HAWKE'S BAY REGIONAL COUNCIL

TE KAUNIHERA Ā-ROHE O TE MATAU-A-MĀUI

Meeting of the Corporate and Strategic Committee

Date:	14 June 2023
Time:	11.30am
Venue:	Council Chamber Hawke's Bay Regional Council 159 Dalton Street NAPIER

Agenda

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Call for minor items not on the Agenda

Reason for report

1. This item provides the means for councillors to raise minor matters relating to the general business of the meeting they wish to bring to the attention of the meeting.
2. Hawke's Bay Regional Council standing order 9.13 states:
   2.1. *A meeting may discuss an item that is not on the agenda* ***only*** *if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.*

Recommendations

3. That Corporate and Strategic Committee accepts the following *Minor items not on the Agenda* for discussion as Item 15.

Topic	Raised by

Leeanne Hooper
Governance Team Leader

Desiree Cull
Strategy & Governance Manager

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: 2023-2024 Annual Plan engagement

Reason for Report

1. This item presents the engagement document *Introducing our Annual Plan 2023-2024 – Supporting the region's recovery* for Committee adoption.

Officers' Recommendation

2. Staff recommend that the Corporate and Strategic Committee reviews the document provided and resolves to adopt it, on behalf on Hawke's Bay Regional Council (HBRC), ahead of the engagement process starting on Friday 16 June 2023.

Executive Summary

3. As a result of Cyclone Gabrielle, HBRC has faced substantial new unplanned costs and we have taken on new responsibilities across a large geographical area. To date, HBRC has incurred unplanned costs of $9 million for the CDEM (Civil Defence Emergency Management) response, and a further $42 million for HBRC in response to the cyclone. While we expect a large portion of this to be reimbursed from National Emergency Management Authority (NEMA) and our insurers, inevitably there will be a shortfall in reimbursable activities and insurance.
4. Staff have taken a hard-line approach to the proposed Annual Plan, such that we propose a 6% average rate rise, instead of the forecast 14.5% in our Long Term Plan 2021-2031.
5. We have ring-fenced additional costs being incurred as a result of the cyclone and propose a flat charge of $75 per SUIP (separately used or inhabited part of a rating unit) for the 2023-2024 financial year that will generate income to pay for these additional costs.
6. While we do not intend consult on any specific decision to be made, we will be engaging with our community and informing them of the changes to our work programme, including the additional activities we are undertaking. This includes being the administrator for the Hawke's Bay Regional Recovery Agency and administrator for funding agreements with the Department of Internal Affairs for programmes such as silt. We will be iterating there will be no cost to ratepayers for us taking on this work.

Development of the Annual Plan 2023-2024

7. Budgeting and planning for 2023-2024 was well underway when Cyclone Gabrielle struck. Like many others, we were already facing challenges with increased insurance premiums, rising rate increases, and inflation. We were managing our budget to contain the average rate increase to near what we have forecast in our Long Term Plan 2021-2031.
8. Cyclone Gabrielle struck in mid-February and we faced substantial new unplanned costs and also took on new responsibilities.
9. Staff and Councillors had a hard look at costs and spending and reprioritised our previously planned work programmes. We have had to make some hard decisions so we could reduce the planned average rates increase yet also be able to undertake unplanned cyclone work.
10. This tightening of belts means we have been able to substantially reduce our forecast average rate increase from 14.5% down to 6%. We have a no-frills budget for 2023-2024 that focuses on our core business and supporting the region's recovery.

11. In addition to the rates increase, Council is introducing a cyclone recovery charge of $75 per SUIP (separately used or inhabited part of a rating unit). This will raise $5.1 million and help with additional costs and responsibilities that we have undertaken or have planned in response to Cyclone Gabrielle.

12. It is important to note, there is still a lot of uncertainty as we work through insurance and NEMA (National Emergency Management Agency) claims and determine levels of central government financial support. This is a *best endeavours* Annual Plan as we try and position ourselves to support the region's recovery.
13. We have emphasised this uncertainty in the engagement document and signalled that costs may change.

Community Engagement

14. The attached document *Introducing our Annual Plan 2023-2024 – Supporting the region's recovery* supports our planned feedback process. The purpose is to inform and engage our community outlining the impact Cyclone Gabrielle has had on our organisation and how we are supporting recovery in Hawke's Bay, including our support for the Hawke's Bay Regional Recovery Agency.
15. We are seeking feedback on:
    15.1. what is important to people in the region's recovery from Cyclone Gabrielle, and
    15.2. our proposed Annual Plan generally.
16. Feedback will be sought over a two-week period, from Friday 16 June to Sunday 2 July 2023, primarily online through a feedback form or downloadable pdf. Promotional activity will include digital and print media, and we will be holding one drop-in session and flyer drops in Wairoa.

Strategic Fit

17. The Annual Plan's focus on core business and supporting the region's recovery strongly supports HBRC's Strategic Plan 2020-2025. In particular, the goals of:
    17.1. Climate-smart and sustainable land use.

17.2. Sustainable and climate-resilient services and infrastructure.

Significance and Engagement Policy Assessment

18. Staff have assessed this feedback process with the Regional Council's Significance and Engagement Policy and are working to the *Inform and Consult* levels of engagement.

Climate Change Considerations

19. Climate change is a focus in all Council's planning and decision-making. The focus on supporting the region's recovery acknowledges climate change is increasing the likelihood and severity of extreme weather events such as Cyclone Gabrielle.

Financial and Resource Implications

20. This engagement process will incur external costs of around $15,000 with the majority of that for advertising.

Next steps

21. Following the close of the submission process on 2 July 2023, staff will collate feedback and provide some high-level analysis for Council to consider and deliberate on at its meeting 19 July 2023.
22. The Annual Plan 2023-2024 will be provided to Council for adoption on 26 July 2023.

Decision Making Process

23. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

    23.1. The decision to embark on community engagement does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.

    23.2. Public engagement will be carried out in accordance with LGA section 82.

    23.3. The decision to initiate engagement is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

    23.4. The persons affected by this decision are all ratepayers in the region.

Recommendations

That the Corporate and Strategic Committee:

1. Receives and considers the *2023-2024 Annual Plan engagement* staff report.
2. Decides to exercise its delegated powers to make a decision that will have the same effect as the Regional Council could itself have exercised or performed and that the decision deserves urgency and the decision is carried unanimously.
3. Adopts the *Annual Plan 2023-2024 – Supporting the region's recovery* for community engagement.
4. Delegates to the Group Manager Corporate Services authority to make any required minor amendments or edits to the document prior to publication and the start of engagement.
5. Agrees to the public engagement and feedback period being 16 June to 2 July 2023.

Authored by:

Desiree Cull
Executive Officer to CE

Mandy Sharpe
Senior Strategy & Corporate Planner

Amy Allan
Senior Business Partner

Sarah Bell
Acting Strategy & Governance Manager

Chris Comber
Chief Financial Officer

Approved by:

Susie Young
Group Manager Corporate Services

Bill Bayfield
Interim Chief Executive

Attachment/s

1	Supporting our region's recovery - Annual Plan 2023-2024	Under Separate Cover

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Annual Compliance, Monitoring, and Enforcement Report 2021-2022

Reason for Report

1. This item presents the Hawke's Bay Regional Council's (HBRC) 2021-2022 Compliance Annual Report for discussion and then recommendation to Council for adoption.

Executive Summary

2. The attached report on HBRC's Compliance Monitoring and Enforcement (CME) activities provides transparency to our communities and those regulated by HBRC.
3. The attached report summarises HBRC's compliance monitoring and enforcement functions undertaken under the RMA. It details compliance with consent conditions, breaches of the Resource Management Act 1991 (RMA) and Regional Resource Management Plan interventions. It also covers the breadth of monitoring undertaken, the levels of compliance reported, and a summary of enforcement action taken during the year.
4. Detailed information can be found in the report with staff presenting highlights to the committee and available to answer any questions.

Background

5. For the Committee's information, reporting on monitoring and enforcement occurs through the following mechanisms to Council or Committee:
   - 5.1. Compliance Annual Report
   - 5.2. HBRC Annual Report – results are presented through the Regulation Group of Activities within the Annual Report document
   - 5.3. Active investigations or issues are reported to Council through the Significant Activities item on the monthly Council agenda.
6. Internally a weekly incident report is prepared for the Group Manager of Policy and Regulation which details complaints, incidents and the associated outcomes.
7. Staff have also established an approach whereby a media release will be issued at the conclusion of any prosecution carried out by HBRC, regardless of the outcome of the prosecution.

Strategic Fit

8. Undertaking compliance monitoring and enforcement where necessary helps us to:
   - 8.1. Protect aquatic ecosystems and ensure water use is sustainable (Priority Area: Water)
   - 8.2. Ensure sustainable land use (Priority Area: Land)
   - 8.3. Maintain a healthy and functioning biodiversity (Priority Area: Biodiversity).

Significance and Engagement Policy assessment

9. Although the matters discussed in this report are of interest to the community they do not directly impact or affect the community. There are no financial or levels of service implications associated with deciding to adopt this report and, as such, this report is of low significance.

Considerations of Tangata Whenua

10. The attached report sets out ways we have improved our engagement with tangata whenua on compliance matters. This includes:

    10.1. Keeping tangata whenua and iwi representatives informed in relation to high level enforcement action.

    10.2. Working closely with iwi and iwi trusts to seek victim impact statements for prosecution offences, facilitated by our Māori Partnerships team.

    10.3. Ensuring consent conditions that require consultation and engagement with iwi are met by the consent holder.

    10.4. Building cultural competency within the compliance team with internal training.

11. It is becoming increasingly common for resource consents to include more complex conditions that better recognise Te Ao Māori; for example, conditions requiring development of cultural monitoring plans in consultation with iwi/ marae/ hapū and treaty groups.

12. Future areas of focus are:

    12.1. Improving how we report incidents, particularly discharges to water, to tangata whenua and kaitiaki so we can inform their decision-making, and so their observations and involvement can inform cultural assessments.

13. Establishing regular meetings and workshops with tangata whenua across the region to further strengthen communication and relationships, build trust and increase accountability.

Financial and Resource Implications

14. There are currently no financial and funding implications associated with adopting the report.

Decision Making Process

15. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

    15.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it significant under the criteria contained in Council's adopted Significance and Engagement Policy.

    15.2. Given the nature and significance of the issue to be considered and decided, Council can exercise its discretion and make a decision without consulting with the community or others having an interest in the decision.

Recommendations

That the Corporate and Strategic Committee:

1. Receives and considers the *Annual Compliance, Monitoring, and Enforcement Report 2021-2022*.

2. Recommends that Hawke's Bay Regional Council:

    2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without consulting the community or persons with an interest in the decision.

    2.2. Adopts the *Annual Compliance, Monitoring, and Enforcement Report 2021-2022* for publication ***(or)*** as amended as agreed by the Corporate and Strategic Committee on 5 April 2023.

Item 6

Authored by:

Rob Hogan
Manager Compliance

Simon Moffitt
Team Leader Compliance – Rural

Nichola Nicholson
Team Leader Policy & Planning

Approved by:

Katrina Brunton
Group Manager Policy & Regulation

Attachment/s

1	Annual Compliance, Monitoring, and Enforcement Report 2021-2022	Under Separate Cover for councillors only

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Policy for the treatment of enforcement revenue

Reason for report

1. This report seeks the Committee's adoption of an Enforcement Revenue Spending Policy and the creation of a new financial reserve to manage the spending of surplus enforcement revenue.

Officers' recommendations

2. Enforcement revenue funds received from fines and prosecutions are not budgeted income, and where proceeds are surplus to the actual costs of prosecution they are currently held as part of general income and not targeted for any specific purpose.
3. Council officers recommend the Committee accepts the *Enforcement Revenue Spending Policy* (attached) to guide decisions for the expenditure of this revenue, the management of funds received as part of Court directed diversion schemes, and the creation of a new financial reserve to ringfence these funds for use across financial years.

Executive Summary

4. The Council receives funds from enforcement action under the Resource Management Act (1991) through infringement fines issued by Hawke's Bay Regional Council or through prosecutions imposed by the Court for environmental offences. The Court may also direct money be paid to Council to fund diversion schemes for some environmental offences.
5. The recommended *Enforcement Revenue Spending Policy* proposes that, having first offset any additional expenditure incurred by the Council to proceed with prosecutions in that year, any surplus proceeds it receives in any one year:
   - 5.1. are transferred to a Council-created reserve (Enforcement Revenue Reserve Fund) for future environmental protection and restoration activities, and
   - 5.2. are used to fund activities that directly benefit the environment and the community affected by the environmental offence.

Discussion

6. The Council allocates an annual budgeted amount to cover the costs of prosecutions for environmental offences (Annual Plan 2022-2023 budget was $104k for legal fees). Prosecutions imposed by the Court and infringement fines will usually cover the costs of prosecution on an annual basis.
7. The Council currently only budgets for a minimal amount of infringement/enforcement income (Annual Plan 2022-2023 budget was $36k).
8. The Council does not currently provide specific direction for the expenditure of funds received through its enforcement actions, above what is included in the annual plan budgets. Traditionally, these funds received have offset any additional operational expenses incurred for Compliance and Enforcement activities, and any surplus remaining has fallen to the general operating reserve.
9. Over the past two years, due to increasing enforcement actions in years past and present and a catch up on collection of enforcement proceeds, these funds have accumulated. In the 2021-

2022 financial year, a surplus of $244k was approved to carry forward into the current financial year for use on activities that directly benefit the environment, though this budget has not yet been spent. The enforcement proceeds surplus for 2022/23 is currently at $211k above budget, bringing a combined total surplus of $455k in the current financial year.

