council's objectives on a regular basis.
- To avoid prohibited transactions and conflicts of interest.
- To encourage effective communications between the Council and parties involved with investment management decisions.
- To encourage the appointment of Audit and Risk Subcommittee members with the relevant experience and competencies to achieve the stated objectives.
- To ensure that the roles and responsibilities of all parties are documented and clearly defined.
- Appointment of Investment Managers.
- Reviewing investment performance and investment reports periodically throughout the year and at year end.
- Approve any transaction that falls outside the guidelines of the SIPO.

3.2 The Audit and Risk Subcommittee

The Council has established the Audit and Risk Subcommittee and has delegated such powers and duties to the Committee as the Council sees fit. The Audit and Risk Subcommittee operates as per the Council's constitution. Members serving on the Audit and Risk Subcommittee are appointed by the Council.

- To provide guidance and leadership on the appointment, management, monitoring and review of appropriate Investment Managers.
- Reviewing all matters concerning the SIPO, considering any changes or amendments to the SIPO and making appropriate recommendations.
- Regularly reviewing the Investment Managers reports, and reporting exceptions.
- Ensuring that all parties overseeing, advising and managing ~~Otago Regional~~ 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.

- Ensuring that an appropriate SIPO is developed and maintained.
- Ensuring that contracts for investment advisory/management, custodial and consultancy services are reviewed at least every three years.
- To recommend the appointment and removal of Investment Managers as appropriate.
- Approving the asset classes and sub-asset classes to be included in any investment portfolios.
- Ensuring that all service agreements and contracts are in writing and are consistent with fiduciary standards of care.
- To ensure that the practices and policies set out in the SIPO are adhered to.
- To follow formal criteria to monitor, evaluate and compare the investment performance results achieved against relevant benchmarks and objectives on a regular basis.
- To 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.

3.3 Custodian

Custodians are responsible for the safekeeping of ~~Otago Regional~~ Council's investment assets. The specific duties and responsibilities of the custodian are to:

- Value all investment assets.
- Collect all income and dividends owed to the portfolio.
- Settle all transactions (buy/sell orders) initiated by the Investment Manager.
- Provide monthly reports that detail transactions, cash flows, securities held and their current value. The report should also detail the change in value of each security and the overall portfolio since the previous report.
- Maintaining separate accounts.

3.4 Investment Advisor

The Council may retain an objective, third-party investment adviser to assist the Council in managing the overall investment process. The adviser will be responsible for guiding the Council through a disciplined and rigorous investment process to enable the Council to prudently manage their fiduciary duties and responsibilities. The investment adviser will:

- Provide advice on appropriate strategic asset allocation, security and fund manager selection.
- Periodically monitor the SIPO and its appropriateness, (in conjunction with the Council).
- Specify and advise on asset and sub-asset class allocation strategies.

3.5 Investment Manager

The Council will appoint an ~~investment~~ Investment Manager to manage the assets under their supervision in accordance with the guidelines and objectives outlined in the SIPO and in their service agreements. The ~~investment~~ Investment Manager will:

- Periodically review the custodial arrangements and make recommendations.
- Provide instructions to each fund manager with respect to the lodging or withdrawing of funds placed.
- Oversee and monitor the performance of the fund managers.
- Appoint and remove fund managers.
- Deliver quarterly reports to the Council which detail the following:
 - Portfolio valuation,
 - Fixed Interest Portfolio duration,
 - Compliance reporting,
 - Portfolio Performance Summary for the portfolio and by asset class,
 - Performance against benchmarks,
 - Asset transactions summary, and
 - Cash transactions.
- Make available appropriate personnel to attend meetings as agreed between the Council and the adviser.
- Report to the Council annually as to the total expenses incurred and tax paid in managing ~~Otago Regional~~ Council's investment portfolio.
- Communicate to the Council all significant changes pertaining to the portfolio it manages or the adviser's firm itself. Changes in ownership, organisational structure, financial condition and professional staff are examples of changes to the firm in which the Council are interested.
- Use the same 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 with like aims in accordance with all applicable laws, rules and regulations.
- Ensure that "expected" and "modelled" returns for asset classes are based on sound return and risk premium assumptions.
- Outline expected returns and risk, or volatility, within the selected strategies.
- Recommend a Custodian to hold and report on investment assets.
- Rebalance individual investments and asset class groups to within agreed benchmarks as described in the rebalancing policy contained in the SIPO.
- To effect all transactions for the portfolio at the best price.
- Regularly report on compliance exceptions with the SIPO.
- Disclose any potential conflicts of interest and steps taken to mitigate such conflicts.

3.6 Fund Managers

Fund Managers are utilised by the Investment Manager to manage a part of the Long-Term Investment Portfolio.

- To manage an allocated part of the portfolio on terms and conditions consistent with their mandate.

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).

Authorised Investments

The following investments, within New Zealand and internationally, are authorised by the Council:

- Cash – term deposits, cash on call, cash funds.
- NZ fixed interest – NZ Government, local authority and NZ State-Owned Enterprise bonds, corporate bonds, fixed interest funds.
- International fixed interest – either direct, if appropriate or via managed funds.
- Listed property companies, property funds and direct property investments.
- Equities, either via managed funds or directly.

Excluded Investments

The following investments are not permitted:

- Preference shares.
- Leveraged investments.
- Options.
- Futures (excluding those employed as risk management strategies by fund managers).
- Commodities contracts.
- Precious metals.
- Hedge funds.
- Unlisted equity securities.
- Private equity investments.
- Illiquid investments.
- Investments in Council Controlled Organisations (other than those described in Section 4.4 of the [Investment-Treasury Management](#) Policy).

4.2 Responsible Investment Policy

Council is committed to incorporating Responsible Investment into its investment decision-making processes. Council’s approach to Responsible Investment is to seek close alignment of the following Responsible Investment Framework with our values. The ability to implement this policy is a factor in the appointment of our investment adviser/manager.

