



## Meeting of the Finance Audit & Risk Sub-committee

### LATE ITEMS

**Date:** Wednesday 12 February 2020  
**Time:** 9.00am  
**Venue:** Council Chamber  
Hawke's Bay Regional Council  
159 Dalton Street  
NAPIER

### Agenda

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ITEM	SUBJECT	PAGE
<b>Information or Performance Monitoring</b>		
12.	Financial Results for the 2019-20 Financial Year, for the Period to 31 December 2019	3

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**HAWKE'S BAY REGIONAL COUNCIL**  
**FINANCE AUDIT & RISK SUB-COMMITTEE**

**Wednesday 12 February 2020**

**Subject: FINANCIAL RESULTS FOR THE 2019-20 FINANCIAL YEAR, FOR THE PERIOD TO 31 DECEMBER 2019**

**Item 12**

**Reason for Report**

1. To provide the Sub-committee with a financial progress report for the first six months of the 2019-20 financial year to 31 December 2019.

**Financial Summary to 31 December 2019**

2. The financial results for the first half of the 2019-20 year are detailed in the attachment with commentary on the high level variations.
3. The budgets are currently prorated evenly across the year. However, a significant level of operational expenditure occurs in the second half of the year due to summer work programmes and planting season. Therefore the funding requirements show a favourable position however this is to be expected based on the even spread of budgets.
4. Based on the above, the following could have an overall impacts on the year end position.

**Revenue**

- 4.1. For Consents and Compliance, the budget assumes an 80% cost recovery from private benefits (Fees and Charges). While the majority of revenue for this group is received at the end of the financial year, indications are that this level of cost recovery will not be met. A more detailed analysis of this has been started to assist with the requirements of the Long Term Plan and any policy changes that may be required.
- 4.2. There is some potential upside given the year to date performance of the Long Term Investment Fund (based on expected annualised returns detailed in the Treasury report). This may be required to offset the above and any additional operational costed detailed in this report.

**Operational Expenditure**

- 4.3. Following the outcome of the Remuneration Review in June, the financial impact on the 2019-20 financial year was estimated as an increase of 4.4% on staff costs against a budgeted increase of 2%. This is anticipated to be offset in 2019/20 by the large number of vacancies (currently 20 vacant positions).
- 4.4. The IT infrastructure environment has been moving from on-premise to Infrastructure as a Service due to a security event which has sped up the transition. As a result of this additional costs have been identified and are now better understood. Therefore the budget for 2019/20 was not adequate. It is expected that costs in this area will exceed budget.

**Capital Expenditure**

- 4.5. For Regional Income (Water Security and Forestry) it is expected that capital expenditure will be below budget for the 2019-20 year and that any unspent money will be requested to be carried forward as the overall programme is expected to be on budget.

- 4.6. For Asset Management, the Heretaunga Plains Flood Control Capital programme will be underspent as previously reported while the modelling and concept development is being undertaken over the next 12 months. (\$1.2m).
5. Overall, we are expecting there to be variances against full year budgets and the Finance team will be working with budget holders to quantify the impacts. Details are anticipated to be reported to the next Sub-Committee meeting.

### **Financial Reporting Development**

6. A significant program of work is underway to improve and enhance the capability for financial reporting including the replacement of the Financial Management System and the redevelopment of the Financial Reporting across Council. In the future, staff would like to work with the FARS to develop more robust and transparent reporting to ensure that Council is provided with financial information that adequately supports governance and decision making.
7. This programme of work is expected to take place over the following 18 months to 2 years and will include the budget development and reporting requirements for the Long Term Plan.
8. An update on this project will be provided at the meeting.

### **Decision Making Process**

9. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and, as such, the updated Business Continuity Plan needs to be accepted by the Finance, Audit and Risk Sub-Committee.

### **Recommendation**

That the Finance, Audit and Risk Sub-committee receives and notes the “Financial Results for the 2019-20 Financial Year, for the Period to 31 December 2019” staff report.