10. Where a local authority lays a charge and there is a conviction with the Court imposing a fine, then the fine is paid to the local authority. This excludes a deduction of 10% which is credited to the Crown Bank account. However, the Court can order that the whole fine be paid to the local authority. Nothing prevents a local authority from redirecting part of those funds to a specific environmental purpose, as compensation to the community at large.

11. There are a number of council and community environmental enhancement projects that are unable to be funded through our Annual Plan or by community groups that would benefit from this additional funding, and as this surplus has grown there is pressure to spend it for a wide range of council projects.

12. A financial reserve must first be established to enable funds to be set aside from the enforcement operating work programme for future funding of projects or activities.

13. The policy directs that enforcement revenue will only be added into the proposed reserve when there is a surplus in any financial year. That is, the costs of taking the enforcement action has been met and there is surplus thereafter.

14. Where there is a deficit because we have had to take more enforcement action than anticipated – resulting in more legal spend, in accordance with the revenue and financing policy – that would fall to the general rate funding. Funds will not be taken out of the proposed reserve to offset a deficit in the operational work programme of enforcement.

15. The recommended policy provides a process and decision-making guidance for spending surplus money received from environmental compliance and directly links it back to the reasons for imposing the sanctions for an environmental offence in the first instance.

Options assessment

16. The alternative to a ringfencing policy is to remain with the status quo, where surplus funds received through enforcement action are left to fall to the general operating reserve.

17. No other more relevant purpose could be identified as all Council projects generally seek to deliver sustainable environmental outcomes. If the surplus funds become part of a council's general reserve, it loses its connection to where environmental infringements have caused adverse effects.

Strategic Fit

18. The recommended Enforcement Revenue Spending Policy is relevant across all of the Council's strategic goals, albeit by way of recompense for environmental offences. Decisions about funding for specific projects depends on the types of environmental harm caused and the options for directly benefit the environment and community impacted by that offence. Projects might thus be relevant across all four focus areas.

Significance and Engagement Policy assessment

19. The significance of this decision is very low and does not require engagement with the wider community

Financial and resource implications

20. The *Enforcement Revenue Spending Policy* does not have budget implications except to help reduce shortfalls where the budgeted amount for Council's prosecution action is not recovered through infringement fines and Court imposed prosecutions.

Consultation

21. This matter was discussed during the Corporate and Strategic meeting on 24 August 2022 when adopting the carry forward expenditure budgets from 2021-2022 to 2022-2023. Council resolved to carry forward the surplus income on the basis that these funds were spent on environmental enhancement and protection works in the 2022-2023 financial year. Subsequent to that, advice was provided by the finance team that a financial reserve was the appropriate mechanism to provide for the ringfencing of enforcement revenue on an on-going basis. In accordance with the establishment of a Council-created reserve, a policy is required for how that reserve will be used.

Other Considerations

22. The policy will need to be supported by a change to the delegations register to expressly provide the HBRC Chief Executive and the Group Manager Policy and Regulation with the financial delegation to evaluate proposals and allocate funding from the Enforcement Revenue Reserve Fund. It is recommended that the financial delegation for this fund is included in the HBRC Delegations Policy (Policy CD0021) for the Chief Executive and the Group Manager Policy and Regulation.
23. Decisions about expenditure of a new fund, will need to be made and the proposed policy provides for the HBRC Chief Executive and the Group Manager Policy and Regulation to be given the decision-making role. It is appropriate that the Group Manager is delegated with this authority as compliance action is undertaken by this Group. There is intended to be a high level of connection between the enforcement action and the projects that are intended to benefit the environment in these situations.

Decision Making Process

24. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:
    - 24.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.
    - 24.2. The use of the special consultative procedure is not prescribed by legislation.
    - 24.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.
    - 24.4. The persons affected by this decision are unable to be directly identified as this policy guides future decisions where enforcement actions are yet to be made and projects that enable environmental benefits to be delivered have yet to be identified.
    - 24.5. Given the nature and significance of the issue to be considered and decided, and also the persons likely to be affected by, or have an interest in the decisions made, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Corporate and Strategic Committee:

1. Receives and considers the *Policy for the treatment of Enforcement Revenue* staff report.
2. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community or persons likely to have an interest in the decision.
3. Recommends the establishment of a financial reserve for the purpose of receiving funds set

aside from the enforcement operating work programme for future funding of environmental protection and restoration activities.

4. Recommends that Hawke's Bay Regional Council adopts the *Policy for the treatment of Enforcement Revenue* as proposed ***(or)*** as amended as agreed by the Committee today as follows.

Authored by:

Mary-Anne Baker **Team Leader Policy & Planning**	**Rob Hogan** **Manager Compliance**

Approved by:

Katrina Brunton
Group Manager Policy & Regulation

Attachment/s

1⇩ Enforcement Revenue Spending Policy May 2023

Title:	Enforcement Revenue Spending Policy		
Policy no:			
Policy first introduced:	*2023*	*Date policy last reviewed:*	*May 2023*
Person responsible for reviewing policy:	*Group Manager Policy and Regulation*	*Next review due:*	*May 2028*

Rationale

This policy is to provide guidance on how the Hawke's Bay Regional Council (the Council) will spend money collected from environmental offences that include infringement fines, prosecutions and diversion scheme payments paid through court direction following enforcement action under the Resource Management Act 1991(RMA) by the Council.

The policy aims to ensure that the money collected from environmental offences is used in a way that is consistent with the objectives of the RMA, which are to promote the sustainable management of natural and physical resources and to avoid, remedy or mitigate any adverse effects of activities on the environment.

Policy

1. **Decision making principles**

1.1. Decisions about spending money collected for environmental offences will be guided by the following principles:

1.1.1. The proceeds from environmental offences shall first offset any additional expenditure incurred by the Council to proceed with the prosecution.

1.1.2. The surplus proceeds shall be spent on activities that directly or indirectly benefit the environment and the community affected by the environmental offence.

1.1.3. The proceeds shall be spent in a transparent and accountable manner, with clear reporting and auditing mechanisms through annual plans and reports.

1.1.4. Allocated money (including diversion scheme payments) shall be spent in a timely and efficient manner, without unnecessary delays or administrative costs.

2. **Fund Management**

2.1. The Council will:

2.1.1. collect infringement fines, prosecution receipts and diversion payments during the financial year into the pollution and response workstream budget,

2.1.2. assess the costs incurred to support the prosecution of environment offences at financial year end to identify the quantum of infringement fines and prosecution receipts that are required to offset any additional expenditure above the annual budgeted amount,

2.1.3. transfer surplus receipts to a Council created reserve (Enforcement Revenue Reserve Fund) for future environmental protection and restoration activities and managing diversion scheme funds.

2.1.4. report in the Council's Annual Plan and Annual Report on the projects being funded by the Enforcement Revenue Reserve Fund including objectives for each project and expected budgets and timeframes for delivery.

3. **Funding Purposes**

3.1. The Enforcement Revenue Reserve Fund will be used to support projects and initiatives aimed at protecting and restoring the environment, including but not limited to:

3.1.1. Restoration or enhancement of damaged ecosystems.

3.1.2. Measures to reduce pollution and waste.

3.1.3. Measures to mitigate the adverse effects on people and communities affected by the environmental offence.

3.1.4. Delivery of any projects required through Court directed diversion schemes

4. **Funding Application Process**

4.1. Proposals for funding must be made in the prescribed form and may be made:

4.1.1. by any person or community affected by the environmental offence

4.1.2. through invitation by the HBRC to people or communities affected by the environmental offence

5. **Funding Allocation and Management**

5.1. The allocation of funds to environmental protection and restoration projects will be decided by the Chief Executive and HBRC General Manager Policy and Regulation.

5.2. The HBRC General Manager Policy and Regulation will evaluate proposals for funding based on their potential impact on the environment and their alignment with this policy, subject to the following considerations:

5.2.1. Not all money received in any one year need necessarily be spent in the same or any year

5.2.2. Funding will not be allocated to activities that are already funded by other sources, including other grants or subsidies,

5.2.3. The Council may provide direct administration and contract management for works and services being funded under this policy, including those part of any diversion scheme,

5.2.4. A requirement for the recipient of funding from the Enforcement Revenue Reserve Fund to prepare and lodge with the HBRC General Manager Policy and Regulation a:

5.2.4..1. project plan that contains objectives to be met by the project, timeframes, budget and project milestones and,

5.2.4..2. a final report on the project, including how money was spent and an assessment as to how the project protected or restored the environment according to the project objectives,

5.2.4..3. and the plan and final report are to be at a scale appropriate to the nature and scale of the project.

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Investment Strategy Review phase 2 approach

Reason for Report

1. This paper outlines proposed steps that are being taken to address phase 2 work of the Investment Strategy review of HBRC and HBRIC entities, to ultimately ensure that intent and purpose of how and what investments continue to be undertaken in what entity are operating with maximum efficiency and outcome for our rate payers.
2. In a follow up meeting with HBRIC directors we have been tasked with providing an updated paper and presentation to the Corporate and Strategic Committee (C&S) on 14 June with recommendations through to full Council on 28 June.

Executive Summary

3. HBRIC officers continue to review the Investment Strategy of HBRC and HBRIC to ensure that settings and management of our investments is returning maximum benefit to our ratepayers.
4. Director Scott Hamilton, ex Quayside, has worked with officers to propose recommendations on how to enable investment growth and better returns based on experience in establishing in navigating a similar entity.
5. A number of proposals are now being worked through as outlined within this paper specifically expanding the role that HBRIC plays in managing investments (both HBRC and HBRIC in totality), resetting HBRIC objectives and operating structure, and baselining LTP assumptions.

Background /Discussion

6. On 29 March 2023 (at a workshop arranged prior to the cyclone) Council received a presentation from former Quayside Holdings Chief Executive Scott Hamilton who provided an overview of the establishment, development and performance of Quayside Holdings and the subsequent outcomes and opportunities for Bay of Plenty Regional Council, Port of Tauranga, and the wider community.
7. Subsequently, in Public Excluded Council formally received the outcome of two commissioned pieces of work from PricewaterhouseCoopers (PWC) being:
   - 7.1. A review of fund manager performance given ongoing concerns raised through the Finance, Audit and Risk Committee in 2022, and
   - 7.2. A stocktake of HBRC's overall investment strategy (thereby incorporating HBRC's wholly owned subsidiary HBRIC Ltd).
8. The Council paper at that time also addressed the potential financial impacts of Cyclone Gabrielle on HBRC's P&L and Balance Sheet, and the likely pressures that will be paced on the HBRC-group investment portfolio, both in terms of dividend demands to support HBRC operational expenditure, and the temptation to liquidate investment assets to support cyclone-recovery efforts.
9. Council agreed that the investment portfolio was intergenerational in nature and should not be 'deployed' for recovery projects, unless there is a compelling commercial investment return available.
10. Council acknowledged that HBRIC's current portfolio mix and dividend payment requirements

made meeting its ‘top-down’ performance targets difficult.

11. Council confirmed the objective/vision of the HBRIC Investment Strategy to deliver higher capital and dividend growth.

12. Council unanimously supported efforts for HBRC to seek to replicate the BOPRC model consistent with a vision for HBRC’s long term financial resilience and to support strategic regional growth initiatives. This included a direction for staff to report back to HBRC’s Corporate and Strategic Investment Committee with recommendations on rebalancing the group’s investment portfolio in a way that supports HBRC’s long term investment objectives.

Phase 2 – preliminary recommendations to support growth

13. It is widely recognised by Council Officers that HBRIC has been constrained in its ability to grow, given the labelling of strategic assets to all investments held by both HBRC and HBRIC. Labelling of such assets were attributable to past decisions and processes put in place to ‘over protect’ the investment endowment, particularly following the Port IPO process and RWSS water consents.

14. Despite this, In the 10 years through to 30 June 2022 financial year HBRIC’s net assets have increased from \$177m to \$369m. Through that period dividend payments of approximately \$118m have been paid to Council.

15. While at the time, taking a risk adverse position was deemed appropriate to set expectation of “protection”, these settings have now created in environment where stated returns expectations (e.g. 6% for HBRIC) are not being, and are unlikely to be, met.

16. Specifically:

    16.1. Inability of HBRIC to retain a portion of dividend/income to support investment growth.

    16.2. Strategic Assets have been locked down with a perception that they cannot be touched, liquidated or changed due to their particular importance.

    16.3. The SIPO is considered simple, off the shelf with 50/50 growth/income assets. This SIPO operates across both the HBRC and HBRIC portfolios even though there are considerable differences between the outcomes required. (commercial and non-commercial returns)

    16.4. As a result of the SIPO and reporting it is difficult to get clarity on how and who is actually actively monitoring and managing Investment funds and where returns are being made to which entity.

    16.5. Lack of clarity and consistency in managing allowing years with excess to be used rather than income equalized for future years.