Council has resolved to use reasonable endeavours to avoid investment in entities that meet the following criteria of prohibited activities at or above the threshold level where relevant.

Responsible Investing Exclusion Table:

Exclusion	Nature of involvement	Threshold
Cannabis Recreational	Companies that produce and/or retails cannabis for recreational use.	0%
Civilian Firearms	<p>Producer</p> <p>Automatic: Companies that manufacture firearms which automatically eject the cartridge case of a fired shot and load the next cartridge from the magazine allowing the gun user to fire more than one round of ammunition for every pull of the trigger.</p> <p>Semi-Automatic: Companies that manufacture firearms which automatically eject the cartridge case of a fired shot and load the next cartridge from the magazine allowing the gun user to fire one round of ammunition for every pull of the trigger.</p> <p>Ammunition: Companies that only manufacture small arms ammunition for the civilian market, including powder propelled, cartridge-based ammunition up to 20mm, which can be fired from weapons, such as revolvers and self-loading pistols, rifles and carbines, assault rifles, submachine guns, and light/general purpose machine guns</p>	0%
Controversial Weapons	<p>Any tie</p> <p>Companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments</p>	0%
Nuclear Weapons	<p>Any tie</p> <p>Companies that have an industry tie to nuclear weapons</p>	0%
Tobacco	<p>Producer</p> <p>Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes,</p>	0%

	<p><u>inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves</u></p>	
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The % threshold figures relate to the maximum percentage of total revenue derived from the activity that is tolerated.

Implementation for Direct Security Investments

The Investment Manager will use reasonable endeavours to screen out directly held security investments in the Discretionary Portfolio involved in the prohibited activities as described in the responsible investing exclusion table above. The Investment Manager may rely on data from third party agencies when screening these directly held security investments, which will apply to the asset classes of Cash (NZ Registered Banks), NZ Fixed Interest, NZ Equities, Australian Equities and Global Equities.

Implementation for Indirect Pooled investments

In relation to indirect pooled investments (i.e. via investment in collective investment vehicles), the Investment Manager will from time to time use reasonable endeavours to screen for and avoid indirect exposure to entities involved in the prohibited activities as described in the responsible investing exclusion table above. Where identified and measurable, exposure to entities involved with these prohibited activities will be limited to a materiality representation threshold of 10% of the total value of each of these pooled investment products.

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 the Council prefer to adopt a strategic asset allocation and passive strategy over an active and/or tactical asset allocation strategy.

The asset allocation benchmark is to be:

Asset Class	Target Allocation	Acceptable Range	
		Minimum	Maximum
Cash	5%	0%	25%
NZ Fixed Interest	35%	25%	45%
International Fixed Interest	10%	5%	15%
Defensive Total	50%	40%	60%
NZ Property	5%	2%	8%
NZ Equities	15%	10%	20%
Australian Equities	15%	10%	20%
International Equities	15%	10%	20%
Growth Total	50%	40%	60%

Total	100%		
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Note target allocation is 50% income assets and 50% growth assets.

4.3 Rebalancing Guidelines

The percentage allocation to each asset class may vary depending upon market conditions.

The SAA has upper and lower limits for each asset class as set out in the table above. The limits are based on the following guidelines:

- Plus or minus 5% for an asset class comprising 20% or more of the SAA,
- Plus or minus 25% of the allocation to a single asset class, where that asset class comprises less than 20% of the SAA (e.g. an asset class comprising 4% of the SAA would have limits of plus or minus 1%).
- The result of the above formulas are then rounded to the nearest full percentage (minimum is round down and maximum is rounded up).

To remain consistent with asset allocation guidelines, the Investment Manager~~(s)~~ will periodically review the portfolio and each asset class. If the actual weighting has moved outside the tolerances described above, the Investment Manager~~(s)~~ shall rebalance the portfolio back towards the recommended weighting. This rebalancing is to be completed as required, at least annually, and reported to the Audit and Risk ~~Sub-committee~~Subcommittee.

Rebalancing tends to involve buying underperforming assets at relatively lower prices, and selling relatively higher priced assets.

4.4 NZ Fixed Interest Investment Guidelines

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, surplus funds may be directed to money market instruments until availability improves.

c. Duration

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

d. Liquidity

Although ~~Otago Regional~~ 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 within a portfolio:

- Consideration should be given to excessive exposure to any single issuer,
- Consideration should be given to other asset class exposures ~~Otago Regional Council~~ may have to an issuer,
- The portfolio should be distributed across credit ratings, and
- The following table presents a set of guidelines that need be used when constructing a portfolio.

Approved Credit Rating Guidelines:

S&P Rating band (or Moody's or Fitch equivalent)	Overall maximum % of Income Assets
AAA to AA-	100%
A+ to A-	55%
BBB+ to BBB-	15%
Sub-Investment Grade / Unrated	0%
Government	100%

A maximum of 5% of floating rate/annual resettable securities is permitted in a portfolio. 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 (or Moody's or Fitch equivalent)	Individual security maximum % of Income Assets
AAA	15%
AA	10%
A	10%
BBB	5%
Sub-Investment Grade / Unrated	0%

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. Perpetual Securities

Given the equity structure (including potential imputation credits) of perpetual securities, this class of fixed interest is not to be used.

g. Structured credit

Due to the complexity of structured credit instruments and the lack of sophisticated monitoring systems required to provide ongoing assessment, ~~Otago Regional~~ Council should not include this type of investment in its NZ fixed interest portfolio. It is considered that the required fixed interest exposure can be adequately achieved by investing in securities with simple structures which possess typical fixed interest characteristics.

h. Ratings Downgrade

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

i. Reinvestment

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

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

The inclusion of international fixed interest has the benefit of increasing diversification and reducing volatility by providing exposure to a greater range of issuers, credit ratings and yield curves than is achievable through domestic fixed interest.