#### **Authored by:**

**Bronda Smith**  
**CHIEF FINANCIAL OFFICER**

#### **Approved by:**

**Jessica Ellerm**  
**GROUP MANAGER**  
**CORPORATE SERVICES**

### **Attachment/s**

- [1](#) Financials for period to 31 December 2019

## SECTION A

Item 12

## HAWKE'S BAY REGIONAL COUNCIL

## OPERATING STATEMENT

Six Months Ended 31 December (Pd 06)

Attachment 1

	NET FUNDING REQUIREMENT			Favourable/ Unfavourable
	ACTUAL \$,\$,000	BUDGET \$,\$,000	VARIANCE \$,\$,000	
<b>GROUPS OF ACTIVITIES</b>				
Strategic Planning	(1,000)	(1,313)	313	F
Asset Management	(807)	(1,598)	791	F
Integrated Catchment Management	(5,470)	(5,762)	291	F
Consents & Compliance	(1,581)	(984)	(597)	U
Emergency Management	(67)	(76)	8	F
Transport	(261)	(110)	(151)	U
Governance & Partnerships	(1,538)	(1,515)	(23)	U
	<b>(10,725)</b>	<b>(11,357)</b>	<b>632</b>	F
<b>CAPITAL PROJECTS</b>				
Internally Constructed Assets	(620)	560	(1,180)	U
Strategic Planning	-	3	(3)	U
Asset Management	2	(1,012)	1,014	F
Regional Resources	(451)	(557)	106	F
Governance & Partnerships	-	(205)	205	F
Regional Income	(160)	(1,543)	1,383	F
	<b>(1,229)</b>	<b>(2,755)</b>	<b>1,525</b>	F
<b>OPERATIONS GROUP</b>				
Notional Interest on Ops Grp Fixed Assets	239	-	239	
Operations Group Council Activities	-	-	-	
Operations Group External Activities	-	-	-	
<b>NET OPERATIONS GROUP ACTIVITIES</b>	<b>239</b>	<b>-</b>	<b>239</b>	<b>F</b>
<b>NET FUNDING REQUIREMENT</b>	<b>(11,715)</b>	<b>(14,111)</b>	<b>2,397</b>	<b>F</b>

Attachment 1

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<b>REGIONAL INCOME</b>				
<b>Investment Company</b>				
HBRIC Dividends (Napier Port)	43,957	45,450	(1,493)	U
HBRIC Interest on Loans	-	-	-	F
Ngaruroro Water Investment	(72)	-	(72)	U
Rail/Road Hub Investment	-	-	-	F
<b>Other Investments</b>				
HBRC Forestry Estate	(126)	186	(312)	U
Restricted Leasehold Land Rental	-	-	-	F
Investment Property Rental	420	416	4	F
		-		
Interest on Investment Deposits	1,268	1,262	7	F
Operating Interest (Excluding Investments)	-	6	(6)	U
Interest	1,268	1,268	1	F
Interest on Loans for Investment	-	-	-	F
Napier - Gisborne Rail Return	-	-	-	F
<b>Other Funding</b>				
General Rate/Uniform Annual General Charge	4,059	4,104	(45)	U
Other Income		-	-	F
Disaster Reserve Interest & Dividends (Net)	(0)	36	(36)	U
Other Income	52	-	52	F
Gain / (Loss) on Disposal of Assets	56	-	56	F
Other Income	108	36	72	F
Regional Income Equalisation Reserve	-	-	-	F
<b>TOTAL REGIONAL INCOME</b>	<b>49,614</b>	<b>51,459</b>	<b>(1,845)</b>	<b>U</b>
<b>OPERATING SURPLUS /( DEFICIT)</b>	<b>37,899</b>	<b>37,347</b>	<b>552</b>	<b>F</b>