17. The following work has been undertaken to take steps in addressing gaps and misalignments in the overarching investment settings across both HBRC and HBRIC of which will ultimately propose changes to the Investment Policy Council currently adheres and administers.

The HBRC Group Investment Assets

18. In referring to the Investment Assets of the HBRC Group, we are referring to the investment assets held in the name of HBRC and HBRIC.

19. Not all investment assets are today yielding a commercial return.

20. The assets are a mix of Strategic and Non-Strategic Assets.

21. The assets of the HRBC Group are:

CURRENT POSTION						
Asset type	**Owner**	**Manager**	**Strategic/ non-strategic**	**HBRC**	**HBRIC**	**Total**
Napier Port Holdings Ltd	HBRIC	HBRIC	Strategic		$ 276,100	$ 276,100
Future Investement Fund (MF)	HBRC / HBRIC	Jarden	Strategic (ex Port)	$ 39,403	$ 19,537	$ 58,940
Future Investement Fund (MF)	HBRC / HBRIC	Mercer	Strategic (ex Port)	$ 22,393	$ 30,854	$ 53,247
Long Term Investment Fund (MF)	HBRC	Jarden	Non Strategic	$ 24,000	$ -	$ 24,000
Long Term Investment Fund (MF)	HBRC	Mercer	Non Strategic	$ 23,971	$ -	$ 23,971
Forestry	HBRC	HBRC	Non Strategic	$ 7,105	$ -	$ 7,105
Leasehold Property (Napier)	HBRC	HBRC	Non Strategic	$ 45,791	$ -	$ 45,791
Leasehold Property (Wellington)	HBRC	HBRC	Non Strategic	$ 25,000	$ -	$ 25,000
HBRIC advance to HBRC	HBRC / HBRIC	HBRIC	Non Strategic	-$ 16,663	$ 16,663	$ -
Foodeast	HBRIC	HBRIC	Non Strategic	$ -	$ 1,701	$ 1,701
				$ 171,000	$ 344,855	$ 515,855

Expanding the HBRIC Role

About HBRIC

22. HBRIC Ltd is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002. It is 100% owned by Hawke's Bay Regional Council. HBRIC's mission is to optimise the financial and strategic returns to Council from its allocated investment portfolio to assist Council achieve its vision of "a healthy environment, and a resilient and prosperous community".

Steps Already Taken

23. Council workshops in March 2023 reaffirmed the mission of HBRIC, its intergenerational investment timeframes, and the opportunity for it to provide significantly more resilience capacity to HBRC's operational budget.
24. Council has supported this mission through the search for additional Independent Directors with a view to further building HBRIC's investment capability and capacity.

Growing Scale and Capability

25. HBRIC is currently staffed by Council and Contractors.
26. HBRIC should be a Centre of Investment Excellence for Council in managing the Commercial Interest and Investment Assets of the Council Group.
27. To be a Centre of Investment Excellence, HBRIC needs to have its own staff supported by an experienced Board. Council has commenced this process via board appointments.
28. HBRIC can achieve economies of scale by managing on behalf of the wider Council Group both HBRC and HBRIC investment assets.

HBRIC Expanded Role

29. HBRIC as HBRC's Investment Manager will:
    - 29.1. Be an Investment Manager for and to Council, with an experienced team and board capable of managing and administrating both HBRIC and HBRC's Investment Assets, and
    - 29.2. Manage the Groups Investment Assets that currently including a mix of strategic and non-strategic assets including Port of Napier shares, Managed Funds (LTIF and FIF), Investment Property (Wellington and Napier leasehold, FoodEast), and Forestry, and
    - 29.3. Through a Letter of Expectation has a mandate to grow and diversify its investment portfolio to meet key objectives (To be determined and outlined in a Letter of Expectations), and
    - 29.4. Through a Management Agreement, has the mandate to manage and transact on HBRC

investment assets to achieve key objectives (Management Agreement to be drafted, Objectives are set through the Letter of Expectation). Council will pay HBRIC for this service, and

29.5. Through a Loan Agreement (or similar), has through HBRC access to debt funding through the LGFA where such funding is not being utilised by HBRC. – An initial agreement is already in place.

30. *Does Council agree with this as the role for HBRIC?*

Setting HBRIC Objectives

31. The Local Government Act Section 64B allows councils to set Statements of Expectations for CCO and CCTO subsidiaries.

32. It is recommended that a Statement of Expectations be defined for HBRIC to clearly state their objectives towards Council and the community.

33. Other investment entities such as Quayside Holdings Limited (under Bay of Plenty Regional Council) and Christchurch City Holdings Limited (under Christchurch City Council) have existing Statement or Letters of Expectation.

34. This Statement or Letter will form the basis of consideration in any future HBRIC Draft Statement of Intent.

35. Draft HBRIC Potential Letter of Expectation objectives

35.1. Be the HBRC Commercial Entity as a Council Controlled Trading Organisation (CCTO), focused primarily on commercial returns in accordance with the Local Government Act, and

35.2. Retain a majority ownership of the Port of Napier as a Strategic Asset, and

35.3. Work with Port of Napier to ensure ongoing growth in return for the benefit of the region, and

35.4. For Non-Port Investment Assets: Achieve growth and return targets against a rolling five-year objectives, and

35.5. Achieve an annual, consistently growing cash income target for Council (as interest and dividend from HBRIC), and

35.6. Grow a reserve portfolio (over ten years) from retained profits to risk mitigate the Council from volatility in the Port income, and

35.7. Create key partnerships for growth with other regional investment entities, including iwi.

36. *What other objectives does Council wish be considered for HBRIC?*

Strategic Investment Assets

37. Both HBRC and HBRIC own portions of Council's investment assets, some of which are tagged as 'Strategic'.

38. As per the HBRC investment Policy, a strategic asset is an asset Council owns which is considered to have particular importance to the community and/or Council's ability to promote outcomes within the community.

39. More importantly, the Significance and Engagement Policy must be applied to any Council consideration to change a strategic asset.

40. Strategic assets appear to be a legacy of previous decisions made by Council, due to commercial implications meant some of the proceeds from the Napier Port IPO have remained with HBRIC and been invested.

41. The earlier table detailed the investment assets covered by the Investment Strategy and whom they are owned by. It also indicates whether the investment holding is strategic or not.

42. These distinctions are important because it has implications regarding return expectations and any realisation of capital gains and treatment of capital losses.

43. Any recommendations on changes to Strategic Assets to allow the HBRC Group to better utilise its Investment Assets will be brought forward to the first LTP workshop. This may include how the current Long Term Investment Fund is defined to allow assets to be better managed while still retaining the purpose of the proceeds as an intergenerational asset.

Next Steps

44. To support the above, the following items will be bought to Council or the HBRIC Board:

    44.1. A draft Letter of Expectation.

    44.2. Assess impact of Cyclone Gabrielle has impacted the income stream from the Port of Napier.

    44.3. A Forecast of distributions and income to Council from the Group assets over the LTP.

    44.4. A Management Services Agreement.

    44.5. Rebalance the portfolio HBRC and HBRIC will target moving more volatile assets to HBRIC, with income assets at HBRC.

    44.6. Model the future ownership of Group assets based on functional / legal obligation, volatility of the asset returns, tax efficiency, and complexity to change. This may involve settling or partially settling the loan between HBRIC and HBRC.

    44.7. Model the impact of holding of one year's future reserves (equivalent to the annual Port dividend) will have on HBRIC assets and its distribution.

    44.8. Establish a draft budget for the expanded HBRIC team and functions (staff, board, accommodation, due diligence). This will be partially offset by savings inside Council.

    44.9. Create a dividend policy to allow both feed into 2024 LTP and achieve Letter of Expectation and Reserving objectives.

    44.10. HBRIC to create a SIPO to achieve the objectives of the HBRC/HBRIC Group

    44.11. Bring a recommendation on Strategic Assets to the Long Term Plan meetings.

Decision Making Process

45. Council and its committees are required to make every decision in accordance with the requirements of the Local Government Act 2002 (the Act). Staff have assessed the requirements in relation to this item and have concluded:

    45.1. The decision does not significantly alter the service provision or affect a strategic asset, nor is it inconsistent with an existing policy or plan.

    45.2. The use of the special consultative procedure is not prescribed by legislation.

    45.3. The decision is not significant under the criteria contained in Council's adopted Significance and Engagement Policy.

    45.4. No-one is directly affected by this decision.

    45.5. Given the nature and significance of the issue to be considered and decided, Council can exercise its discretion and make a decision without consulting directly with the community or others having an interest in the decision.

Recommendations

That the Corporate and Strategic Committee:

1. Receives and considers the *Investment Strategy review phase 2 approach* staff report.
2. Recommends that Hawke's Bay Regional Council:
   2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted Significance and Engagement Policy, and that Council can exercise its discretion and make decisions on this issue without conferring directly with the community.
   2.2. Supports recommendations that:
      2.2.1. HBRIC has a broader role in managing all investments on behalf of the Group,
      2.2.2. HBRIC Board considers appropriate staffing to enable success,
      2.2.3. Investigate opportunities to better utilise or manage strategic assets that can be put forward to the next Long Term Plan.

Authored by:

Scott Hamilton **Rautaki**	**Tom Skerman** **HBRIC Commercial Manager**

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: HBRIC Ltd Quarterly update

Reason for Report

1. This item presents the HBRIC quarterly update.
2. Note that Napier Port Holdings will be presenting to today's committee meeting as well.

Financial Reporting

3. HBRIC's YTD Financial Statements as at 31 March 2023 are attached to this report.
4. Key Items to note.
   - 4.1. Statement of Financial Performance
     - 4.1.1. YTD surplus of $5.4M (excluding fair value movements through other comprehensive income)
     - 4.1.2. $5.17M of dividend revenue received from Napier Port Holdings Limited (NPHL) in December, next dividend due June 2023 $1.87M
     - 4.1.3. YTD $439K interest income
   - 4.2. Statement of Financial Position
     - 4.2.1. Decrease in net assets of $9.14M YTD to $360m as at 31 March 2023
     - 4.2.2. NPHL share price has decreased 3.64% YTD from $2.75 to $2.65 – total decrease is $11m
     - 4.2.3. Increase in managed funds value $1.6M to $44.8M

Managed Funds

5. The funds remain under management in compliance with Council's SIPO.
6. The value of managed funds with HBRIC as at 31 March 2023 amounted to $44.8M a movement of approximately $1.60M (3.721%) year to date.

HBRIC Managed Funds Performance Summary					
Fund	**1/7/22 Balance**	**YTD Divestments**	**31/3/23 Balance**	**YTD gain / (loss)**	**YTD % gain / (loss)**
Jarden HBRIC	13,672,448	-	14,251,268	578,820	4.233%
Mercer HBRIC	29,535,219	-	30,564,131	1,028,912	3.484%
HBRIC Total	**43,207,667**		**44,815,400**	**1,607,733**	**3.721%**

FoodEast

7. The following summary is drawn from the Foodeast Haumako (FoodEast) Q3 report to Limited Partners.
   - 7.1. The primary activity during the past quarter has been the awarding of tenders for

Building A, along with completing siteworks and initiating construction of Building B.

7.2. In early May FoodEast received the consent for Building A from HDC and executed a signed contract variation to include Building A with the existing contractor for building B, with the contract cost being within the QS estimate and budget parameters.

7.3. Building A is scheduled to start in May 2023. Completion of Building B is scheduled for completion November 2023, and the completion of building A is now scheduled for March 2024.

7.4. Dr Nicky Solomon continues to work with FoodEast in an adjunct advisory role, advising FoodEast from both her perspective as leader of the Hawke's Bay Regional Food Programme and her role within the New Zealand Food Innovation Network.

7.5. FoodEast has had strong interest from three potential tenants, and there are possible additional revenue streams associated with more bespoke fitout of some spaces. The Directors are investigating a vehicle for funding the fitout to meet specific tenant requirements.

7.6. With the awarding of consent for building A, the project moves into a new phase with a greater focus on building the FoodEast business model and commercialising the business.

8. HBRIC is conducting a recruitment process to appoint up to three additional directors to the FoodEast Board. The governance skill set must be aligned with the business needs to ensure that directors are developing the appropriate resource model to lead the commercialisation and the development of the business in addition to oversee the construction activity as we progress through the 2023 calendar year.

Napier Port

9. On 24 May Napier Port released positive trade volumes for the six months to 31 March 2023, on the back of higher container volumes (14.5% increase) and the return of cruise vessels (62 calls compared to 1 in the previous year). Overall revenue increased 22.8%

10. While the trade impact of Cyclone Gabriel on full year trade volumes remains uncertain as the region recovers, it is anticipated the port's long-term strategies and additional berth availability will deliver growth

11. Napier Port representatives are attending the Corporate and Strategic Committee meeting to present the half yearly results.

Other

12. HBRIC continues to support HBRC's Investment Strategy review. While this process was initiated several months prior to February's flooding events, Cyclone Gabrielle has reinforced the strategic importance of a strongly performing, intergenerationally focussed, arms-length, regional investment company.

13. To note: Council's decision on the recommendations of the committee appointed to recruit additional independent directors for HBRIC is due before the deadline of this paper, but these appointments will obviously align well with opportunities for HBRIC that may arise as a result of HBRC's investment strategy review.

Decision-making Process

14. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendations

That the Corporate and Strategic Committee receives and considers the *HBRIC Ltd quarterly update*.