4.5.2 Portfolio Construction Guidelines

Given the quantum of the allocation to international fixed interest this asset class must be invested in through one or more Collective Investment Vehicles (CIV's). CIV's must invest in diversified portfolios of fixed interest securities and have exposure limits, minimum credit ratings and policies and procedures acceptable to the Council.

International fixed interest investments must be 100% hedged to the New Zealand dollar.

4.6 Property Investment Guidelines

4.6.1 Portfolio Objectives for Property Investment

To provide an exposure to the New Zealand listed property sector.

4.6.2 Portfolio Construction Guidelines

For direct New Zealand property investments, the following rules shall apply:

- Investment in property entities that are listed on the New Zealand Stock Exchange.
- Investments in partly paid shares in respect of shares of the type referred to above are permitted following a formal submission from the Investment Manager and Audit and Risk Subcommittee approval.

- Not more than 25% of this asset class to be invested in any one entity.

4.7 New Zealand Equity Investment Guidelines

4.7.1 Portfolio Objectives for New Zealand Equity Investment

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

4.7.2 Portfolio Construction Guidelines

For direct New Zealand equity investments, the following rules shall apply:

- Investment in companies listed on the New Zealand Stock Exchange.
- Investments in partly paid shares in respect of companies of the type referred to above are permitted following a formal submission from the Investment Manager and Audit and Risk Subcommittee approval.
- Exposure limits for direct New Zealand equity investments (based on the dollar value of the NZ Equities sector of the Long-Term Investment Portfolio) are set out below:

Security Type	Minimum percentage of NZ equities	Maximum percentage of NZ equities
Companies not represented in the Benchmark	0%	20%
Individual company in the Benchmark	0%	Benchmark weight +/-8%
Individual company not in the Benchmark	0%	4%

4.8 Australian Equity Investment Guidelines

4.8.1 Portfolio Objectives for Australian Equity Investment

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

4.8.2 Portfolio Construction Guidelines

For direct Australian equity investments, the following rules shall apply:

- Investment in companies listed on the Australian Stock Exchange.
- Investments in partly paid shares in respect of companies of the type referred to above are permitted following a formal submission from the Investment Manager and Audit and Risk Subcommittee approval.
- Exposure limits for direct Australian equity investments (based on the dollar value of the Australian Equities sector of the Long-Term Investment Portfolio) are set out below:

Security Type	Minimum percentage of Aust equities	Maximum percentage of Aust equities
Companies not represented in the Benchmark	0%	20%

Individual company in the Benchmark	0%	Benchmark weight +/- 8%
Individual company not in the Benchmark	0%	4%

4.9 International Equity Guidelines

4.9.1 Portfolio Objectives for International Equity Investment

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

4.9.2 Portfolio Construction Guidelines

For direct international equity investments, the following rules apply:

- Investment in international equities will be through one or more CIV's.
- International equity investments must be hedged in accordance with the requirements contained in Foreign Currency Management.
- CIV's in international equities must hold a broadly diversified portfolio of equity securities, be consistent with underlying benchmarks, be managed according to appropriate policies and procedures and impose reasonable exposure limits.
- Ensure that any investment is sufficiently liquid to enable exit from the investment at any time.

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 risks associated with currency fluctuations the following policies apply:

- Holdings of international fixed interest investments 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 however, 0% to 100% of the international equities being hedged back to NZ dollars is permitted at any one point in time. Any change to the actual hedging level should be disclosed to the General Manager Corporate Services & CFO and Audit and Risk Subcommittee and may require the Council's approval/endorsement.

4.11 Tax Policy

Any investment strategy employed needs to take into account ~~Otago Regional~~ 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 adviser and reported to the Council annually.

5. MONITORING AND EVALUATION

5.1 Performance Objectives

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

The 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 the Council's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than annually, the Council will meet to review whether the ~~investment adviser~~ **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 investment guidelines;
- Material changes in the investment options, organisation, investment philosophy and/or personnel; and
- Any legal or other regulatory agency proceedings affecting the investment options.

5.2 Benchmarks

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

Asset Class	Index
Cash (on call and securities less than 1 year to maturity)	S&P/NZX 90 Day Bank Bill Index
New Zealand Fixed Interest	S&P/NZX Corporate A Grade Bond Index
International Fixed Interest - \$NZD Hedged	Barclays Capital Global Aggregate Bond Index (NZD Hedged)
New Zealand Property	S&P/NZX All Real Estate Industry Group Index (Gross)
New Zealand Equities (Excluding NZ Listed Property)	S&P/NZX 50 Index (Gross)
Australian Equities	S&P/ASX 200 Accumulation Index (Unhedged)
International Equities	MSCI All Country World Index (Unhedged)
NZ Government Bonds	S&P/NZX NZ Government Stock Index

5.3 Compliance

The Council and Audit and Risk Subcommittee are aware that the ongoing review and analysis of investments is just as important as the due diligence process. Performance will be monitored on an ongoing basis and it is at the Audit and Risk Subcommittee's discretion to take corrective action by recommending the replacement of an Investment Manager at any time. The Council may direct the Audit and Risk Subcommittee to take such action if it deems this is required.

- Specifically, the following will be confirmed and reported to the Audit and Risk Subcommittee:
- Performance reporting as described in roles and responsibilities above.
- Adherence to the SAA and rebalancing within approved limits occurring in a timely fashion.
- Adherence to agreed investment philosophy and constraints.
- Adherence to investment guidelines.
- Material changes in the investment organisation, investment philosophy and/or personnel.
- Any legal or other regulatory proceedings affecting the Investment Manager's organisation and/or reputation.

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 adviser is deviating from the stated 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 ~~Adviser's Manager's~~ ability to prudently manage investment assets.

This process ~~is may be~~ delegated to the ~~investment adviser~~ Investment Advisor and/or a nominated third party and they will report to the Council at least 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 ~~Otago Regional~~ Council.