<b>Management Comments on Operating Statement</b>	
<b>Activity</b>	<b>Management Comment (major variances)</b>
<b>Operational</b>	
<b>Strategic Planning</b>	Primarily due to delays to the notification of TANK has resulted in the budget being underspent in this financial year.
<b>Asset Management</b>	Most work for the asset management group is completed over summer and expenditure is expected to be on budget other than Karamu and Raupere planting. These activities are being resourced for the second half of the year and any underspend will be transferred to the reserve.
<b>Integrated Catchment Management</b>	The Erosion Control Scheme (ECS) planting begins in May. Shortage of contractor labour especially for fencing has seen delays in delivery of this part of the ECS.
<b>Consents &amp; Compliance</b>	Income for Compliance programmes is charged at the end of the year and therefore this is due to the phasing of budgets. Income is expected to be lower than budgeted for the full financial year against the expectation of 80% cost recovery.
<b>Emergency Management</b>	On track
<b>Transport</b>	Transport results are partly a function of reduced public transport patronage and mostly a function of increased cost pressures under the Gobus contract - indexing cost rises and specific costs related to ERA changes for bus drivers as a result of new driver break legislation. Regional Road Safety also has approx. \$100K of revenue to be recognised for November and December.
<b>Governance &amp; Partnerships</b>	Charging to HBRIC for support is done annually.
<b>Capital</b>	
<b>Internally Constructed Assets</b>	This is due to the timing of loan funding for the projects which is drawn down at the end of the year.
<b>Asset Management</b>	Heretaunga Plains Flood Control Capital programme will be underspent as previously reported while the modelling and concept development is being undertaken over the next 12 months. (\$1.2m)
<b>Regional Resources</b>	Farm Environmental Management Plans contributions and the ECS financing for the land owners contributions have not been required to date.  Sustainable Homes is above budget however loan funding has not been drawn down.
<b>Regional Income</b>	Investment in the Regional Water Assessment, Tuki Tuki Water Security and Heretaunga Water Security has been forecast to be approx. \$1m this year with the remaining \$2m to be carried forward for 2020/21 and 2021//22.

## Scheme Reserves

**HAWKE'S BAY REGIONAL COUNCIL**  
**MOVEMENT ON SPECIAL SCHEME RESERVES**  
**Six Months Ended 31 December (Pd 06)**

	Scheme Reserve Opening Balances	Movement On Scheme Reserve Year to Date	Scheme Reserve Closing Balances 31/12/2019	Pro-Rata Closing Balances 31/12/2019	Variance	Comments
	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Flood Protection &amp; Drainage Schemes</b>						
<b>Separate Schemes</b>						
Makara	37	1	38	37	1	F
Paeroa	115	8	124	115	8	F
Porangahau	191	17	208	191	17	F
Poukawa	82	5	87	82	5	F
Ohuia-Whakaki	(68)	6	(62)	(68)	6	F
Esk	66	(6)	60	66	(6)	U
Whirinaki	23	0	23	23	0	F
Maraetotara	16	2	17	16	2	F
Te Ngarue Stream	10	(6)	4	10	(6)	U
Kopuawhara	3	4	7	3	4	F
Opoho	35	8	43	35	8	F
Kairakau Community Scheme	9	5	14	9	5	F
<b>Total Separate Rating Schemes</b>	<b>518</b>	<b>44</b>	<b>562</b>	<b>518</b>	<b>44</b>	F
<b>Larger Schemes</b>						
Upper Tukituki	294	(8)	286	294	(8)	U
Wairoa Rivers & Streams Scheme	(375)	(57)	(432)	(375)	(57)	U
Central & Sthn Areas Scheme	65	(92)	(27)	65	(92)	U
HPFCS Rivers Scheme	988	(31)	957	988	(31)	U
HPFCS Drainage Schemes	2,933	228	3,161	2,933	228	F
<b>Total Larger Schemes</b>	<b>3,906</b>	<b>41</b>	<b>3,946</b>	<b>3,906</b>	<b>41</b>	
<b>Total Flood Protection &amp; Drainage</b>	<b>4,424</b>	<b>85</b>	<b>4,508</b>	<b>4,424</b>	<b>85</b>	
<b>Other Schemes</b>						
Sustainable Homes	(584)	(2,203)	(2,787)	(584)	(2,203)	U
Gravel Management	(267)	(71)	(338)	(267)	(71)	U
Tangoio Soil Conservation Res.	2,800	(138)	2,662	2,800	(138)	U
Soil Conservation Nursery	(180)	(288)	(468)	(180)	(288)	U
Water Initiatives	98	(49)	49	98	(49)	U
Biosecurity - Noxious Plants	(82)	(344)	(426)	(82)	(344)	U
Biosecurity - Animal Pest Control	(614)	(121)	(735)	(614)	(121)	U
Emergency Management	414	(72)	341	414	(72)	U
Land Transport Administration	(134)	(68)	(202)	(134)	(68)	U
<b>Total Other Schemes</b>	<b>1,450</b>	<b>(3,355)</b>	<b>(1,905)</b>	<b>1,450</b>	<b>(3,355)</b>	
<b>Total Schemes</b>	<b>5,873</b>	<b>(3,270)</b>	<b>2,603</b>	<b>5,873</b>	<b>(3,270)</b>	U