Item 9

Authored by:

Jess Bennett
Senior Manager - Finance Recovery

Approved by:

Tom Skerman
HBRIC Commercial Manager

Attachment/s

1⇩ HBRIC financials March 2023

Statement of financial performance

Hawke's Bay Regional Investment Company Limited
For the 9 months ended 31 March 2023

	NOTES	YTD FEB 2023	FULL YEAR BUDGET	REMAINING BUDGET
Income				
Interest income				
Interest received - bank		98,414	100,000	1,586
Interest received - managed funds		90,441	55,000	(35,441)
Interest received - HBRC		249,946	333,261	83,315
Total interest income		**438,801**	**488,261**	**49,460**
Dividend income				
Dividends received - PONL		5,170,000	8,580,000	3,410,000
Dividends - managed funds		86,066	150,000	63,934
Total dividend income		**5,256,066**	**8,730,000**	**3,473,934**
Total Income		**5,694,866**	**9,218,261**	**3,523,395**
Expenditure				
Finance expenses				
Bank fees		41	200	159
Total finance expenses		**41**	**200**	**159**
Operating expenses				
Audit fees and charges		11,023	116,000	104,977
Contractor payments		32,824	120,000	87,176
Director's fees		33,750	45,000	11,250
Insurance		29,157	15,000	(14,157)
Interest Expense		-	102,000	102,000
Investment fees		54,534	80,000	25,466
Legal fees and charges		1,130	48,000	46,870
Realised (gain) / loss from managed funds		(19,434)	340,000	359,434
Management services - HBRC		97,500	152,000	54,500
Marketing and sales		4,910	-	(4,910)
Other projects		7,860	48,000	40,140
Professional advice		19,949	55,000	35,051
Project expenses		-	120,000	120,000
Total operating expenses		**273,203**	**1,241,000**	**967,797**
Subvention payment				
Subvention payments		9,516	-	(9,516)
Total Subvention payment		**9,516**	-	**(9,516)**
Total Expenditure		**282,760**	**1,241,200**	**958,440**
Surplus / (deficit)		**5,412,107**	**7,977,061**	**2,564,954**

Statement of financial performance

	NOTES	YTD FEB 2023	FULL YEAR BUDGET	REMAINING BUDGET
Other comprehensive income				
NPHL gain / (loss) on share revaluation	1	(11,000,000)	-	11,000,000
Unrealised gains / (losses) from managed funds	3	1,448,246	-	(1,448,246)
Total comprehensive income		(4,139,647)	7,977,061	12,116,708

Notes to the statement of financial performance

Hawke's Bay Regional Investment Company Limited
For the 9 months ended 31 March 2023

	JUL 2022-MAR 2023
1. Investment in listed equities	
Shares - Napier Port Holdings Limited	
Opening Balance	302,500,000.00
YTD gain / (loss) on revaluation for the period	(11,000,000.00)
Total Shares - Napier Port Holdings Limited	**291,500,000.00**

	JUL 2022-MAR 2023
Napier Port Holdings Limited	
Total number of shares	200,000,000.00
HBRIC's share at 55%	110,000,000.00
NZX price per share at reporting date	2.65
Value at reporting date	291,500,000.00

	JUL 2022-MAR 2023
2. Funds with fund managers: Mercer	
Transactions and value for the period	
Opening Balance	29,535,219.53
Net gain / (loss)	1,028,911.92
Closing value of portfolio	**30,564,131.45**

Notes to the statement of financial performance

	JUL 2022-MAR 2023
3. Funds with fund managers: Jarden	
Transactions and value for the period	
Opening Balance	13,672,447.85
Net gain / (loss)	578,820.60
Closing value of portfolio	**14,251,268.45**

	JUL 2022-MAR 2023
Net gain / (loss) - Jarden	
Gross interest	90,440.75
Net dividend income	86,065.79
Investment fees	(54,534.43)
Realised gain / (loss) on sale of investment	19,434.39
Unrealised gain / (loss) on revaluation of investment	419,334.26
Net gain / (loss)	**560,740.76**

	JUL 2022-MAR 2023
Gains / (losses) recognised in other comprehensive income	
Revaluation of managed funds	1,448,246.18

Statement of financial position

Hawke's Bay Regional Investment Company Limited
As at 31 March 2023

	NOTES	31 MAR 2023	30 JUN 2022
Equity			
Asset revaluation reserves		9,476,519	19,028,272
Shareholder's funds			
Authorised "A" share capital		177,500,000	177,500,000
Retained earnings		172,981,811	173,877,875
Current Year Earnings	4	5,412,107	8,128,479
Dividends paid		(5,000,000)	(9,024,543)
Total shareholder's funds		**350,893,918**	**350,481,811**
Total equity		**360,370,436**	**369,510,084**
Liabilities			
Current liabilities			
Accrued expenditure		18,080	107,378
Trade accounts payable		4,313	27,462
Subvention payable		-	97,155
Current tax liability		28,000	28,000
Total current liabilities		**50,392**	**259,995**
Total liabilities		**50,392**	**259,995**
Assets			
Current assets			
Cash and cash equivalents			
BNZ accounts		270,332	4,693,379
Jarden Cash Facility (ANZ)		5,052,764	559,857
Total Cash and cash equivalents		**5,323,096**	**5,253,236**
Accounts receivable		83,315	-
HBRC loan interest receivable		-	83,315
Prepayments		72,634	101,791
GST		5,438	3,563
Current tax asset		439	-
Total current assets		**5,484,922**	**5,441,904**
Non-current assets			
Shares - Napier Port Holdings	1	291,500,000	302,500,000
Funds with fund managers	2	44,815,400	43,207,667
HBRC loan receivable		16,663,036	16,663,036
Investment in Foodeast GP Limited		1,701,280	1,701,280
Deferred tax asset		256,191	256,191
Total non-current assets		**354,935,907**	**364,328,174**
Total assets		**360,420,829**	**369,770,079**
Net assets		**360,370,436**	**369,510,084**

Notes to the statement of financial position

Hawke's Bay Regional Investment Company Limited
For the 9 months ended 31 March 2023

	DEC 2022-MAR 2023
1. Investment in listed equities	
Napier Port Holdings Limited	
Opening balance	316,800,000
Net gain / (loss)	(25,300,000)
Closing balance at reporting date	**291,500,000**

	DEC 2022-MAR 2023
Napier Port Holdings Limited	
Total number of shares	200,000,000
HBRIC's share at 55%	110,000,000
NZX price per share at reporting date	3
Shares - Napier Port Holdings	291,500,000

	DEC 2022-MAR 2023
2. Funds with fund managers	
Mercer	
Opening Balance	30,222,025
Net gain / (loss)	342,107
Total Mercer	**30,564,131**
Jarden	
Opening Balance	13,950,052
Net gain / (loss)	301,217
Total Jarden	**14,251,268**
Total closing value of funds with fund managers	**44,815,400**

	DEC 2022-MAR 2023
3. Net gain - Jarden	
Gross interest	42,087
Net dividend income	37,447
Investment fees	(36,073)
Realised gain / (loss) on sale of investment	(20,260)
Unrealised gain / (loss) on revaluation of investment	419,334
Net gain / (loss)	**442,536**

4. See statement of financial performance for current year profit.

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Financial summary for the period to 31 March 2023

Reason for Report

1. This item presents the Committee with a summary of financial results for the first three quarters of the 2022-2023 financial year.
2. It also provides a high-level full year forecast for the year-end financial position by activity, including commentary about possible requests to carry forward unspent budget to the next financial year.

Executive Summary

3. The operating position for the council to 31 March 2023 was $16.6m adverse to budget, and the full year forecast is tracking towards being $21.3m deficit. These adverse variances are driven by Cyclone Gabrielle response expenditure and lower than expected investment returns.
4. Operating expenditure for the Groups of Activities for the 9 months to 31 March 2023 was $13.6m over budget due to Cyclone Gabrielle response expenditure. Total forecast operating expenditure on the Cyclone response is $40.8m, which when added to the full year forecast for business-as-usual activities puts the forecast year end position at $23.1m above budget.
5. The operating income from activities was $0.8m above budget YTD and is forecast to be $4m above budget by year end, due to grants and claim income related to Cyclone Gabrielle.
6. Capital expenditure net of capital grants was on track YTD and forecast to be $2.7m above budget by year end. The $21.6m Cyclone Gabrielle Response capex expenditure is mostly offset by significant underspends in the business-as-usual budgets, however many of the projects disrupted by the Cyclone will still need to be progressed in the new financial year, and a carry forward of budgets will need to be considered.
7. Investment income net of investment expenditure was $4.7m behind budget YTD and forecast to be $3.2m behind budget by year end, mostly due to a shortfall in HBRIC income, and lower than expected returns on managed funds in the first half of the year.
8. Rates income is $0.8m ahead of budget YTD and forecast at $1.0m ahead of the annual budget, mostly due to rates penalty income significantly above what was assumed in the Annual Plan.
9. Overhead cost centres were on track YTD and forecast to be within overall budget by year end, however this is largely due to the underspend in ICT software-as-a-service development, offsetting the increased treasury costs (interest charges for borrowing). The overhead costs are included as part of the overhead allocation in the above operating expenditure results.
10. While the operating position for the Council is forecast to be in deficit, there are still activities that were budgeted to occur this financial year but have not been delivered due to disruption from the Cyclone. These commitments will continue in the 2023-2024 financial year and will need budget. The indicative quantum of carryforward budget that is likely to be needed is $15.6m ($6m opex and $9.6m capex), much of which is loan or reserve funded. Finance staff will do a full analysis of budget carryforwards required once the financial year end results are available and present this to Council for consideration and approval in August.

Background

11. All revenue and expenditure carried forward at the end of the 2021-2022 financial year has been recognised in the 2022-2023 budgets. This is the difference between the LTP/Annual plan budgets presented and the 'Revised Budget'.

12. Groups of activities (GOA) expenditure include each activity's external expenditure, internal staff time, finance costs (interest and debt repayments), depreciation/amortisation and a share of overheads. The operating income presented for each GOA, includes fees and charges, user charges and recoveries and grants, and excludes rates, reserves or loan funding, which are allocated to activities at year end.

Operating Income and Expenditure ($,000)

	YTD Expenditure			Full Year Expenditure			
Group of Activity	Actual	Budget	%	Forecast	Revised Budget	%	LTP/Annual Plan budget
Governance and Partnerships	7,389	5,121	144%	10,481	10,958	96%	10,545
Policy & Regulation	6,416	9,028	71%	8,233	12,320	67%	11,076
Integrated Catchment Management	16,377	23,334	70%	23,458	32,962	71%	30,992
Asset Management	11,756	12,148	97%	13,943	16,161	86%	16,061
Emergency Management	1,045	2,426	43%	1,255	3,301	38%	3,301
- Cyclone Gabrielle Response	22,593	-	-	40,789	-	-	-
Transport	5,383	5,326	101%	7,838	7,160	109%	7,036
	70,959	57,382	124%	105,997	82,862	128%	79,010

	YTD Operating income			Full Year Operating income			
Group of Activity	Actual	Budget	%	Forecast	Revised Budget	%	LTP/Annual Plan budget
Governance and Partnerships	984	602	164%	2,395	802	299%	802
Policy & Regulation	2,644	2,435	109%	3,054	3,297	93%	3,297
Integrated Catchment Management	4,013	4,726	85%	5,514	5,939	93%	6,038
Asset Management	1,398	2,199	64%	1,839	3,332	55%	3,332
Emergency Management	50	149	34%	51	199	26%	199
- Cyclone Gabrielle Response	1,195	-		4,261	-	-	-
Transport	3,439	2,831	121%	4,326	3,827	113%	3,827
	13,724	12,942	106%	21,440	17,395	123%	17,494

13. Governance and Partnerships was overspent $2.2m YTD, and $0.3m ahead in operating income.

    13.1. The YTD overspend is mostly due to a timing variance in sustainable homes loan repayments but is forecast to be in line with budget by year end. Full year forecast income is for sustainable homes is $0.3m ahead of budget due to additional interest earnings following the increase in interest rate last year from 4% to 6%.

    13.2. Regional development is forecast to be $1.1m overspent due to costs of establishing the Regional Economic Development Authority (REDA) and new business hub in Hastings, though this is offset by additional operating grants from other Councils.

    13.3. Tangata whenua partnerships is forecast to be underspent by $1m, due to unfilled staff vacancies and cyclone disruptions.

14. Policy and Regulation is underspent $2.6m YTD, and $0.2m ahead in operating income.

    14.1. Compliance is behind budget ($1.1m) due to delays in recruitment, and this is further compounded by staff time reprioritised to the Cyclone response.

    14.2. Planning is behind budget ($1.6m) mostly due to the pause of the Kotahi programme while staff resources have been re-prioritised to the cyclone response and recovery activities, and a carry forward of this budget may be required to support this activity next financial year.

    14.3. Consents is ahead $0.2m in operating income YTD, which offsets additional expenditure above budget on consent applications in progress ($0.3m).

15. Integrated Catchment Management is underspent YTD $6.9m, and $0.7m behind budget in operating income.

15.1. Environmental science is $1.8m behind budget YTD, and this underspend is forecast to remain by year end. The underspend is largely driven by unfilled staff vacancies, reduction in depreciation budget requirement due to audit direction to not capitalise data models, and delays across a number of contracted work programmes.