The ~~investment adviser~~Investment Manager is to report to the 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. REVIEW OF THE STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

The Council will review this SIPO at least ~~annually~~every 3 years 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.

8.5. CS2333 Treasury Report

Prepared for: Audit and Risk Subcommittee
Report No. CS2333
Activity: Governance Report
Author: Nick Donnelly, General Manager Corporate Services and CFO
Endorsed by: Nick Donnelly, General Manager Corporate Services and CFO
Date: 21 September 2023

PURPOSE

- [1] To present the quarterly Treasury Reporting Dashboard from Council's Investment Advisor, Bancorp, as at 30 June 2023.

EXECUTIVE SUMMARY

- [2] The latest Bancorp Treasury Reporting Dashboard is reported to each meeting of the Audit and Risk Subcommittee.
- [3] Council has \$25.0M of core debt through the Local Government Funding Agency (LGFA). All borrowing is compliant with Council's Treasury Management Policy.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Notes** this report and the attached Bancorp Treasury Reporting Dashboard – 30 June 2023.

BACKGROUND

- [4] Council borrows core debt through the Local Government Funding Agency (LGFA). The amount borrowed is currently \$25.0M. This debt is structured over a mix of commercial paper, floating rate notes and fixed rate bonds to meet the requirements of Council's Treasury Management Policy.
- [5] Bancorp Treasury Services are engaged as Council's advisor and reports on the structure of Council's core debt and adherence to Council's TMP.

DISCUSSION

- [6] As at 30 June 2023 Council had \$25.0M of core debt funded by the LGFA across 5 tranches.
- [7] All borrowing is noted to be compliant with Council's Treasury Management Policy.

OPTIONS

- [8] Not applicable.
-

CONSIDERATIONS

Strategic Framework and Policy Considerations

- [9] Council's Financial Strategy outlines that Council will borrow core debt from the LGFA. The Treasury Management Policy (TMP) sets the rules for how that borrowing is structured to ensure liquidity and interest rate risk is managed.

Financial Considerations

- [10] The amount of core debt is in line with the amount included in Council's Long-term Plan 2021-31. The weighted average cost of funds of 6.0% as at 30 June 2023 is also in line with the assumption used in the Annual Plan 2023-34 of 6.0%.

Significance and Engagement

- [11] Not applicable.

Legislative and Risk Considerations

- [12] There are no legislative considerations.
- [13] There is inherent risk associated with borrowing. These risks are outlined in the Treasury Management Policy which provides a framework for prudent debt management and sets external borrowing limits, counterparty exposure limits, liquidity limits and interest rate exposure limits.

Climate Change Considerations

- [14] Not applicable.

Communications Considerations

- [15] Not applicable.

NEXT STEPS

- [16] Not applicable.

ATTACHMENTS

1. 2023 06 30 Bancorp Treasury Reporting Dashboard - 30 June 2023 [8.5.1 - 8 pages]



Treasury Reporting Dashboard

30 June 2023

STRICTLY PRIVATE AND CONFIDENTIAL



BANCORP

BANCORP TREASURY SERVICES LIMITED

Audit and Risk Subcommittee 2023.09.21



Economic Commentary

2

Global (for the June 2023 quarter)

Stubbornly high core inflation, tight labour markets, and wage inflation continue to impact the developed economies, which has seen several central banks continue to hike. Some, like the Reserve Bank of Australia ("RBA") and the Bank of Canada ("BoC"), return to hiking after having earlier paused during the quarter.

At its June meeting, the US Federal Reserve ("Fed") paused its hiking cycle for the first time since March 2022, with the Fed Funds range at 5.00%-5.25%. However, this stalling will likely be consigned to the history books as the 'pointless pause' given that Fed Chair, Jerome Powell emphasised in his semi-annual testimony to Congress that "*the process of getting inflation down to 2% has a long way to go (as) the labour market remains very tight*". He also reminded markets that "*we don't see rate cuts any time soon. The FOMC broadly feels it will be appropriate to raise rates again this year, and perhaps two more times,*" to support the FOMC's dot plot forecasts.

The benchmark US 10-year bond yield touched a quarterly low of 3.26% in early April but climbed in the second half of May up to 3.83% as the debt ceiling fiasco played out. There was a brief respite from the selling until yields began another up-move in response to concerns that inflation would remain high for a longer than expected period and that this would have to be met with further increase in the Fed Funds rate. By the end of June, the yield had reached 3.88%.

While the European Central Bank ("ECB") met expectations, raising the deposit rate by 25bps to 3.50% at its June meeting, the risks remain firmly skewed towards higher rates for longer after ECB President Christine Lagarde announced, "*inflation is expected to remain too high for too long. The ECB has more ground to cover. Barring a material change to our baseline, it is very likely that we will continue to increase rates at our next policy meeting in July.*" Interestingly, there is increasing evidence of splits within the ECB after Germany's Isabel Schnabel, a member of the bank's Executive Board and noted hawk announced, "*it is better to overdo it [with rate hikes] than to fall short,*" while French Governor François Villeroy, a dove, called for calm emphasising "*we are guided by data, not forecasts.*"

The June RBA Board meeting minutes confirmed that the risks have shifted to the upside when it comes to achieving the inflation target. The arguments favouring the two policy options of a pause or a 25bps rate increase were largely familiar: the slowing in activity and uncertain duration of policy lags versus the current strength of domestic inflation indicators, particularly the stickiness of services inflation.

Inflation in Australia came out better than expected after the May monthly release saw headline inflation fall to 0.0% from 0.3% in April. On an annual basis, inflation came in at 5.6%, a 13-month low, lower than last month's 6.8% and forecasts of 6.1%. Unfortunately, the 'core' print wasn't so encouraging, coming in at 6.4% on the year, while the trimmed mean eased to 6.1% from April's 6.7%.