**Management Comments on Scheme Balances**

Note Ref	Activity	Variation from Reforecast \$'000 (F) or (U)	Management Comment (major variances)
1	<b>Sustainable Homes</b>	<b>\$2,203 (U)</b>	Sustainable Homes loan funding is yet to be raised.



## SECTION B

**HAWKE'S BAY REGIONAL COUNCIL**  
**CONSOLIDATED BALANCE SHEET**

	Actual 31-Dec-19 \$'000	Actual 30-Jun-19 \$'000	Management Comments
<b>Non Current Assets</b>			
Property, plant & equipment	30,212	28,666	1
Infrastructure assets	176,001	175,550	2
Investment property	47,222	48,393	3
Intangible assets	5,603	6,313	4
Financial assets	2,237	2,300	5
Managed Funds	92,445	41,910	5
Investment in Council-controlled organisations	340,396	340,396	
Advances to home owners (Sustainable Homes)	7,680	6,830	6
Forestry assets	11,642	11,584	7
	<b>713,438</b>	<b>661,941</b>	
<b>Current Assets</b>			
Inventories	115	111	
Accounts receivable	23,628	5,616	8
Loan to HBRIC Limited	0	6,500	9
Prepayments	693	406	10
Accrued income	1,326	4,376	10
Work in progress	7	-2	10
Financial assets	4,656	3,257	5
Advances to home owners (Sustainable Homes)	853	759	6
Cash & cash equivalents	6,801	28,436	5
	<b>38,079</b>	<b>49,459</b>	
<b>TOTAL ASSETS</b>	<b>751,517</b>	<b>711,400</b>	
<b>Public Equity</b>			
Other reserves	78,024	76,839	
Fair value reserves	275,377	275,377	
Accumulated Funds	311,273	311,282	
Current year movement	38,253	1,353	
<b>Equity</b>	<b>702,927</b>	<b>664,851</b>	
<b>Non Current Liabilities</b>			
Borrowings	15,860	17,685	11
Employee entitlements	564	817	12
Other liabilities	11,915	11,247	
	<b>28,339</b>	<b>29,749</b>	
<b>Current Liabilities</b>			
Accounts payable	2,373	8,558	13
Accrued expenses	112	167	14
Deposits and retentions / Income in advance	12,836	2,597	15
Employee entitlements	1,155	910	
Borrowings	3,775	3,900	11
Other liabilities	0	668	
	<b>20,251</b>	<b>16,800</b>	
<b>TOTAL LIABILITIES</b>	<b>48,590</b>	<b>46,549</b>	
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>751,517</b>	<b>711,400</b>	

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<b>Management Comments on Balance Sheet Movements</b>		
<b>Note Ref</b>	<b>Activity</b>	<b>Management Comment (major variances)</b>
1	<b>Property, Plant and Equipment</b>	Property, plant and equipment have increased by \$1.547m due to the budgeted capital purchasing programme offset by depreciation.
2	<b>Infrastructure Assets</b>	Infrastructure assets have increased by \$451,000 since the beginning of the year reflecting capital expenses made for the maintenance and improvement of infrastructure assets offset by depreciation.
3	<b>Investment Property</b>	Investment property has decreased by \$1.171m reflecting the disposal of leasehold and properties to the leaseholders.
4	<b>Intangible Assets</b>	Intangible assets have decreased by \$710,000 due to the amortisation on existing assets.
5	<b>Financial Assets</b>	Total cash, cash equivalents and financial assets have increased by \$30.236m since the beginning of the year with the expenditure of operating cash being offset by the receipts from HBRIC of \$43m from the IPO. Cash has reduced by \$21m with the bulk of liquid assets now being invested in managed funds.
6	<b>Sustainable Homes</b>	Advances to Home Owners through the sustainable homes programme have increased by \$945,000 reflecting the increased up-take from the public since the beginning of the year offset by repayments of existing clean heat loans.
7	<b>Forestry Assets</b>	Forestry Assets have increased by \$59,000 reflecting the capital spending on the harvest road and bridge for Tutira.
8	<b>Accounts Receivable</b>	Accounts Receivable have increased by \$18.012m since the beginning of the year reflecting the rates invoices that were sent out in September and are due at the end of January.
9	<b>Loan to HBRIC Limited</b>	Council approved a loan facility for HBRIC Ltd of which \$6,500,000 had been drawn down but was repaid in September.
10	<b>Accrued Income, Prepayments and Work in Progress</b>	Accrued Income has decreased by \$2.755m reflecting a decrease in accruals, prepayments and work in progress provisions compared to year end.
11	<b>Borrowings</b>	Borrowings have decreased by \$1.95m, being the repayments made for the year to date. 2019/20 borrowings as per the annual plan will occur later in this year.
12	<b>Employee Entitlements</b>	Employee Entitlements have decreased by \$8,000 overall due to provisions for outstanding annual leave balances, sick and long service leave being used during the year.
13	<b>Accounts Payable</b>	Accounts payable have decreased by \$6.184m. This is due to the \$3.9m payable to ACC for annuity costs and \$2.1m in trade payables.
14	<b>Accrued Expenses</b>	Accrued expenses have decreased by \$55,000 compared to last year due to the reversal of accruals from year end.
15	<b>Deposits and Retentions</b>	Income in advance has increased \$10.239m since the end of last year due to rates income received in advance.

**HAWKE'S BAY REGIONAL COUNCIL**  
**OTHER INFORMATION**  
**Six Months Ended 31 December (Pd 06)**

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<b>INTEREST RATE</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Average Interest Rate on Liquid Investments	2.34%	2.86%	3.23%

<b>ACCOUNTS RECEIVABLE</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Rates Receivable	21,010	3,601	1,518
Payments in Advance	(1,268)	(711)	(1,651)
Rate Receivables	22,278	4,312	3,169
Other Receivables	1,380	2,610	5,241
Provision for Impaired Receivables	(23)	(23)	(23)
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>22,367</b>	<b>6,188</b>	<b>6,736</b>

Attachment 1

<b>ACCOUNTS PAYABLE</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Aged Accounts Payable</b>			
1-30 days	1,862	3,976	3,664
31-60 days	0	0	0
61-90 days	0	0	0
Over 91	0	0	1
<b>TOTAL ACCOUNTS PAYABLE</b>	<b>1,862</b>	<b>3,976</b>	<b>3,665</b>

**HAWKE'S BAY REGIONAL COUNCIL**  
**EXTERNAL AND INTERNAL LOANS**  
**Six Months Ended 31 December (Pd 06)**

EXTERNAL LOANS	ACTUAL to 31 DECEMBER 2019				Year 2 LTP to 30 JUNE 2020			
	Balance 1/07/2019	Repayments	Borrowing	Balance 31/12/2019	Expected 1/07/2019	Repayments	Borrowing	Balance 30/06/2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
LiDar Digital Terrain Monitoring	295	-	-	295	300	-30	-	270
SkyTEM	-	-	-	0	0	-38	1,530	1,492
Integrated Catchment	-	-	-	0	0	-115	1,588	1,335
Regional Infrastructure	1,768	(200)	-	1,568	1,585	-410	160	847
Regional Parks	1,365	(174)	-	1,192	1,208	-362	-	4,358
Systems Integration	3,111	(220)	-	2,891	3,111	-603	1,850	12,399
Sustainable Homes	12,141	(1,116)	-	11,025	12,141	-2,492	2,750	10
Upper Tukituki Flood Control	40	(15)	-	25	40	-30	-	0
Karamu & Tributaries Flood Control & Drainage	40	(20)	-	20	40	-40	-	10
Monitoring Bores	20	(5)	-	15	20	-10	-	70
HPFCS Flood Protection & River Control	115	(23)	-	93	115	-45	-	1,020
Building Loan	77	(30)	-	47	108	-88	1,000	2,362
Science Equipment	1,498	(105)	-	1,393	1,793	-293	862	39
Air Quality Site Loan	45	(2)	-	43	45	-6	-	750
Erosion Control Scheme	738	-	-	738	750	-	-	250
FEMPs	0	-	-	0	0	-250	500	270
Operations Group Office Extension	330	(30)	-	300	330	-60	-	91
Sondes	0	-	-	0	0	-5	96	48
Mt Misery Flood Warning Site	0	-	-	0	0	-3	50	
<b>TOTAL</b>	<b>21,585</b>	<b>(1,939)</b>	<b>0</b>	<b>19,646</b>	<b>21,586</b>	<b>(4,880)</b>	<b>10,386</b>	<b>25,620</b>

  

INTERNAL LOANS	ACTUAL to 31 DECEMBER 2019				Year 2 LTP to 30 JUNE 2020			
	Balance 1/07/2019	Repayments	Borrowing	Balance 31/12/2019	Balance 1/07/2019	Repayments	Borrowing	Balance 30/06/2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Transport Electronic Ticketing	-	-	-	0	246	(25)	0	221
Computer Equipment	420	-	-	420	340	(80)	-	260
Science Equipment	980	-	-	980	920	(170)	250	1,000
Tutira Easements	0	-	-	0	100	0	-	100
Biodiversity	-	-	-	0	100	(15)	100	185
Makara Scheme Loan	199	-	-	199	191	(9)	-	182
<b>TOTAL</b>	<b>1,599</b>	<b>0</b>	<b>0</b>	<b>1,599</b>	<b>1,897</b>	<b>(299)</b>	<b>350</b>	<b>1,948</b>

**Management Comments on Borrowings**

The amount that can be borrowed internally (as per HBRC Liability management policies) is limited to the funds held in the Infrastructure Asset Depreciation Reserve and the Asset Replacement Reserve.

## SECTION C

Attachment 1

Item 12

<b>HAWKE'S BAY REGIONAL COUNCIL</b>					
<b>CAPITAL ACTIVITY SUMMARY</b>					
<b>Six Months Ended 31 December (Pd 06)</b>					
	<b>ACTUAL</b>	<b>PRORATA</b>	<b>ACTUAL /</b>	<b>Favourable /</b>	<b>Management</b>
	<b>\$,000</b>	<b>BUDGET</b>	<b>PRORATA</b>	<b>Unfavourable</b>	<b>Comments</b>
	<b>\$,000</b>	<b>\$,000</b>	<b>\$,000</b>		<b>on Variance</b>
<b>CAPITAL EXPENDITURE</b>					
Operating Assets	2,492	3,346	(854)		F
Strategic Planning	10	10	0		F
Land Drainage & River Control	482	1,352	(870)		F
HeatSmart / Sustainable Homes	3,649	2,362	1,287		U
FEMPs	0	375	(375)		F
Erosion Control Scheme	1	57	(56)		F
Biodiversity	0	58	(58)		F
Open Spaces	218	251	(33)		F
Governance & Community Leadership - Regional Infrastructure	168	205	(38)		F
Forestry	160	3	157		U
Napier Gisborne Rail	0	0	0		F
Water Augmentation	0	1,543	(1,543)		F
	<u>7,180</u>	<u>9,561</u>	<u>(2,382)</u>		F