15.2. Catchment operations was $4.8m behind budget YTD, largely due to disruption caused by Cyclone Gabrielle ($2m is in the Erosion Control scheme due to delays in completion of landowner projects, meaning grants not yet paid out, $0.5m in Land for life, $0.7m in the Environment Enhancement programme and $0.9m in biodiversity/biosecurity activities). Full year forecast is tracking at $4.9m underspend, and a carry forward of budget to complete committed works will likely be required.

15.3. The operating income variance was $0.7m behind YTD mostly related to phasing of grants for the Whakaki environmental enhancement work programme, but this is offset by reduced expenditure. The full year forecast is $0.4m behind budget and is mostly driven by reduced annual freshwater science charges ($0.6m), offset by additional grant income to support biodiversity and biosecurity projects ($1m) (e.g. Predator Free Hawkes Bay in Mahia, and DOC *jobs for nature* biodiversity fencing).

16. Asset Management was $0.4m underspent YTD, and $0.8m behind in operating income.

16.1. Flood Protection and Control Works was underspent YTD by $1.5m due to Cyclone Gabrielle response and recovery work taking priority over planned maintenance activities.

16.2. Regional Water Security projects are continuing to progress at the research/assessment phase, meaning costs are classified as opex rather than capex as budgeted ($1.6m opex overspend offsets $1.9m underspend in capex). The projects will continue into the new financial year, and a carryforward of unspent budget will be requested.

16.3. The majority of the YTD income underachievement relates to reduced Coastal Hazards contributions from Territorial Local Authorities ($0.6m), which is offset by reduced expenditure. Full year forecast is $1.5m behind budget, of which $0.9m is due to significantly reduced forestry income, where harvest has been postponed to next financial year due to a mix of wet weather conditions and an unfavourable export log market.

17. Cyclone Gabrielle response expenditure includes staff time reprioritised from business-as-usual activities, as well as the external expenditure required for the CDEM welfare response, the waste management response and set up of the Silt task force and the disaster relief trust administration. The YTD operating income includes the Government grant contribution to the disaster relief trust, and the full year forecast includes anticipated claims for welfare costs from NEMA this financial year. The forecast does not currently include business interruption insurance proceeds or infrastructure recovery claim costs from NEMA, as the quantity and timing of these funds is not yet certain.

18. Transport expenditure was in line with budget YTD, largely due to the unbudgeted indexation costs on the GoBus contract being offset by a reduced overhead allocation (where the Cyclone response expenditure is drawing a larger proportion of the cost allocation), and due to credits received for reduced schedules and cancelled services. These offsets also impact the full year forecast, with the net operating position only at $0.2m above budget.

Capital Expenditure (net of capital grants) ($,000)

Group of Activity	YTD Net Expenditure Actual	YTD Budget	YTD %	Full Year Net Expenditure Forecast	Revised Budget	%	LTP/Annual Plan budget
Governance and Partnerships	3,594	5,176	69%	4,400	6,901	64%	6,901
Integrated Catchment Management	480	1,128	43%	873	2,867	30%	2,291
Asset Management	1,066	11,645	9%	3,069	17,308	18%	12,751
- Cyclone Gabrielle Response	13,874	-	-	21,570	-	-	-
Transport	-	7	0%	-	10	0%	10
Corporate Services - ICT	733	1,475	50%	1,096	1,902	58%	1,476
Corporate Services - vehicles/buildings/Furniture	1,855	2,128	87%	3,107	2,434	128%	800
	21,617	21,559	100%	34,115	31,422	109%	24,229

19. Governance & Partnerships was $1.6m behind budget YTD and anticipated to be $2.5m underspent at year end, due to the ongoing decline in the number of sustainable homes grant applications received.

20. ICM was $0.6m underspent YTD due to delays in the Whakaki Weir construction, groundwater monitoring drilling and environmental monitoring equipment replacements. The full year forecast is an underspend mostly in the Land for life project ($1.5m), where HBRC loan funding to farmers as originally envisaged has not eventuated as yet.

21. Asset Management expenditure was $10.6m behind budget, and this underspend is forecast to increase to $14.2m by year end.

    21.1. The majority of the YTD underspend is in flood protection and control works ($7.6m), where weather events delayed progress in the first half of the year, and then Cyclone Gabrielle rabid rebuild projects have taken top priority since.

    21.2. Regional Water security was $2m behind budget YTD, as the expenditure is classified against opex for this current phase of work.

22. The Cyclone Gabrielle response expenditure includes the purchase of generators, stop bank and pump station rapid rebuild projects, and the replacement of environmental monitoring equipment lost or damaged in the flood. Assessments on how to treat these costs at year end are currently being undertaken.

23. ICT expenditure was $0.7m behind budget YTD and forecast to remain underspent at year end. Business computing is forecast to be $1m underspent, due to disruptions caused by Cyclone Gabrielle (staff re-prioritised to the response and recovery activities), and due to the delay in scaling up resource capacity as intended to accelerate the programme of work. The business computing underspend is slightly offset by additional expenditure in hardware driven largely by the increase in staff numbers.

24. Vehicles/Buildings/Furniture expenditure was $0.3m behind budget YTD but forecast to be $0.7m overspent by year end, in part due to a budget assumption of $0.8m gain on sale of vehicles, which is not going to be achieved.

    24.1. Expenditure on new and replacement vehicles was $0.4m overspent YTD and forecast to be $0.6m overspent by year end, due to additional unbudgeted vehicle requirements combined with an increase in vehicle purchase prices (particularly for eco clean vehicles).

    24.2. The accommodation refurbishments project was underspent $0.9m YTD due to consent and engineering delays, combined with impacts from the Cyclone. The reception reconfiguration and ground floor upgrade will continue into the new financial year, and a carry forward of unspent budget will be requested.

Investment Income ($,000)

	YTD Income (net)			Full Year Income (net)		
	Actual	Budget	%	Forecast	LTP/Annual Plan budget	%
Managed funds	3,731	4,604	81%	6,052	6,139	99%
HBRIC	5,014	7,677	65%	6,884	10,236	67%
Wellington Investment property	661	1,023	65%	862	878	98%
Leasehold rent (Napier)	1,200	1,974	61%	1,555	1,386	112%
	10,606	15,277	69%	15,353	18,638	82%

25. The income figures presented in the table above are presented net of investment expenses and exclude property fair value gains (not yet assessed).

26. Managed funds have seen a $2m favourable variance within the third quarter, reflecting improved financial markets.

27. HBRIC income reflects the transfer of the interim dividend from Napier Port and the forecast underachievement reflects the expectation that the final dividend will be impacted by Cyclone Gabrielle.

Rates collection ($,000)

	YTD Expenditure			Full Year Expenditure		
	Actual	Budget	%	Forecast	LTP/Annual Plan budget	%
Rate collection costs	331	336	99%	350	449	78%
Remissions/Refunds/Write-offs	61	4	1572%	61	5	1179%
	393	340	115%	412	454	91%

	YTD Income			Full Year income		
	Actual	Budget	%	Forecast	LTP/Annual Plan budget	%
General rates	10,350	10,154	47%	13,827	13,538	102%
Targeted rates	15,266	15,239	100%	20,391	20,197	101%
Penalty Income	655	97	673%	655	130	504%
	26,270	25,490	103%	34,872	33,865	103%

28. Rate collection costs are on track YTD but forecast to be $0.1m underspent by year end, mostly due to reduced debt collection costs (a pause was placed on debt management activities after the Cyclone).

29. Rates penalty income was $0.5m above budget YTD and $0.2m above the amount in the last financial year. The increase is due to a number of factors including returning to the standard due dates for imposing penalties and the increase in the rates charged.

30. Rates arrears decreased this quarter from $373k to $257k.

Overheads ($,000)

	YTD Expenditure			Full Year Expenditure			
	Actual	Budget	%	Forecast	Revised Budget	%	LTP/Annual Plan budget
Corporate Support	3,750	3,163	119%	4,917	4,570	108%	4,482
Finance	1,462	1,550	94%	2,090	2,067	101%	1,891
Treasury	1,047	770	136%	1,975	1,024	193%	1,024
ICT	6,155	6,657	92%	8,960	10,594	85%	8,625
Communications	673	643	105%	1,001	858	117%	811
P&C	1,356	1,218	111%	1,716	1,624	106%	1,591
Strategy & Governance	542	718	76%	856	957	89%	946
Executive	1,131	1,200	94%	1,585	1,600	99%	1,540
Maori Partnerships	311	442	70%	426	589	72%	597
	16,428	16,361	100%	23,526	23,882	99%	21,506

31. Overhead costs overall are slightly ahead of budget YTD, and forecast to be finish within budget, however within cost centres there are some larger variances.

31.1. Corporate Support was $0.6m above budget YTD due to additional fleet running costs (from fuel price pressure as well as increase in fleet numbers) and increase in depreciation and finance costs for fleet and the accommodation project.

31.2. Treasury was on track YTD but forecast to be overspent by year end due to the increased cost of borrowing (interest rates).

31.3. ICT expenditure is forecast to be $1.7m underspent at year end, relating to delays in the software-as-a-service development programme due to staff being redeployed to cyclone response and recovery activities ($0.9m), and lower storage costs than anticipated in budget ($0.4m). The software-as-a-service development budget is loan funded, therefore savings this financial year reduces our borrowing requirements.

31.4. Communications is forecast to be $0.1m above budget due to staffing changes, including bringing forward additional resource from Y3 of the LTP to meet work demands.

31.5. People and Capability (P&C) is forecast to be $0.1m above budget due to increase in salary protection insurance costs, and increased recruitment expenditure and health & safety training related to continued staff turnover.

31.6. Māori Partnerships and Strategy & Governance are forecast to be below budget due to delays in recruitment.

Indicative Carry forwards

32. Excluding the additional expenditure incurred because of the Cyclone Gabrielle response, the 'business-as-usual' activity budgets are forecast to be underspent by $17.6m in opex, and $18.8m in capex. Some committed activities that are not expected to be completed by 30 June 2023, will need to continue into the new financial year. The table below provides a summary of the activities which are forecast to be underspent and which are likely to require a carry forward of budget to complete committed projects in the 2023-2024 financial year.

Group	**Activity**	**Opex/ Capex**	**Indicative funding to be carried forward ($,000)**				
			General Rates	**Targeted rates/ Reserves**	**Loan funding**	**Third party revenue**	**Total**
Asset Management	Flood protection schemes	Capex	19	966	882	-	**1,868**
Asset Management	Flood protection schemes	Opex	20	180	-	-	**200**
Asset Management	Open spaces	Capex	115	-	1,038	-	**1,153**
Asset Management	Regional Water Security	Opex		3,500			**3,500**
Integrated Catchment Management	Environmental Science (drilling)	Capex	-	-	277	-	**277**
Integrated Catchment Management	Environmental Science (models)	Opex	-	-	467	-	**467**
Integrated Catchment Management	Monitoring equipment	Capex	-	170	-	-	**170**
Integrated Catchment Management	Biodiversity/EnviroEnhancement	Opex	210		100	875	**1,185**
Integrated Catchment Management	Erosion Control Scheme	Opex	-	-	1,500	-	**1,500**
Integrated Catchment Management	Land for life	Capex	-	-	1,546	-	**1,546**

Group	Activity	Opex/ Capex	Indicative funding to be carried forward ($,000)				
			General Rates	Targeted rates/ Reserves	Loan funding	Third party revenue	Total
Integrated Catchment Management	Land for life	Opex	-	265	-	-	**265**
Policy & Regulation	Enforcement proceeds	Opex	-	-	-	493	**493**
Policy & Regulation	Kotahi	Opex	1,400				**1,400**
Corporate	Buildings/ furniture/ Radio Network	Capex	-	200	720	-	**920**
Corporate	ICT - infrastructure	Capex	-	65	140	-	**205**
Corporate	ICT – Software-as-a service	Opex	-	-	500	-	**500**
	Total $,000	**Capex**	**134**	**4,901**	**4,603**	**-**	**9,638**
	Total $,000	**Opex**	**1,630**	**445**	**2,567**	**1,253**	**6,009**

33. Final carry forward requests will be presented to Council for approval in August, once the interim financial year end results are available. Only funds that are required to be spent during the 2023-2024 financial year will be put forward for carry forward from 2022-2023, and any remaining unspent budget amount still required will be addressed as part of the Long Term Plan 2024 process.

Decision-making Process

34. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That the Corporate and Strategic Committee receives and notes the *Financial summary for the period to 31 March 2023*.

Authored by:

Amy Allan
Senior Business Partner

Chris Comber
Chief Financial Officer

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Organisational Performance report for the period 1 January – 31 March 2023

Reason for Report

1. This item presents the Organisational Performance report for quarter three which is the period 1 January – 31 March 2023.

Content of the Report

2. The report contains four parts:
   2.1. **Executive Summary** with content dedicated to Cyclone Gabrielle and the region's response (pp 4-5).
   2.2. **Corporate Metrics** that focus on how well we are performing across a number of corporate-wide measures such as employee turnover and corporate carbon footprint (pp 6-12)
   2.3. **Level of Service Measures** (LOSM) by group of activities with adopted targets, traffic light status and commentary (pp 13-22)
   2.4. **Activity Reporting** by group of activities with non-financial and financial traffic light status and commentary (pp 23-36).
3. Organisational Performance reports were established 2018. The status and commentary reporting are rolled up from cost centre to activity level. Commentary by cost centre is still available to committee members via the PowerBI dashboard (see points 10-14 below).
4. Staff complete their reporting in a software tool called Opal3. For LOSM and activity reporting, staff select the status (red, amber, green) of non-financial results and provide commentary on what they did in the quarter against their annual work plans. Traffic light status of financial commentary is selected on predetermined parameters with commentary provided by staff.
5. The financial 'lines' are broken down (where applicable) to:
   5.1. Operating expenditure (OPEX) which includes external costs, internal time and personnel costs
   5.2. Capital expenditure (CAPEX) which includes external costs and internal time
   5.3. Other revenue which includes fees & charges, grants and proceeds from other income – both OPEX and CAPEX.

Points of Interest

6. Corporate metrics (pp 6-12)
   6.1. Our LGOIMA requests have reason sharply this quarter and there have been delays in providing required information. This quarter, eight were not provided with the information requested within the required 20 working days timeframe.
   6.2. There was a very high fuel spend ($521k) this quarter as a result of using private suppliers to keep depots and 24/7 generators going. Their price is inclusive of delivery costs. There was also an increase in kilometres travelled and use of plant (heavy machinery) during the response. The cost of diesel also went up.

6.3. The quarterly employee turnover has risen from 3% to 6.7% this quarter with 24 resignations. The 12-month rolling turnover dipped slightly to 21.5%.

6.4. There is additional information on staff wellness and our Health, Safety and Wellbeing team's support around the cyclone response.

7. Levels of service measures (pp 13-22)

7.1. There are 14 not on track and at risk of not reaching the end of year target, compared with 11 last quarter. Most of these are ICM and Asset Management activities.

7.2. There are 4 not likely to reaching the end of year target, compared with 1 last quarter.

8. Activity reporting (pp 22-36)

8.1. Staff have reported ten activities as 'off track' (amber) from their usual workplans. This has been as a result of deploying staff and resources to support the response and recovery.

8.2. Much of the financial reporting remains greater than 10% 'off track' (red) however, most of these are underspends in the budget due to wet weather (pre-cyclone) and/or the cyclone itself delaying work programmes and spending.

9. The Reporting Dashboard (PowerBI) has additional commentary not included in this report, which is edited for readability.

Reporting Dashboard (PowerBI)

10. The dashboard is produced using PowerBI to give a visual representation of the results over time. The Organisational Performance Report document is produced from the dashboard.

11. The dashboard also provides committee members with the ability to delve deeper into activities of interest (via cost centres). There is often more commentary in the dashboard than on the published report.

12. To access the dashboard, please open your PowerBI app on your iPad. The dashboard will be on your homepage. Staff from the Strategy and Performance team are available to go over the dashboard with councillors who would like to review its content.

13. Strategic projects commentary and status by schedule, risk, and budget are updated on a monthly basis on the dashboard. They are also included in the Strategic Projects Report that is presented to Council monthly. Note that the last month of updates was April 2023.

14. We are continuously improving the dashboard and improving the data reliability across all areas and would appreciate any feedback you have.

Decision Making Process

15. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That Hawke's Bay Regional Council receives and notes the *Organisational Performance report for the period 1 January – 31 March 2023*.

Authored by:

Hariza Adlan **Performance & Data Analyst**	**Sarah Bell** **Acting Strategy & Governance Manager**

Approved by:

Desiree Cull
Executive Officer to CE

Attachment/s

1	2022-2023 Q3 Organisational Performance Report	Under Separate Cover

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: HBRC Cyclone Gabrielle impacts recognition and disclosure update

Reason for report

1. This item provides the committee with a high-level update on the planned approach for recognising and disclosing the impacts of Cyclone Gabrielle in the year end annual report financial statements and potential impacts on the audit opinion.

Executive summary

2. There are a number of areas in the year-end financial statements that will be affected by the impacts of the significant event of Cyclone Gabrielle during the year.
3. We are having ongoing discussions internally and with our auditors to navigate how best to recognise and disclose these impacts.
4. Key items identified and discussed to date are outlined below.
5. Due to the potential significance of the proposed variation from PBE accounting standard requirements for Infrastructure Assets, the auditors have indicated there will likely be an impact on the audit opinion.

Discussion

Plant, property & equipment

6. A number of Plant, Property & Equipment (PP&E) assets were lost or damaged in the Cyclone.
7. Where an asset has been lost or damaged beyond repair, we plan to dispose of the asset from the fixed asset register. Most affected assets fall into this category.
   - 7.1. As a number of these assets still had a carrying value, we expect there will be an increased loss on disposal for the year.
8. Where an asset was damaged but has been or can be repaired and will continue to be used, we will assess whether any impairment needs to be recognised. Discussions held so far do not indicate need for any impairments.
9. The asset classes 'Land', 'Admin Buildings' and 'Hydrology Equipment' are recognised at fair value. These asset classes were last revalued in 2022.
10. PBE IPSAS 17 (44) requires that revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Historically this has been a 3-year cycle for each of these asset classes.
11. We have reviewed the impacts of the flood on these asset classes, and we do not believe that there are any indicators that there would be a significant change in fair value of these asset categories because of the Cyclone (or any other indicators), as by 30 June impacted assets will either be written off, repaired or are considered to still be operating effectively and hold the same value, therefore no revaluations will be performed this year and the 3 year-cycle will be maintained.

Infrastructure assets - Derecognition vs Impairment

12. Infrastructure Assets are one of the most significantly impacted areas of HBRC.

13. The extent of the damage to these assets means that significant response and recovery work has been completed since the Cyclone and is ongoing. The nature of these assets also means that reconciling the damage identified to individual asset units in the financial register is not 1:1 and is challenging.

14. Where an individual asset unit is assessed as predominately requiring replacement, the asset should be derecognised (written off) under PBE IPSAS 17 – Plant and Equipment and a loss on disposal may arise.

15. Where the assessment is that the asset unit predominately requires repairment, then the asset repairment costs should be expensed as incurred or alternatively the asset unit should be impaired under PBE IPSAS 21 – Impairment of Non-Cash-Generating Assets and then the repairment costs would be capitalised as incurred.

16. From the inspections performed to date, most of the damage to Infrastructure assets is considered repairable and significant costs have been incurred to date to repair said assets with work ongoing. These costs are currently reflected in Infrastructure Capital work in progress.

17. Due to the significant ongoing work being performed on the reinstatement of infrastructure assets which is moving at a fast pace, it is not considered practical to perform an impairment assessment with sufficient detail to determine the level of impairment as at 30 June 2023 with sufficient reliability.

18. Therefore, the planned approach is to impair Infrastructure assets as a whole by the total Infrastructure response and recovery capital work in progress balance at 30 June 2023, with this being the best information available of the deemed impairment/repairment cost to date of the Infrastructure assets that were damaged.

19. We note that this impairment approach will not address any impairment of assets damaged that have not yet had repairment work commenced as at 30 June 2023 and therefore is not a complete picture of the possible impairment but is considered the best level of impairment we can practically identify.

20. As a result, the only net movement in Infrastructure assets for the financial year will be any additions/disposals/depreciation from BAU operations.

21. As the Infrastructure assets are revalued, the impairment loss will be recognised through other comprehensive income against the infrastructure revaluation reserve to the extent that the revaluation reserve exceeds the impairment value. Any impairment value greater than the revaluation reserve will be expense through the operating surplus/deficit.

22. As no formal assessment will be completed and the impairment recognised does not address all assets that may be impaired as at 30 June 2023, HBRC would not be in compliance with PBE IPSAS 21 – Impairment of Non-Cash-Generating and there would likely be an audit opinion impact.

Infrastructure assets - valuation

23. The asset category 'Infrastructure' is recognised at fair value. These assets were last valued at 30 June 2020.

24. PBE IPSAS 17 (44) requires that revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Historically this has considered to be a 3-year cycle for each of these asset classes.

25. Therefore, the valuation process was due this financial year. However, we have discussed this with the Asset Management team and together we propose that the valuation be postponed

until 30 June 2024 due to:

25.1. The current state of assets and the volume of work being done/still to be done on Infrastructure Assets and the pace at which this is being completed. As a result, there is a high level of uncertainty that would be present in any valuation completed.

25.2. That the work being performed since the Cyclone and over the coming months will provide more recent and relevant information that can be utilised in a future valuation process.

25.3. The prioritisation of precious resources – the valuation process requires significant time from internal staff and qualified specialists who are hard to get and whose time would be better spent on the response work to make communities safe again rather than valuing the assets.

25.4. It will be more efficient and effective to perform the valuation next year once the majority of the work is completed, and the Infrastructure Assets are in a much more stable and certain position. Based on the current level of uncertainty and level of activity planned in Infrastructure assets over the coming 12 months, a valuation will likely be required again next year even if one was performed this year.

26. In addition to the triennial cycle valuation requirements, we have considered the current valuation of assets that was performed 3 years ago and note that there have been significant changes in prices and replacement costs which is evidenced by the increases in the business price index for capital goods, recent capital work and the reinstatement costs being incurred post Cyclone. Therefore, we consider that there is an indication that the current fair value of the infrastructure assets would likely materially differ from the fair value at 30 June 2023 if a valuation were to be completed.

27. Therefore, by not completing a revaluation this year we would not be in compliance with PBE IPSAS 17 – Plant and Equipment and there would likely be an audit opinion impact.

CDEM assets

28. A number of assets such as generators, IT equipment, etc were procured during the Cyclone response period. Decisions are currently being made on the future of these and any that would be retained by HBRC would be added as additions to our fixed assets. Others will be treated as operating expenditure as they may not have a continuing useful life, have been paid for by insurance or NEMA claims and are technically their assets or have been purchased by third parties.

Reimbursement of cyclone costs

29. There are significant amounts of reimbursements available for Cyclone related expenditure, these include insurance proceeds, NEMA funding and other Government grants.

30. PBE IPSAS 19 – Contingent Liabilities and Contingent Assets (43) states that an asset can only be recognised where it has become virtually certain that an inflow of economic benefit will arise, and the assets value can be reliably measured. If the transaction is not virtually certain or cannot be reliably measured but is probable, then it can be disclosed as a contingent asset.

31. Therefore, status of any claims for these funding sources at 30 June 2023 will influence how these amounts are disclosed in the financial statements. The different options are set out below.

Threshold	Threshold met at 30 June 2023	Threshold only met after 30 June 2023 but before financial statements are approved
Claim is virtually Certain	Recognise the asset	Disclose the Claim
Claim probable but not virtually certain	Disclose the claim	Disclose the Claim
Claim not probable	No disclosure	No disclosure

32. Based on progress to date, we expect a small number of insurance and NEMA claims to be submitted and accepted before 30 June 2023 (and therefore recognised as revenue/assets), however the majority of potential claims will not be submitted and processed until after balance date and therefore are unlikely to meet the threshold to be recognised as an asset in the Statement of financial position and will be disclosed as contingent assets in the notes.

33. As a result, there will be a significant mismatch in the Statement of Comprehensive revenue and expense where significant expenses will be reflected in the 2023 financial year but related reimbursement income from Insurance and NEMA will not be reflected until the 2024 financial year or later years.

34. In some cases, insurers have paid out some of our policy in advance of receiving claims on the understanding that claims will exceed these amounts. In these instances, these amounts will be recognised as revenue in advance until the amounts have been accepted via claims by the insurers.

Hawke's Bay Regional Recovery Agency

35. There are agreements in place with the DIA for HBRC to receive the funds for the Hawke's Bay Regional Recovery Agency (HBRRA) while the legal status of the HBRAA is being worked through.

36. To date, these agreements cover the Sediment and Debris funding (Local Govt, Commercial Entities and Mana Whenua) and the Regional Recovery Structure Establishment funding for which $106 million and $1.5 million has been received.

37. The current agreement sets out HBRC as the recipient of the funding however, HBRC may be required to (or elect to) distribute funding to other recipients in accordance with a funding schedule or direction from DIA.

38. The funding made available is Grant funding.

39. On expiry (30 June 2024) or termination of the Agreement, HBRC must refund any amounts received or allocated to HBRC as the recipient of the agreement that are more than the amounts required as spent towards the Agreed purpose.

40. From the agreements in place, it is considered that HBRC is a principal in the arrangement and is not acting as an agent for DIA when allocating and paying out. There is no clear contractual control from DIA over the funds once received.

41. As a result, any funds received by 30 June 2023 will be recognised within the HBRC activities. These will likely be reflected as:

    41.1. 'HBRRA' revenue received in Advance – funds received but not yet spent by any party

    41.2. 'HBRC HBRRA' revenue received in advance – funds allocated to HBRC from the HBRRA funding pool but not yet spent

    41.3. Prepaid expenses – funds allocated from the HBRRA funding pool to HBRC or other councils but not yet spent by the relevant parties.

    41.4. HBRRA Grants paid – recognition of the release of prepaid expenses when allocated funds are spent by the relevant parties and there is no longer a condition to return the funds.

42. HBRRA Grant Revenue – recognition of the release of revenue received in advance once the conditions of the grant revenue have been met and there is no longer a condition to return the funds (i.e. the funds have been spent on the agreed purpose).

Land Categorisation

43. The initial land categorisation announcement on 1 June 2023 included some HBRC properties provisionally categorized as category 3.

44. It is considered too early to assess what impact this may have on the valuation of these assets and no financial impact will be reflected in the financial statements.

Service Reporting

45. As a result of the Cyclone there are a number of performance measures that will not be able to be measured for the 30 June 2023 financial year due to it not being practical (e.g.: sediment in waterways) or not being appropriate (e.g.: planned surveys).

46. This has been discussed with the auditors and they are investigating whether such measures can be reported as ‘Not Measured’ rather than ‘Not Achieved’ to reflect the true situation.

47. The auditors are also having discussions with the OAG on whether this issue will have any impact on the audit opinion.

Disclosures

48. The financial statement disclosures required after an event like Cyclone Gabrielle will vary depending on the magnitude of losses and the availability of information. The likely disclosures to be added/required to be added to the 2023 financial statements are:

    48.1. An additional commentary section on the Impact of Cyclone Gabrielle including-

        48.1.1. An overview of the event

        48.1.2. A high-level summary of the estimated financial impacts

        48.1.3. An overview of the damage to council assets

        48.1.4. A summary of the accounting treatments applied

        48.1.5. Funding the costs of the Cyclone

        48.1.6. Insurance

        48.1.7. A high-level summary of the financial impacts recognised in the financial statements

    48.2. Cyclone recovery income (insurance & NEMA) to be separately disclosed from other revenue in the notes

    48.3. Cyclone response and recovery expenses to be separately disclosed from other expenses in the notes

    48.4. HBRRA balances to be separately disclosed from other HBRC transactions in the notes.

49. Additional disclosure in the Infrastructure note highlighting the due valuation not being completed and the accounting approach to impairment with reference to the commentary on the impacts of the cyclone.

Potential impacts on audit opinion

50. As a result of the infrastructure issues outlined above it is likely that HBRC may receive a non-standard Audit opinion for the 30 June 2023 financial year.

51. The table below sets out the potential audit opinions and reasons for them.

<table>
<tr><th>Non- Standard Audit Opinions:</th><th>Type of Modified Opinion</th><th>Reason for Non-Standard Audit Opinion</th></tr>
<tr><td rowspan="3">Modified Opinion

and/or</td><td>Adverse Opinion</td><td>Having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial and/or non-financial information.</td></tr>
<tr><td>Disclaimer of Opinion</td><td>Unable to obtain sufficient appropriate audit evidence on which to base the opinion (that is, a limitation in scope), and concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be both material and pervasive.</td></tr>
<tr><td>Qualified Opinion</td><td>Having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial and/or non-financial information.</td></tr>
<tr><td>An Emphasis of Matter</td><td>N/A</td><td>Draw attention to matters such as fundamental uncertainties; breaches of law; or concerns over probity or financial prudence.</td></tr>
</table>

52. At this stage, we believe the most likely audit opinion would be a Disclaimer of opinion or Qualified opinion on the basis that:

    52.1. The infrastructure valuation has not been completed for the year and there is indication that there may be a significant difference in the fair value of the assets at 30 June 2023.

    52.2. The proposed infrastructure impairment to be recognised will likely not address all possible impairment across the asset class and the impact of this may be significant.

53. The level of evidence the auditors are able to obtain during their audit and their assessment of the materiality and/or pervasiveness of these issues will determine the audit opinion HBRC will receive.

54. We are having regular discussions with the auditors to keep them up to date with any developments and to receive updates from them of any feedback from the Officer of the Auditor General (OAG).

Decision Making Process

55. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision-making provisions do not apply.

Recommendation

That the Corporate and Strategic Committee receives and notes the *HBRC Cyclone Gabrielle impacts recognition and disclosure update*.

Authored by:

Chelsea Spencer
Senior Group Accountant

Chris Comber
Chief Financial Officer

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

HAWKE'S BAY REGIONAL COUNCIL

Corporate and Strategic Committee

14 June 2023

Subject: Hawke's Bay Regional Economic Development Agency - 1-year update

Reason for Report

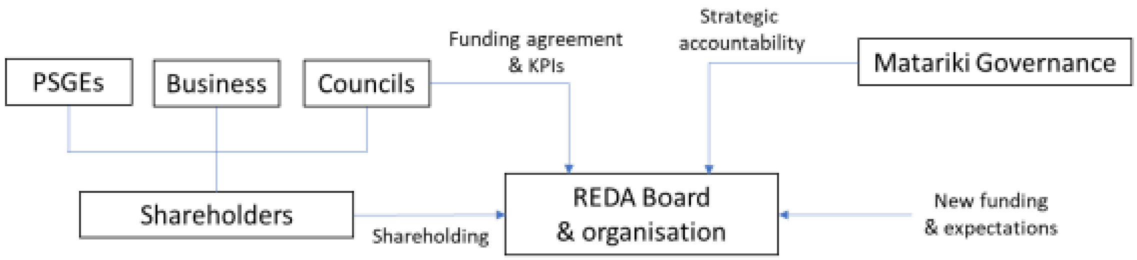
1. This paper provides an update on the establishment of the Regional Economic Development Agency (REDA), coming up to 1-year into funding for the establishment and operation of the organisation. The paper covers:
   1.1. Economic leadership in cyclone recovery
   1.2. REDA's priority areas of work
   1.3. Councils' funding and relationship with REDA including:
      1.3.1. Funding agreement and engagement/reporting cycles
      1.3.2. Annual key performance indicators (KPIs)
      1.3.3. Shareholding in REDA entity.
   1.4. Progress with establishing REDA
   1.5. REDA financial update
   1.6. Current activity and next steps.

Background

2. Councils resolved to fund REDA in late 2021 after two reviews over 18 months into economic development and industry support in the region. The organisation was to be formed as a tri-party partnership between business, iwi/hapū and local government.
3. The establishment process started in earnest in March 2022 led by an Establishment Group comprised of representatives from the three partners. Project support reported to council chief executives (CEs) and had input from council economic development leads.
4. Following legal advice, the legal structure for REDA was confirmed to be a non-council-controlled organisation, limited liability company and governed by an independent skills-based board. Shareholding in the REDA company was agreed by council CEs and Matariki Governance Group (MGG) to be in equal thirds between business, iwi/hapū and local government. A draft constitution has been circulated to shareholders.
5. The project had significant engagement and guidance from the MGG. MGG assumed responsibility for board member appointments and after an extensive search and selection process, appointed the Board in December 2022. Board members are:
   5.1. Alasdair MacLeod (Chair)
   5.2. Caren Rangi
   5.3. Erin Simpson
   5.4. Rawinia Kamau
   5.5. Shayne Walker.

6. MGG, as the overarching co-governance framework for the region, also assumed responsibility for REDA accountability and strategic direction via an accountability framework involving an annual letter of expectation, consultation on strategic planning, 6-monthly reporting and periodic updates, and visibility of annual accounts.

7. The following figure illustrates REDA's framework of shareholding, funding and KPIs, and strategic accountability.



Economic leadership in cyclone recovery

8. REDA has played a vital role in the wake of the cyclone in being a primary connector and leading extensive engagement with business leaders and regional stakeholders. It has held periodic economic recovery orientated hui with relevant agencies to share intelligence on the economic impact of the cyclone, understand what short-term support is required, and what refocused activity is needed to build back a better and more resilient economy.

9. REDA is working with the Regional Recovery Agency to clarify REDA's role and responsibilities for supporting the regional recovery framework through leading the Economic Growth pou. This work will be further informed as local recovery plans are reviewed to ensure REDA supports appropriate local priorities.

10. In this context, REDA will support MGG and the Recovery Agency to apply a recovery lens and focus on the regional development priorities that MGG lodged with the Minister for Economic Development in 2021, as listed below:

    10.1. *Increasing regional productivity through technology and innovation – doing more with less given we are a slower population growth area and cannot continue to rely on immigration or skills coming in from overseas*

    10.2. *Primary sector and food production – existing farm gate to export, capitalising on opportunities throughout the supply chain where there is a clear gap and growing expertise or infrastructure in new areas*

    10.3. *Land diversification, utilisation and water security*

    10.4. *Housing, construction and infrastructure*

    10.5. *Skills and talent – existing growth and attraction*

    10.6. *Māori economic development – with the Hawke's Bay Māori economy worth over half a billion dollars and significant land holdings across our PSGEs*

    10.7. *Export, logistics and supply chain challenges*

    10.8. *Waste and sustainability.*

REDA priority areas of work

11. As part of sharpening the focus of the regional development priorities described above, and through discussions with the Recovery Agency and other stakeholders, the REDA Board is reviewing REDA's vision, purpose, objectives and areas of focus in the context of regional recovery. REDA's vision statement and areas of focus are summarised below.

    11.1. A sustainable, accessible and resilient Hawke's Bay economy where every whānau and household benefits

11.1.1. Regional economic leadership – collaboration and coordination

11.1.2. A more inclusive economy – local engagement and progressive procurement

11.1.3. Intelligence and insights – identify needs and future orientated opportunities

11.1.4. Short-term focus on local housing and labour market solutions

11.1.5. Key sector initiatives – Hort/primary, Food/fibre, Construction

11.1.6. Labour market utilisation and long-term resilience

11.1.7. Core infrastructure – using a long-term view

11.1.8. Advocate for robust infrastructure for commercial and community hubs.

12. The vision and areas of focus will populate sections of the REDA Charter and performance and accountability framework that will be considered for endorsement by MGG at a future hui.

13. **The draft REDA** Charter is attached for your reference as agreed by MGG at its October 2022 meeting, with the addition of the REDA vision.

Council funding and relationship with REDA

Funding agreement

14. REDA's formal relationship and reporting/engagement framework with councils is through a funding agreement and associated KPIs. It was drafted in mid-2022 with oversight from council CEs.

15. Key points in the funding agreement are:

15.1. The funding agreement is between REDA and five councils signed by the mayors/chair and chief executives.

15.2. The term is for the period to 30 June 2025 and funding is paid in 6-monthly instalments in July and January of each year.

15.3. The agreement notes the REDA vision and priority areas of focus.

15.4. The funding agreement has a schedule of KPIs agreed annually with councils via a partnership committee comprising chief executives of councils and REDA, and the Matariki Executive Leadership Group co-chairs.

15.5. REDA must report to councils every 6-months in respect of delivery of areas of focus, progress against KPIs and general state of the Hawke's Bay economy.

15.6. REDA must provide council CEs with a business plan and financials every 6-months, in July and January.

15.7. The agreement references that MGG has accountability and sets direction for REDA.

16. The funding committed by councils in December 2021 is allocated as outlined in the table below.

Council	Split	Year 1	Year 2	Year 3+
HBRC	29%	454,572	461,899	500,000
HDC	29%	454,572	461,899	500,000
NCC	29%	454,572	461,899	500,000
CHB	8%	122,844	124,824	135,120
WDC	4%	64,440	65,479	70,880
		1,551,000	1,576,000	1,706,000

17. While MGG has strategic accountability for REDA that will identify strategic areas of focus through an annual letter of intent, REDA's responsibility to councils is through the funding agreement and annual schedule of delivery-orientated KPIs.

18. CEs have delegated authority to execute funding agreements (with associated KPIs) through council resolutions to fund and establish REDA in December 2021.

REDA KPIs 2023 to 2024

19. **The Schedule of KPIs** (attached) has recently been developed alongside developing REDA's role and responsibilities as part of economic recovery and the focus areas of work described above. The KPIs were presented to the recent Council Collaboration Day on 1 May 2023.

20. REDA has discussed the positioning of KPIs with council CEs, MGG and other key stakeholders. REDA will have minimal people resource as it becomes operational, and its role and responsibilities in relation to the Recovery Framework and regional/local recovery frameworks are still evolving. Accordingly, the 2023/24 KPIs are not prescriptive and primarily focus on operationalising the organisation, building relationships and initiating activity on REDA areas of focus.

21. The schedule of KPIs 2023 – 2024 contains the draft KPIs that will be appended to the funding agreement with councils. The KPIs are listed below for ease of reference.

22. KPIs focus on operationalising the organisation and developing relationships.

    22.1. Operationalise the organisation

        22.1.1. Legal function established

        22.1.2. Financial systems operational

        22.1.3. Key policies developed

        22.1.4. Operations of the Business Hub transferred

    22.2. Demonstrate regional economic leadership

        22.2.1. Collaborate and celebrate achievements of others

        22.2.2. Be the go-to voice for regional economic issues

    22.3. Develop trusted stakeholder relationships

        22.3.1. Deliver on stakeholder engagement

        22.3.2. Develop locally enabled solutions

    22.4. Initiate activity on REDA areas of focus.

23. Councils are invited to review and provide feedback on the 2023 – 2024 KPIs ahead of CEs signing the funding agreement once REDA has been incorporated.

Shareholding in REDA entity

24. The Establishment Group, with CE oversight, sought legal advice from Hugh Kettle, Barrister, about legal structure options including its status as a council-controlled organisation, shareholding and funding arrangements.

25. The format of the constitution is based on a relatively standard template. Decision making and control sit with the Board of REDA. Councils' influence over REDA is through the funding agreement with associated engagement, reporting, monitoring and KPI framework as described above.

26. The constitution provides several rights to council shareholders that differ from the rights of business and iwi/hapū shareholders as summarised following:

    26.1. Dividends are payable only to council shareholders

    26.2. Surplus assets on liquidation will be shared between council shareholders

26.3. The Board must appoint a liquidator if directed to do so by council shareholders.

27. The equal thirds shareholding in REDA between business, iwi/hapū and local government is more specifically described in the table below. Council shareholding in REDA is split pro-rata in relation to funding contribution.

Party	**Portion of shareholding**	**Number of shares total 600**
Iwi/hapū	*One-third*	*200*
Hineuru Iwi Trust	100% of one-third	200
Councils	*One-third*	*200*
HBRC	29% of one-third	58
HDC	29% of one-third	58
NCC	29% of one-third	58
CHBDC	8% of one-third	17
WDC	4% of one-third	9
Business	*One-third*	*200*
HB Chamber	50% of one-third	100
HB Māori Business Network	50% of one-third	100
Total shares	**Total being 100% of ownership**	**600 600**

28. Incorporation documents are being prepared including finalised constitution and will be circulated to shareholders in the next month. CEs have the delegated authority to complete shareholder consent forms and other incorporation requirements through council resolutions to fund and establish REDA in December 2021.

Progress with establishing REDA

29. The REDA Board initiated the recruitment process for the Chief Executive in late March 2023 with the application period closing at the end of April. The process of interviews, reference checking, selection and workout period will continue over the coming months.

30. Once the shareholding entities are ready and have incorporated the REDA entity, the Board will work with councils to execute funding agreements and initiate the transfer of Business Hub operations.

31. The relocation of the Business Hub from Ahuriri to 101 Queen Street East in Hastings progressed with Stage 1 fitout completion at the end of January 2023 allowing tenants to relocate to the new premises from February. The building consent for Stage 2 fitout (comprising meeting and conference rooms) has been lodged with completion to be confirmed once costing, scheduling and procurement have been finalised with the construction company.

REDA financial update

32. HBRC is holding year-1 REDA funding on behalf of councils. It maintains the supplier and staffing arrangements for operation of the Business Hub and is funding the REDA establishment process and operational support to the Board. Separately, HDC is project managing and funding the Business Hub fitout and has funded some early REDA establishment costs.

33. The HBRC finance team has provided the following summarised financial update for REDA expenditure. The figures incorporate actual expenditure to the end of March and forecasted expenditure to the end of the financial year. There may be a large variance to the forecasted figures below subject to timing of expenditure, particularly for the Distribution Network Strategy and other activity that REDA may initiate in support of the Regional Recovery Agency in its leadership of the Economic Growth pou.

REDA year-end forecasted costs

Hub external costs	367,239
Hub staff costs	121,820
Hub income	-174,966
Subtotal hub	**314,093**
Hub relocation	28,284
REDA establish/operations	193,611
Staff costs	40,000
Network strategy	250,000
Great Things Grow Here	30,000
Governance	97,500
Total opex	**953,488**

34. Estimated year-end opex expenditure is in the order of $950,000 after Business Hub income is accounted for and subject to additional activity that REDA initiates before financial year-end.

35. REDA is funding the fitout costs for the Business Hub estimated to be circa $500,000. A portion of this cost will be recouped from tenants over the 9-year lease period. The fitout costs are forecast to be incurred early in the 2023/24 financial year and will become a capital asset in the REDA balance sheet.

36. Financing the fitout costs will consume a majority of the year-1 cash surplus. The funding agreement between REDA and councils discussed earlier in this paper allows REDA to invoice councils for 50% of year-2 funding in July 2023, which will provide liquidity to operationalise REDA and activate its work programme.

Current activity and next steps

37. Current activity and next steps that are underway for REDA include:

    37.1. In partnership with Napier Port, continue to engage with stakeholders (including Waka Kotahi and the Regional Transport Committee) on the draft Hawke's Bay Distribution Network Strategy as one of the foundation documents to guide decision making for priorities and funding allocations for the Infrastructure pou in the regional recovery framework.

    37.2. Continue to expand engagement and collaboration with regional economic development ecosystem players including council economic development leads.

    37.3. Continue to work with Regional Recovery Agency and local recovery frameworks to confirm roles and responsibilities for REDA and activity within the Economic Growth pou.

    37.4. Gain endorsement from MGG for REDA Charter, accountability framework and annual letter of expectation.

    37.5. Progress incorporation of REDA with shareholders.

    37.6. Execute funding agreement with councils and confirm associated annual schedule of KPIs.

    37.7. Work with selected banking and accountancy providers to establish bank accounts and prepare for transition of REDA finances – this activity is expected to flow into the new financial year.

Decision Making Process

38. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision making provisions do not apply.

Item 13

Recommendation

That the Corporate and Strategic Committee receives and notes the *Hawke's Bay Regional Economic Development Agency - 1-year update*.

Authored by:

Michael Bassett-Foss
Project Manager

Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

1⇩ REDA draft Charter for discussion

2⇩ Draft Schedule of HB REDA KPIs 2023-2024

REDA Charter: Discussion Document
DRAFT Purpose, Objectives, Functions, Operating Principles
3 May 2023

A new entity is required to support economic and social outcomes for Hawke's Bay.

The charter set outs the objectives, functions, and operating principles of a new entity.

The charter for the new entity should:

- establish a basis for building the trust and confidence of (stakeholders) in the entity.
- help build a cohesive culture within the entity (this means that the charter should not simply be an adaption of former entities).
- form the basis for monitoring performance and ensuring accountability for delivery (this means that the charter should enable clear expectations to be set for the entity).

The charter needs to allow for a high degree of flexibility in how the new entity delivers services in the context of ongoing economic and demographic change. Therefore, despite the need for clear expectation-setting, the charter should not be overly detailed or prescriptive, particularly in relation to the description of the entity's functions and operating principles.

- Resilience - Economic Resilience: Hawke's Bay's ability to adapt to changing economic circumstances (both issues and opportunities).
- Expansion - Economic Expansion: new industry opportunity and/or value adding.
- Development – Economic and social inclusion: ensuring a focus that integrates social, cultural and environmental wellbeing domains to achieve improved outcomes (with the focus on creating jobs, education and training).
- Alignment – Economic Alignment: strategic leadership, partnerships and collaboration.

Charter element	Proposed basis for charter structure
Vision	A sustainable, accessible and resilient Hawke's Bay economy where every whānau and household benefits
Purpose *These outcomes would form the purpose of the entity*	Focusing on increasing our Hawke's Bay productivity performance, including a shift from volume to higher value products, investing in R& D, technology and innovation to achieve productivity improvements, and supporting small to medium enterprise growth More even distribution of economic benefits (recognising that some in the community fare worse on wellbeing indicators), skill levels and productivity improvements, achievement of higher incomes and the right skills available for the future workforce Hawke's Bay is able to respond to and bounce back from disruptions and shocks in a way that reduces harm and overall costs, sectors are diversified to reduce risk, there is local provision of many of the goods and services required, and supply chains are robust.

Charter element	Proposed basis for charter structure
Objectives *These objectives set out how the entity will achieve its purpose*	Reflect, represent and shape the development of Hawke's Bay unique economic development Attract great people, businesses and investment into Hawke's Bay Develop a clear plan with priorities that ensures the desired results are achieved, that reflects, includes and serves the full diversity of economic interests through collaboration within the Hawke's Bay economic development ecosystem. Ensure content and services are available and accessible across Hawke's Bay communities utilising organisations already providing business and economic services where appropriate. Foster innovation, thought leadership and promote informed and dynamic economic opportunities Develop and improve the profile of Hawke's Bay economic development.
Functions *These functions describe at a high level what the entity will do to achieve its objectives*	Provide high-quality services that are available and accessible across Hawke's Bay, including: 1. Focus in areas where there is a gap in provision of an activity or service. 2. Support funding and access to services for SMEs and start-ups 3. Coordinate and oversee regional economic initiatives and activities such as Matariki REDS, Hawke's Bay value/brand and regional strategy to develop approaches and inform potential initiatives and projects 4. Actively support and facilitate investment into strategic sectors that can deliver the largest economic gains 5. Industry and sector development programmes 6. Attract investment, businesses and talent 7. Coordinate skills and employment initiatives – focused on connecting businesses with people and training organisations 8. Provide funding to support a 'by Māori for Māori' approach to regional economic development (delegated to TKO and/or an agreed nominee) 9. Provide economic development intelligence and insights, and to provide leadership and considered advice on global trends.

Charter element	Proposed basis for charter structure
Operating principles *These operating principles set out how the entity will need to operate in delivering its functions*	Demonstrate independence, impartiality, and balance, particularly in the delivery of services. Ensure the participation of Māori, and the presence of a significant Māori voice in the development and delivery of services. Represent and reflect the full diversity of Hawke's Bay communities in day-to-day operations. Strive to better understand, engage, and serve the Hawke's Bay region and communities. Ensure the means of delivery aligns with (people /community) preferences and needs. Strive to innovate, be growth orientated and take calculated risks. Strive to achieve the highest standards of quality and integrity. Sustainability – ensure work areas and actions promote sustainability across economic, social, cultural and environmental wellbeing domains.

Focus areas and Key Performance Indicators
July 2023 – June 2024
DRAFT

Hawke's Bay Regional Economic Development Agency

Hawke's Bay Regional Economic Development Agency

Focus areas and Key Performance Indicators 1 July 2023 – 30 June 2024

Introduction and Background

Hawke's Bay Regional Economic Development Limited (REDA) will come into operation in mid-2023 to undertake regional economic development functions and services for the Hawke's Bay region.

REDA delivers regional economic development functions across the region in partnership with the region's iwi Post Settlement Governance Entities (PSGEs), local authorities, regional tourism organisations, business support organisations, businesses and business leadership groups, Māori and community funders. The scope of functions of REDA is defined by its vision, purpose and objectives and the areas it has committed to focus on, as part of its establishment. These are set out in the organisational Charter developed at the commencement of REDA.

The significant combined efforts required for regional recovery following Cyclone Gabrielle and sharped the priorities for the region and likewise, REDA's areas of focus in the leadership of the Economic Growth pou in the regional recovery framework.

This document of focus areas and Key Performance Indicators (KPIs) lay out the scope of REDA's work programme and priority areas for the July 2023 to June 2024 year. The development of these focus areas and KPIs is informed by the following inputs:

- REDA engages directly with businesses, and works collaboratively with stakeholders to understand the regional and local development priorities
- REDA supports the Regional Recovery Agency with development of regional development priorities that are endorsed by the Matariki Governance Group
- The Matariki Governance Group sets expectations annually for strategic direction and monitors performance through an accountability framework

The vision and areas of for REDA are:

A sustainable, accessible and resilient Hawke's Bay economy where every whānau and household benefits

a) Regional economic leadership – collaboration and coordination
b) A more inclusive economy – local engagement and progressive procurement
c) Intelligence and insights – identify needs and future orientated opportunities
d) Short-term focus on local housing and labour market solutions
e) Key sector initiatives – Hort/primary, Food/fibre, Construction
f) Labour market utilisation and long-term resilience
g) Core infrastructure – using a long-term view
h) Robust lifeline/flood protection infrastructure for commercial and community hubs

Local Authorities and Matariki Governance Group support REDA's need to focus on operationalising itself and developing relationships during its first year of operation.

REDA Key Performance Indicators 2023 - 2024

A focus on operationalising the organisation and develop relationships

1. Operationalise organisation
    a. Legal function established
    b. Financial systems operational
    c. Key policies developed
    d. Operations of the Business Hub transferred
2. Demonstrate regional economic leadership
    a. Collaborate and celebrate achievements of others
    b. Be the go-to voice for regional economic issues
3. Develop trusted stakeholder relationships
    a. Deliver on stakeholder engagement
    b. Develop locally enabled solutions
4. Initiate activity on REDA areas of focus

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Hawke's Bay Tourism update

Reason for Report

1. This item introduces HB Tourism's update on achievements against key performance indicators as required by their Funding Agreement with Hawke's Bay Regional Council.
2. Hamish Saxton, HB Tourism CEO, and George Hickton , HB Tourism Chairman, will present the report to the meeting.

Decision Making Process

3. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that, as this report is for information only, the decision- making provisions do not apply.

Recommendation

That the Corporate and Strategic Committee receives and notes the *HB Tourism update*.

Authored & Approved by:

Susie Young
Group Manager Corporate Services

Attachment/s

There are no attachments for this report.

Item 16

Hawke's Bay Regional Council

Corporate and Strategic Committee

14 June 2023

Subject: Port of Napier 2022-2023 Half Year results

1. That the Corporate and Strategic Committee excludes the public from this section of the meeting, being Agenda Item 16 *Port of Napier 2022-2023 Half Year results* with the general subject of the item to be considered while the public is excluded. The reasons for passing the resolution 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:

General subject of the item to be considered	**Reason for passing this resolution**	**Grounds under section 48(1) for the passing of the resolution**
Port of Napier 2022-2023 Half Year results	s7(2)(c)(ii) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of that information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide and would be likely otherwise to damage the public interest.	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

2. That Todd Dawson (CE), Kirsten Lie (CFO) and Blair O'Keeffe (Chair) remain in the public excluded session as Napier Port subject matter experts.

Authored & Approved by:

Susie Young
Group Manager Corporate Services