Economic Commentary

3

New Zealand (for the June 2023 quarter)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
31 March 2023	4.75%	5.24%	5.03%	4.72%	4.40%	4.31%	4.27%
30 June 2023	5.50%	5.70%	5.47%	5.09%	4.69%	4.55%	4.50%
Change	+1.25%	+0.46%	+0.44%	+0.37%	+0.29%	+0.24%	+0.23%

New Zealand entered a recession after March quarter GDP contracted -0.1%. This combined with the December quarter's -0.7% (revised lower from -0.6%), means the domestic economy contracted -0.8% over the six months to 31 March. In annual terms, the economy grew 2.2%, although it was lower than the 2.6% forecast. While many will 'blame' Cyclone Gabrielle for the poor March quarter result, the main areas of weakness in the data were services, transport, manufacturing and education, suggesting the wider economy is in a more precarious state than previously forecast.

Since the Reserve Bank of New Zealand's ("RBNZ") 25bps rate hike to 5.50% in May, domestic interest rate moves have been subject to the inputs and influences of international movements. This has seen the swap curve firm 23bps-46bps higher, with the larger increases occurring at the short end of the yield curve. Looking ahead, the RBNZ could now be on-hold until its November meeting, given that Governor Orr's comments at the May *Monetary Policy Statement* ("MPS") suggest that the RBNZ is unlikely to change its economic outlook by the 12 July meeting. While the General Election (on 14 October) will likely result in the RBNZ maintaining the status quo as, generally speaking, central bankers don't want to be seen to be placing undue influence on political events. The major upcoming data releases will be June quarter CPI (19 July), unemployment (2 August), retail sales (23 August), the Treasury's Economic and Fiscal Update 2023 (12 September), and June quarter GDP (21 September). Beyond the RBNZ meeting and data releases, the focus from financial markets will be on the depth and duration of the domestic recession and corporate performance and forecasts.

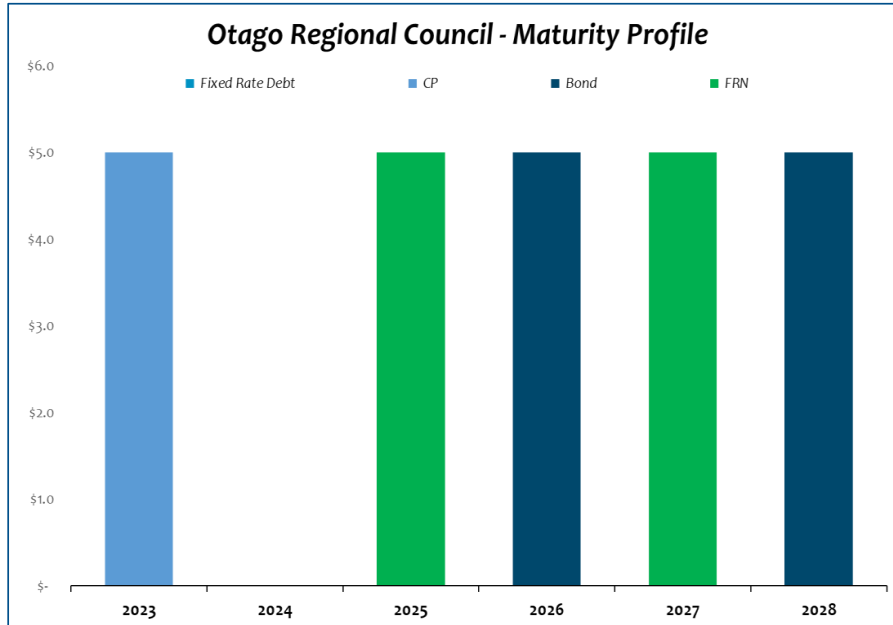
By the end of June, the markets were assigning a 28% chance that the OCR would climb to 5.75% by the end of the year and that the first cut would be in the middle of 2024, with the OCR at 4.50%-4.75% by October 2024. This is in contrast to the RBNZ which sees the OCR remaining at its current level until late 2024.

Even though the RBNZ has signalled an end to its hiking cycle, movements in New Zealand swap rates have been driven by movements in international yield curves until the cutting cycle begins. As an example, the recent rally in local swap rates has seen the 5-year swap rate break out of its prior 4.25%-4.50% range and rally to close the quarter at 4.69%, driven by the recent rally in US treasury yields, which saw the 10-year Treasury bond break out of its recent 3.30%-3.60% range to finish the quarter at 3.88%.

Internationally, investors will be monitoring the ratings agencies for any hints of a possible NZ sovereign rating downgrade, while the performance of the NZD and NZ interest rates will be largely dependent upon international inputs, especially international equity volatility, as liquidity drains ahead of the northern hemisphere summer.

Funding and Liquidity

4



Debt
\$25.0m
 External Council Drawn Debt

LGFA Debt
\$25.0m
 Funds Drawn from LGFA

Liquidity = cash and term deposits
\$14.56m

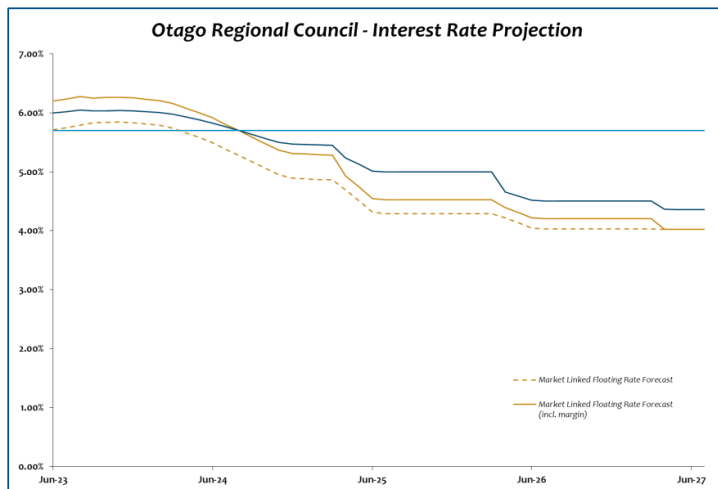
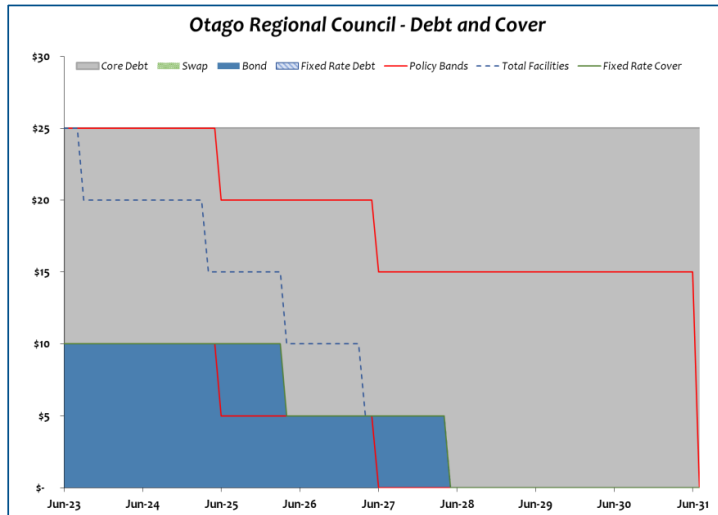
Liquidity Ratio
158.24%

Cost of Funds as at 30 June
6.00%

Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	Yes
Is the funding maturity profile within policy control guidelines?	Yes
Is liquidity within LGFA control limits?	Yes

Interest Rate Risk Management

5



Current % of Debt Fixed	40.0%
Current % of Debt Floating	60.0%
Value of Fixed Rate (m)	\$10.0
Weighted Average Cost of Fixed Rate Instruments	5.70%
Weighted Average Cost of Fixed Rate Instruments (incl margin)	5.70%
Value of Forward Starting Cover	\$0.0
Value of Floating Rate (m)	\$15.0
Current Floating Rate	5.71%
Current Floating Rate (incl margin)	6.20%
All Up Weighted Average Cost of Funds Including Margin	6.00%
Total Facilities In Place	\$25.0

Fixed Rate Hedging Bands			
	Minimum	Maximum	Policy
0 - 2 years	40%	100%	Compliant
2 - 4 years	20%	80%	Compliant
4 - 8 years	0%	60%	Compliant

LGFA lending

As at 30 June

6

As at 30 June 2023, Otago Regional Council had \$25.0 million of core debt, all of which is sourced from the LGFA using Commercial Paper ("CP"), Floating Rate Notes ("FRN's") and Fixed Rate Bonds ("FRB's"). Details of the debt as at 30 June is as follows.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	15-Sep-23	5.88%	0.20%	\$5,000,000
LGFA FRN	15-Apr-25	6.11%	0.56%	\$5,000,000
LGFA FRB	15-Apr-26	5.70%	N/A	\$5,000,000
LGFA FRN	15-Apr-27	6.25%	0.70%	\$5,000,000
LGFA FRB	15-May-28	5.70%	N/A	\$5,000,000

LGFA Borrowing Rates

As at 30 June

7

Listed below are the credit spreads and applicable interest rates as at 30 June 2023 for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at which the Otago Regional Council could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Margin	FRN (or CP Rate)	FRB
3 month CP	0.20%	5.89%	N/A
6 month CP	0.20%	6.04%	N/A
April 2024	0.46%	6.15%	6.28%
April 2025	0.49%	6.18%	5.98%
April 2026	0.55%	6.24%	5.67%
April 2027	0.70%	6.39%	5.57%
May 2028	0.82%	6.51%	5.52%
April 2029	0.91%	6.60%	5.54%
May 2030	0.96%	6.65%	5.52%
May 2031	1.02%	6.71%	5.56%
April 2033	1.10%	6.79%	5.61%
May 2035	1.18%	6.87%	5.75%
April 2037	1.20%	6.89%	5.81%

Disclaimer

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8.6. CS2332 Insurance Update

Prepared for: Audit and Risk Subcommittee
Report No. CS3223 – Insurance Update (Riskpool)
Activity: Governance Report
Author: Janet Ashcroft, Legal Counsel
Endorsed by: Nick Donnelly, General Manager Corporate Services
Date: 21 September 2023

PURPOSE

1. To receive an update of Council's shared residual membership liability to New Zealand Mutual Liability Riskpool (Riskpool).

EXECUTIVE SUMMARY

2. From 1997 to June 2015, Council placed its cover for Professional Indemnity and Public Liability through Riskpool. As a member Council has residual liability for claims.
3. In 2019 Council paid a call of \$51,020.42 excluding GST to Riskpool. Riskpool has now signalled the likelihood of another call.

RECOMMENDATION

*That the Audit & Risk Subcommittee: **Notes** this report.*

BACKGROUND

4. Riskpool was established in 1997 by the NZ Local Government Insurance Corporation in response to a need for more defined and affordable cover appropriate to Local Government in New Zealand. In 1997 Council placed its Professional Indemnity and Public Liability cover through Riskpool.
5. At its peak membership, Riskpool consisted of 83 of the 86 councils in New Zealand. However, the leaky homes crisis and weathertight claims resulted in a significant draw on Riskpool funds from 2002/2003 year as councils were often the only defendant left standing. From 1 February 2006, Riskpool took steps to limit its liability in relation to those claims, and from 30 June 2009 Riskpool excluded weathertight claims for most councils.
6. Council exited the Riskpool scheme on 30 June 2015.
7. Riskpool ceased offering insurance cover on 30 June 2017 and has been in the process of run off since 1 July 2017.

8. As Riskpool was set up on a mutual liability basis which is governed by a trust deed and provided cover for member councils via a series of pooled funds, members carry a residual risk for each separate year of the fund and Riskpool can call on member councils for financial support to meet claims, referred to as calls.
9. On 10 June 2019, a report was presented to Council Audit & Risk Sub-Committee which provided an update of Council's residual liability to Riskpool. On 1 July 2019 Council made a payment of \$51,020.42 excluding GST to Riskpool for its share of a \$6m call. The 10 June 2019 report is included as Attachment 1.
10. On 1 August 2023, the Supreme Court released its decision in *Napier City Council v Local Government Mutual Funds Trustee Limited (Riskpool)* and determined that Riskpool has a liability for that member's claim in relation to non-weathertight defects (in a mixed claim involving both weathertight and non-weathertight defects). Riskpool is working through the implications of the Supreme Court decision. At this point any potential liability is unable to be quantified. Riskpool's letter of 5 September 2023 outlining these matters is included as Attachment 2.
11. Until all outstanding claims for which Council has a membership liability are resolved, Council retains the shared residual risk liability to Riskpool.
12. We will provide an update to Audit & Risk once Council's liability for the next call is known.

CONSIDERATIONS

Strategic Framework and Policy Considerations

13. There are no policy considerations arising from this report.

Financial Considerations

14. There are potential financial implications associated with this report, but those implications are not currently able to be quantified.

Significance and Engagement Considerations

15. No matters in this report trigger the Council's significance policy or require additional or specific consultation.

Legislative and Risk Considerations

16. We have a residual risk (liability for call/s) which arises from our past membership of Riskpool. This report serves as an update (from 2019) to alert this Council of that.

Climate Change Considerations

17. There are no climate change considerations associated with this report.

Communications Considerations

18. There are no communication considerations associated with this report.

NEXT STEPS

19. No action is required until we hear further from Riskpool and we will update Audit & Risk thereafter.

ATTACHMENTS

1. 10 June 2019 Report to Audit & Risk
2. 5 September 2023 Riskpool Letter

3.4. Insurance Renewal

Prepared for: Audit and Risk Sub-Committee
Report No. A&R1865
Activity: Governance Report
LGOIMA: Section 48(1)(a); 7(2)(h); 7(2)(i)
Author: Nick Donnelly, General Manager Corporate Services
Endorsed by: Nick Donnelly, General Manager Corporate Services
Date: 10 June 2019

PURPOSE

- [1] To update the Audit and Risk Subcommittee on progress in relation to the renewal of Council's insurance cover for the year from 1 July 2019 to 30 June 2020.

EXECUTIVE SUMMARY

- [2] Staff are in the process of renewing Council's insurance cover for the period from 4:00pm 30 June 2019 to 4:00pm 30 June 2020.
- [3] Council's insurance broker, Marsh (previously JLT), have been instructed to obtain quotes for comprehensive insurance cover in line with the insurance categories currently covered.
- [4] Levels of cover have been assessed by staff and where applicable revised and adjusted.
- [5] This has resulted in minor adjustments, but the overall value of insurance cover remains largely in line with the current year.
- [6] Council's broker has indicated that an increase in premium should be expected due to increased reinsurance rates internationally and Council's claims history in relation to motor vehicles.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- a) Receives this report.**

BACKGROUND

Category	Current Year Cover 2018-19			Proposed 2019-20
	Cover Amount	Excess	Premium	Cover Amount
Material Damage	\$47,133,082	\$5,000 (1)	79,482	\$47,776,354
Business Interruption	\$1,772,400	\$5,000	3,919	\$1,722,400
Motor Vehicles	\$1,869,466	1% / minimum \$1,000	46,362	\$2,047,110
Crime/Fidelity Guarantee	\$2M	\$25,000	9,136	\$2M
Personal Accident	\$50k / \$75k	-	5,222	\$50k / \$75k
Professional Indemnity & Public Liability	\$300M (2)	\$5,000 / \$10,000	31,343	\$300M
Employer & Statutory Liability	\$2M each + \$1M defence		14,212	\$2M each + \$1M defence
Travel	Various		1,025	Various
Marine Hull (3)	\$199,493	\$1,500	655	\$199,493
TOTAL			\$188,816	

- (1) Subsidence and landslip \$50,000
Natural disasters 2.5% of the site insured, minimum \$5,000
All other claims \$5,000
- (2) Includes Harbourmaster and wreck removal at \$25M each
- (3) Cover period from 26 April 2019 to 30 June 2019

Material damage

- [7] Council offices, depots, scheme pump stations, and contents. These assets are currently insured at a combined value of approximately \$47M.
- [8] This amount excludes floodbanks and flood protection works as Council has a long-standing policy to self-insure these assets. This policy is consistent with a number of Regional Council’s across New Zealand.
- [9] As a result, there is no insurance cover in place for the likes of the Leith scheme. In discussions with Marsh, it is proposed to undertake an insurable risk profiling review of all Council’s assets and cover. This will identify any gaps in Council’s cover and assess the associated risk and allow Council to consider whether additional cover is required for some or all of those assets.
- [10] Cyber insurance is also being assessed and will be reported back as part of the insurable risk profiling review.
- [11] An increase has been made to the value of contents across the sites outside of the Dunedin Head Office. This was adjusted to reflect the increased number of staff across those sites and the value of contents and fitout at Philip Laing House. The amount insured was increased from \$1.2M to \$1.875M.
- [12] Head Office contents value is maintained at \$2.050M.

- [13] There is also no longer a requirement for residential cover as Council has sold the last of the whole properties procured for the Leith Lindsay Flood Control Scheme in the previous year.
- [14] There is also no need to cover the Barnego Nursery as this property has also been sold in the current year.
- [15] While the overall value in asset insurance remains largely the same, we are expecting an increase in premium due to increased reinsurance rates internationally.

Motor vehicles and plant

- [16] An increase in premium is foreshadowed for motor vehicle and plant. This is primarily a reflection of Council's claims history.

RISKPOOL

- [17] Prior to June 2015, Council placed its cover for Professional Indemnity and Public Liability through New Zealand Mutual Liability Riskpool.
- [18] Riskpool was established 1 July 1997 by the NZ Local Government Insurance Corporation in response to a need for more defined and affordable cover appropriate to Local Government in New Zealand. As Riskpool was set up on a mutual liability basis, some residual risk is carried between its members for each separate year of the fund.
- [19] Council adopted the Riskpool scheme as its general liability cover in 1997.
- [20] At its peak membership, Riskpool consisted of 83 of the 86 Councils in New Zealand.
- [21] The Leaky Homes, i.e. weathertight claims, saw a significant draw on the annual Riskpool funds commencing in the 2002/2003 year. From 1 February 2006, Riskpool has taken a number of steps to limit its liability in relation to these claims, and from 30 June 2009, Riskpool excluded weathertight claims for most Councils.
- [22] Until all matters (outstanding claims) for which Council have a membership liability are resolved, Council retains the shared residual risk liability.
- [23] Riskpool have advised that an interim call is now required as per the attached letter. The call amount payable by Otago Regional Council is \$51,020.42 and is payable now. They also advise that another and hopefully final call is likely in 2022 or 2023. They expect that call will be less than this one.

ATTACHMENTS

1. Otago Regional Council - Riskpool Call for 1 July 2019 [3.4.1 - 1 page]



12 October 2018

Stephen Woodhead
Chairman of Otago Regional Council
Private Bag 1954
Dunedin 9055

Dear Stephen

Riskpool Call for 1 July 2019

Riskpool offered public liability and professional indemnity cover for twenty years. The decision was made that new covers from Riskpool would not be offered from 1 July 2017. This was a difficult decision to make, but support from the sector had dropped, particularly from the larger Council's. Without support from the sector Riskpool could not offer the competitively priced cover it had been able to offer in the past.

Members were advised last year that further additional contributions from members (calls) would be required.

As at 30 June 2018, Riskpool's accounts show a deficit of \$7.4 million. The deteriorating claims experience in 2017-18 means that Riskpool needs to make at least one interim call before a final call is made on wind up. The call will be \$6 million payable on 1 July 2019, split \$3million each to fund years 7 and 10.

The amount of this call for Otago Regional Council will be \$51,020.42 payable on 1 July 2019 (or earlier if you wish). An invoice from Riskpool for this amount will be sent to the Council in May 2019.

Another and hopefully final call from Riskpool is likely in 2022 or 2023. It is expected that the amount of that call will be less than this one.

Kind regards

A handwritten signature in black ink, appearing to read 'A. Marryatt'.

Tony Marryatt
Chairman of Riskpool

C/- Civic Financial Services Ltd (Funding and Scheme Manager)
04 978 1263
lan.brown@civicfs.co.nz

cc: Sarah Gardner, Chief Executive of Otago Regional Council



5 September 2023

Pim Borren
Otago Regional Council
Private Bag 1954
DUNEDIN 1954 pim.borren@orc.govt.nz

Riskpool: Update on Winding Up

Dear Pim

On 2 August 2023, we confirmed that the Supreme Court had dismissed Riskpool's appeal, and we are still working through a very complex pathway to understand what the future liability will be for members. Given further legal action and uncertainty on the validity and scale of claims, this is likely to take some time.

We are aware members will be required to complete a disclosure statement in their Annual Reports about the current position of potential calls and the winding up of Riskpool.

We have prepared draft comments as a guide, should members wish to use it, as follows:

Otago Regional Council was previously a member of the New Zealand Mutual Liability Riskpool scheme ('Riskpool'). The Scheme is in wind down, however the Council has an ongoing obligation to contribute to the scheme should a call be made in respect of any historical claims (to the extent those claims are not covered by reinsurance), and to fund the ongoing operation of the scheme. The likelihood of any call in respect of historical claims diminishes with each year as limitation periods expire. However, as a result of the Supreme Court decision on 1 August 2023 in *Napier City Council v Local Government Mutual Funds Trustee Limited*, it has been clarified that Riskpool has a liability for that member's claim in relation to non-weather-tight defects (in a mixed claim involving both weather-tight and non-weather-tight defects). Riskpool has advised that it is working through the implications of the Supreme Court decision. At this point any potential liability is unable to be quantified.

We acknowledge there is ongoing uncertainty in respect of future calls and winding up of Riskpool. Members will be updated as information comes to hand.

Nga Mihi

Charlie Howe
Chief Executive, Civic Financial Services Ltd

Martin Grenfell
Chair, LGMFT (Riskpool)

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under [section 48\(1\)](#) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
<p><i>Minutes of the PE Audit and Risk Committee Meeting 2023.06.22</i></p>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely otherwise to damage the public interest – Section 7(2)(c)(ii)</p> <p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p>	<p>Section 48(1)(a); Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(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.</p>
<p>Annual Report and Audit Management Letter</p>	<p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the</p>	<p>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any</p>

	<p>making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p>	<p>meeting only on 1 or more of the following grounds: (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.</p>
<p>Cyber Risk</p>	<p>To prevent the disclosure or use of official information for improper gain or improper advantage – Section 7(2)(j)</p>	<p>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (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.</p>

<p>Managed Fund Report</p>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p>	<p>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (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.</p>
<p>Strategic Risk Register</p>	<p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To prevent the disclosure or use of official information for improper gain or improper advantage – Section 7(2)(j)</p>	<p>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (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.</p>
<p>HSW: Deep Dive on Contractor Management</p>	<p>To protect the privacy of natural persons, including that of deceased natural persons – Section 7(2)(a)</p>	<p>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of</p>

		<p>the following grounds: (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.</p>
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This resolution is made in reliance on [section 48\(1\)\(a\)](#) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by [section 6](#) or [section 7](#) of that Act or [section 6](#) or [section 7](#) or [section 9](#) of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows: