

Tuesday, 28 March 2023

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga*

**Hastings District Council**

**Performance and Monitoring Committee Meeting**

*Kaupapataka*

# Agenda

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*Te Rā Hui:*  
Meeting date: **Tuesday, 28 March 2023**

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*Te Wā:*  
Time: **1.00pm**

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*Te Wāhi:*  
Venue: **Council Chamber  
Ground Floor  
Civic Administration Building  
Lyndon Road East  
Hastings**

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*Te Hoapā:*  
Contact: **Democracy and Governance Services  
P: 06 871 5000 | E: [democracy@hdc.govt.nz](mailto:democracy@hdc.govt.nz)**

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*Te Āpiha Matua:*  
Responsible  
Officer: **Deputy Chief Executive - Bruce Allan**

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 Tuesday, 28 March 2023
 

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*Te Hui o Te Kaunihara ā-Rohe o Heretaunga*

**Hastings District Council**

**Performance and Monitoring Committee Meeting**

*Kaupapataka*

# Agenda

<p><i>Mematanga:</i> <b>Membership:</b></p>	<p><i>Koromatua</i> <b>Chair:</b> Councillor Damon Harvey</p> <p><i>Ngā KaiKaunihera</i> <b>Councillors:</b> Ana Apatu, Marcus Buddo, Alwyn Corban, Malcolm Dixon, Michael Fowler (Deputy Chair), Henry Heke, Kellie Jessup, Tania Kerr, Eileen Lawson, Renata Nepe, Simon Nixon, Ann Redstone, Wendy Schollum and Kevin Watkins</p> <p>Mayor Sandra Hazlehurst</p> <p>Hastings District Rural Community Board Chair appointee: Jonathan Stockley (RCB Chair)</p> <p>Heretaunga Takoto Noa Māori Standing Committee appointee (Chair): To be confirmed once elected</p>
<p><i>Tokamatua:</i> <b>Quorum:</b></p>	<p>9 members</p>
<p><i>Apiha Matua</i> <b>Officers Responsible:</b></p>	<p>Deputy Chief Executive – Bruce Allan (Lead)        Group Manager: Asset Management - Craig Thew        Acting Group Manager: Strategy &amp; Development – Raoul Oosterkamp        Financial Controller – Aaron Wilson        Chief Information Officer – Warren Perry</p>
<p><i>Te Rōpū Manapori me te Kāwanatanga</i> <b>Democracy &amp; Governance Services:</b></p>	<p>Christine Hilton (Extn 5633)</p>



## *Te Rārangi Take*

# Order of Business

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### 1.0 Opening Prayer – *Karakia Whakatūwheratanga*

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### 2.0 Apologies & Leave of Absence – *Ngā Whakapāhatanga me te Wehenga ā-Hui*

Leave of Absence had previously been granted to Councillor Fowler

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### 3.0 Conflict of Interest – *He Ngākau Kōnatunatu*

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

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

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

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### 4.0 Confirmation of Minutes – *Te Whakamana i Ngā Miniti*

This is the first meeting of the triennium so there are no previous minutes to confirm.

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### 5.0 Performance and Monitoring Introduction Report 7

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### 6.0 Hawke's Bay Museums Trust Half-Year Financial Report to 31 December 2022 11

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### 7.0 Quarterly Financial Report for the six months ended 31st December 2022 39

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**8.0** *Minor Items – Ngā Take Iti*

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**9.0** *Urgent Items – Ngā Take Whakahihiri*

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Tuesday, 28 March 2023

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*Te Hui o Te Kaunihera ā-Rohe o Heretaunga*

**Hastings District Council: Performance & Monitoring Committee Meeting**

**Item 5**

*Te Rārangi Take*

# Report to Performance and Monitoring Committee

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*Nā:*  
**From: Bruce Allan, Deputy Chief Executive**

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*Te Take:*  
**Subject: Performance and Monitoring Introduction Report**

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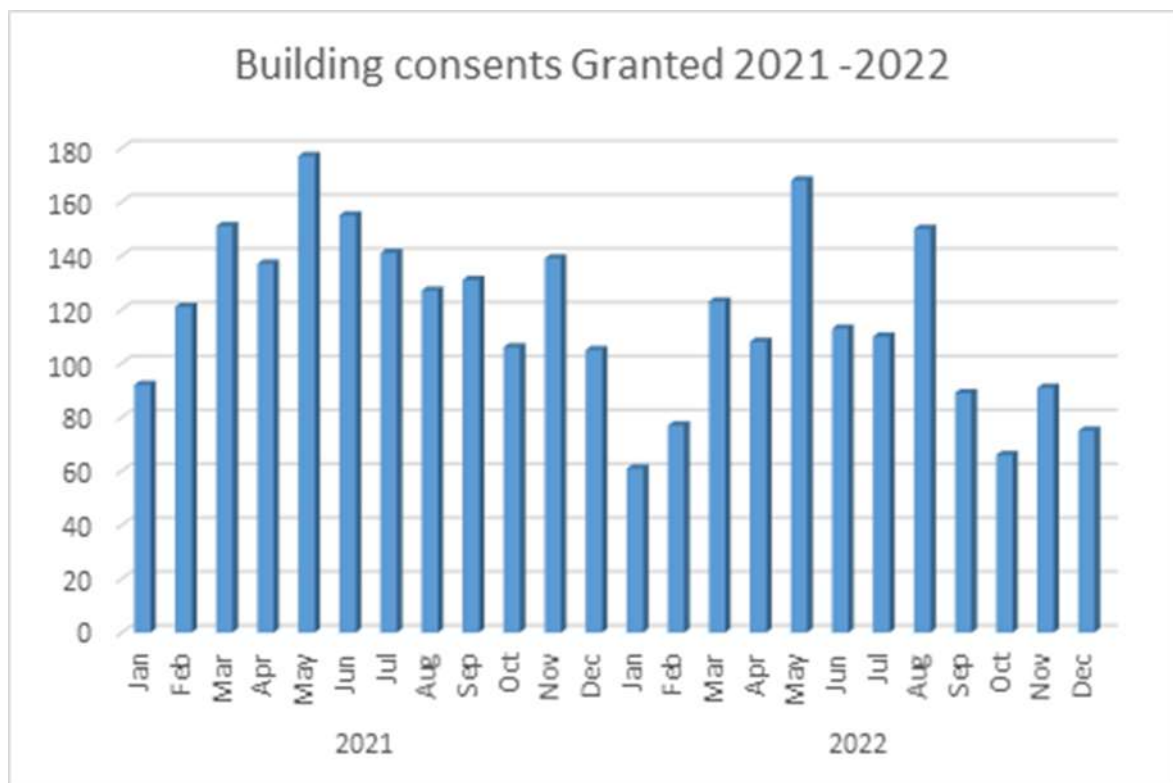
## **1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga***

- 1.1 Welcome to the first Performance and Monitoring Committee meeting of this Triennium. It has been a challenging start to 2023 and the impacts of Cyclone Gabrielle have been felt across all aspects of Council's work.
- 1.2 The Performance and Monitoring Committee usually receives the quarterly Performance and Monitoring report however a call was made early following the cyclone that staff would not have the capacity to respond to this disaster and meet the deadlines to feed the information into this report. It is fully expected that the Performance and Monitoring report will be back on the agenda in May at the next meeting.
- 1.3 It is also expected that the next Performance and Monitoring Committee will receive monitoring reports in more detail on activities of Council including Toitōi and the Building Consents Division as well as more up-to-date information on the impacts that Cyclone Gabrielle has had on Council finances and its operations.
- 1.4 The March Committee meeting would also ordinarily receive the half yearly reports and Statements of Intent from Council's CCOs and while the Hawke's Bay Museums Trust is included on the agenda, the Hawke's Bay Airport and Foodeast reports will be included on a future agenda due to the Chairs being unavailable.
- 1.5 The initial known impacts of Cyclone Gabrielle on Council have been addressed at a high level in the Quarterly Finance report included in this agenda, however it is acknowledged that it is based on a high degree of uncertainty around what is in front of Council as it helps the communities affected recover. It is expected that at the May meeting, staff will be able to provide the Committee with more information and a better understanding of the financial and operational impacts that the

cyclone has had this financial year and any understanding there may be on the forecast financial result to 30 June 2023.

- 1.6 One area of Council that is normally presented in the Quarterly Performance and Monitoring Report is information on Building Consents processed and some key metrics. Details of these activities performance to December are detailed below:

Building Control	October – December 2022	July – September 2022
Amendments Issued	75	101
Amendment over Time	29	37
Amendments % compliance	61%	63%
CCC Issued	303	433
CCC overtime	11	25
CCC % compliance	96%	94%
BC Granted	232	349
BC overtime	133	112
BC % compliance	43%	68%
Value of Building Work	\$112,502,893	\$129,157,017
BC Accepted	236	359
New Dwelling Consents	54	69



**2.0 Recommendations - Ngā Tūtohunga**

That the Performance and Monitoring Committee receive the report titled Performance and Monitoring Introduction Report dated 28 March 2023.



**Attachments:**

There are no attachments for this report.



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Tuesday, 28 March 2023

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Item 6

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga*

**Hastings District Council: Performance & Monitoring Committee Meeting**

*Te Rārangi Take*

# Report to Performance and Monitoring Committee

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*Nā:*  
**From: Bruce Allan, Group Manager: Corporate**

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*Te Take:*  
**Subject: Hawke's Bay Museums Trust Half-Year Financial Report to 31 December 2022**

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## **1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga***

- 1.1 The purpose of this report is to receive the Hawke's Bay Museums Trust Half-Year Report to 31 December 2022.
- 1.2 The Trust's Chair, Dr Richard Grant, will be in attendance at this meeting to answer any questions of Council.
- 1.3 The Trust is a Council Controlled Organisation with the majority of its funding provided by the Napier City and Hastings District Councils.
- 1.4 The Hastings District Council's appointment to the Trust is Mr George Lyons who was appointed to the Trust by Council in November 2013. This appointment is normally addressed through the appointment process following the triennial elections and Mr Lyons was reappointed in 2022.
- 1.5 The current trustees of the Hawke's Bay Museums Trust are:
  - Dr Richard Grant (Chair)
  - Tania Wright (NCC)
  - George Lyons (HDC)
  - Jeanette Kelly
  - Nigel How
- 1.6 As required under the Local Government Act 2002, the Trust is to provide a draft Statement of Intent for comment by 1 March each year and a half-year report within 60 days of the end of the first six months.

- 1.7 The objectives of the Trust, amongst other things, are to hold, protect and manage the regional collection for the people of Hawke's Bay including overseeing the collection development through acquisition and disposal of collection items. The Trust Board governs on a high level strategic direction basis to ensure the objectives of the Trust are being met and have a Management Agreement with Napier City Council for the care and management of the regional collection.

### Half-Year Report

- 1.8 The Trust's financial statements for the six months to 31 December 2022 are attached (**Attachment 1**). Note 12 to the accounts provides a comparison to the current year's Statement of Intent budget. The half-year deficit is primarily driven by accessions undertaken in the first half of the year and \$19,500 ahead of budget.

### Statement of Intent

- 1.9 The draft HBMT 2024-2026 Statement of Intent (**Attachment 2**) contains the following performance indicators and targets for the key result areas:
- **Protection** – including storage, security and records management;
  - **Quality** – including conservation, accessioning and de-accessioning;
  - **Access** – including ensuring the collection is available for exhibitions, research and archives; and
  - **Development** – including fundraising, reserves management and stakeholder relations.
- 1.10 It is expected that following a review of the Governance arrangements for the Trust, that a complete and thorough review of KPIs and objectives will be undertaken to reflect the new operating environment.
- 1.11 The Trust's strategic intentions are consistent with the prior year, including the intention to find a solution to develop long-term storage for the collection. This issue is being resolved with the purchase and redevelopment of 307 Queen Street into be a fit-for-purpose storage and research facility.

### Joint Working Group

- 1.12 The Hastings District Council continues to participate in a Joint Working Group with Napier City Council that is to consider the future structure of the Hawke's Bay Museums Trust, its funding, the storage of the collection, and the role of the MTG Hawke's Bay in the display of the collection.
- 1.13 Gemco Construction has been selected as the preferred contractor to build the new Hawke's Bay Museum Research and Archives Centre and, at the time of writing, were finalising their pricing. Next steps will be to scrutinise that pricing, ensuring that the development fits within the current funding envelope. The Building Consent has now been issued and, subject to successful negotiations on price, construction is set to commence in May.
- 1.14 The Joint Working Group continues to work on the future governance arrangements with the help of consultants Morrison Low, although progress has been held up by the cyclone. It is expected that staff and consultant availability will allow this to be recommenced sometime in April.
- 1.15 The Joint Working Group will continue to work with the Trust to develop the new storage facilities, refine KPIs and investigate alternative governance arrangements.

## 2.0 Recommendations - Ngā Tūtohunga

- A) That the Performance and Monitoring Committee receive the report titled Hawke's Bay Museums Trust Half-Year Financial Report to 31 December 2022 dated 28 March 2023.

B) That the Committee receives the Hawke's Bay Museums Trust Half-Year Report to 31 December 2022.

**Attachments:**

- 1 [↓](#) HBMT's Half-Year Financial Report to 31 December 2022 EXT-10-11-7-23-255
- 2 [↓](#) HBMT's Statement of Intent 2024-2026 EXT-10-11-7-23-256



**FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

## HAWKE'S BAY MUSEUMS TRUST INDEX TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Statement of Financial Position	1
Statement of Financial Performance	2
Statement of Movements in Equity	3
Statement of Cashflows	4
Notes to the Financial Statements	5 - 15

## HAWKE'S BAY MUSEUMS TRUST STATEMENT OF FINANCIAL PERFORMANCE FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

	Note	6 Months Ended 31-Dec-22 \$	6 Months Ended 31-Dec-21 \$	Year Ended 30-Jun-22 \$
<b>Revenue</b>				
Council grants	1	573,960	593,617	1,187,234
Other grants and donations received	2	9,240	1,222	46,620
Interest revenue		8,108	3,030	7,633
<b>Total Revenue</b>		<b>591,308</b>	<b>597,869</b>	<b>1,241,487</b>
<b>Expenses</b>				
Audit fees		-	-	5,780
Accounting charge		12,550	14,400	28,800
Accounting software charge		128	128	255
Conservation		-	-	5,600
Donation- storage facility		-	-	-
General expenses		221	-	223
Insurance		2,385	2,270	2,270
Management fee	3	556,461	574,264	1,148,528
Marian Holt Grant Expenditure		4,730	-	-
Ministry of Culture and Heritage grant expenditure		-	-	3,630
<b>Total Expenses</b>		<b>576,475</b>	<b>591,062</b>	<b>1,195,086</b>
<b>Net Surplus/(Deficit) for the Period</b>		<b>14,834</b>	<b>6,807</b>	<b>46,401</b>



## HAWKE'S BAY MUSEUMS TRUST STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	6 Months Ended 31-Dec-22 \$	6 Months Ended 31-Dec-21 \$	Year Ended 30-Jun-22 \$
<b>Current Assets</b>				
Bank accounts and cash	4	60,601	28,854	59,093
Investments	5	615,260	615,553	615,553
Accounts receivable and accrued revenue	6	8,215	2,483	18,154
GST receivable		1,463	99	775
<b>Total Current Assets</b>		<b>685,539</b>	<b>646,989</b>	<b>693,575</b>
<b>Non-Current Assets</b>				
Artworks and collection	7	29,911,145	28,354,340	29,886,765
<b>Total Non Current Assets</b>		<b>29,911,145</b>	<b>28,354,340</b>	<b>29,886,765</b>
<b>Total Assets</b>		<b>30,596,683</b>	<b>29,001,329</b>	<b>30,580,340</b>
<b>Current Liabilities</b>				
Accounts payable and accruals	8	9,390	6,507	12,232
Unspent grants		21,617	-	17,266
<b>Total Current Liabilities</b>		<b>31,007</b>	<b>6,507</b>	<b>29,498</b>
<b>Non-Current Liabilities</b>				
Trust funds held on behalf	9	75,260	75,260	75,260
<b>Total Non-Current Liabilities</b>		<b>75,260</b>	<b>75,260</b>	<b>75,260</b>
<b>Total Liabilities</b>		<b>106,267</b>	<b>81,767</b>	<b>104,758</b>
<b>Accumulated Funds</b>				
Retained earnings	10	1,807,231	1,765,810	1,780,634
Asset revaluation reserve	10	28,161,858	26,645,433	28,161,858
Special funds	11	521,325	508,319	533,090
<b>Total Accumulated Funds</b>		<b>30,490,415</b>	<b>28,919,562</b>	<b>30,475,582</b>
<b>Total Funds Employed</b>		<b>30,596,683</b>	<b>29,001,329</b>	<b>30,580,340</b>

The Trust Board of Hawke's Bay Museums Trust authorised these financial statements for issue on Wednesday 22 March 2023 and are signed on behalf of the Board by:

Chairman

Trustee

## HAWKE'S BAY MUSEUMS TRUST STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

	Note	6 Months Ended 31-Dec-22 \$	6 Months Ended 31-Dec-21 \$	Year Ended 30-Jun-22 \$
<b>Opening Balance of Equity</b>		<b>30,475,582</b>	<b>28,912,754</b>	<b>28,912,755</b>
<b>Net Surplus/(Deficit) for Period Allocated to:</b>				
Retained earnings		2,215	2,555	9,079
Special funds	11	12,618	4,252	37,323
<b>Net Surplus/(Deficit) for year</b>		<b>14,833</b>	<b>6,807</b>	<b>46,402</b>
Movement in Asset Revaluation Reserve		-	-	1,516,425
<b>Closing Balance of Equity</b>	10	<b>30,490,415</b>	<b>28,919,561</b>	<b>30,475,582</b>

## HAWKE'S BAY MUSEUMS TRUST STATEMENT OF CASHFLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

	Note	6 Months Ended 31-Dec-22 \$	6 Months Ended 31-Dec-21 \$	Year Ended 30-Jun-22 \$
<b>Cash Flows From Operating Activities</b>				
Receipts of council grants		573,960	593,617	1,187,234
Donations received		9,240	1,222	14,690
Interest receipts		8,108	2,034	5,966
Other operating revenue		-	-	20,000
Goods and Services Tax (Net Inflow)		-	596	761
Audit fee		-	-	-
Management fee & education grant		(556,461)	(574,264)	(1,148,528)
Accounting fee		(12,550)	(14,528)	(28,800)
Donations paid		-	-	-
Ministry of Culture and Heritage grant expenditure		-	-	(3,630)
Marian Holt Grant Expenditure		(4,730)	-	-
Conservation expenses		-	-	(5,600)
Insurance		(2,385)	(2,270)	(2,270)
Other expenses		(349)	-	(477)
<b>Cash Flows from Operating Activities</b>	12	<b>14,834</b>	<b>6,407</b>	<b>39,346</b>
<b>Changes in Current assets and liabilities</b>				
Current Assets		9,940	-	-
Changes in current liabilities		1,509	-	-
GST	-	687	-	-
<b>Net Cash Flows from Operating Activities</b>		<b>10,762</b>	<b>-</b>	<b>-</b>
<b>Cashflows from Investing Activities</b>				
Purchase of Collection Assets		(24,380)	-	(2,700)
<b>Net cashflows from Investing Activities</b>		<b>(24,380)</b>	<b>-</b>	<b>(2,700)</b>
<b>Opening Cash Balance</b>		<b>674,646</b>	<b>638,000</b>	<b>638,000</b>
<b>Net Increase/(Decrease) in Cash</b>		<b>1,216</b>	<b>6,407</b>	<b>36,646</b>
<b>Closing Cash Balance</b>		<b>675,862</b>	<b>644,407</b>	<b>674,646</b>











































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Tuesday, 28 March 2023

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Item 7

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga*

**Hastings District Council: Performance & Monitoring Committee Meeting**

*Te Rārangi Take*

# Report to Performance and Monitoring Committee

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*Nā:*  
**From: Aaron Wilson, Financial Controller**

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*Te Take:*  
**Subject: Quarterly Financial Report for the six months ended 31st December 2022**

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## **1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga***

- 1.1 The purpose of this report is to inform the Council of the financial result for the six months ended 31st December 2022.
- 1.2 Council's overall financial performance is \$9.6m unfavourable to YTD budget for the quarter ended 31st December 2022.
- 1.3 Overall revenue is \$1.1m unfavourable to the YTD budget (in the context of total revenue for the quarter of \$82m) and expenditure is \$8.4m unfavourable to YTD budget due to increased depreciation costs.
- 1.4 This report is effectively a report of two halves. The first half reports the financial situation to 31 December 2022 in comparison to the 2022/23 budget. On February 13/14 a lot changed with Cyclone Gabrielle in terms of Council's priorities and the spend profile in response to that event will be significantly different to what was budgeted. Commentary on the effect of Cyclone Gabrielle as they are currently understood follows.

## **2.0 Recommendations - *Ngā Tūtohunga***

That Council receives the report titled Quarterly Financial Report for the six months ended 31st December 2022 dated 28 March 2023.

### 3.0 Background – Te Horopaki

- 3.1 The accounting operating financial result is reported on quarterly during the year and at year end a report is prepared on the financial as well as the rating result. The rating result differs from the accounting result in respect of non-cash items such as depreciation, vested assets and development contributions that are not included.
- 3.2 This financial report is governance focussed and allows significant variances to be highlighted with explanations provided in a way that is easy to read and understand through dashboard analytics and commentary.
- 3.3 The Financial Report attached to supplement this report: **Attachment 1 – Dashboard Summary of Financial Performance**.
- 3.4 If Councillors require clarification on any points, please contact the writer prior to the meeting to ensure complete answers can be given at the meeting on the detail in these reports.

### 4.0 Discussion – Te Matapakitanga

- 4.1 Set out below is a summary of the operating financial results for the year to date, 31 December 2022. The financial results detailed below represent the accounting view and does not reflect the potential rating result for 2022/23:

Result as at 31st December 2022	YTD Actuals (\$'000)	YTD Budgets (\$'000)	YTD Variance (\$'000)
Operating Revenue	81,558	82,689	(1,131)
Operating Expenditure excl. Depn	67,218	64,989	(2,229)
Net surplus/Deficit before Depn.	14,340	17,700	(3,360)
Depreciation	26,275	20,039	(6,236)
<b>Net surplus/Deficit</b>	<b>(11,935)</b>	<b>(2,339)</b>	<b>(9,596)</b>

- Revised budget includes the Annual budget, brought forwards and surplus allocations from 2021-22 financial year.

- 4.2 The result above is presented against the revised budget. The revised budget includes changes and decisions made during the year on Council budgets which includes carry forwards from 2021/22.
- 4.3 Council's overall financial performance is \$9.6m unfavourable to YTD budget for the quarter ended 31<sup>st</sup> December 2022.
- 4.4 Overall revenue is \$1.1m unfavourable to the YTD budget and expenditure is \$8.4m unfavourable to YTD budget.

#### Revenue

- 4.5 The first quarter revenue is \$1.31m unfavourable in the context of total revenue budgeted for first half of the year, at \$82.6m, or 1.3% of YTD budget.

Revenue as at 31st December 2022	YTD Actuals (\$'000)	YTD Budgets (\$'000)	YTD Variance (\$'000)
<b>Revenue</b>			
Rates	50,870	50,596	274
Fees, charges & metered water supply	17,585	17,003	582
Subsidies and Grants	10,051	12,161	(2,110)
Development and financial contributions	2,584	2,402	182
Interest revenue	179	-	179
Other revenue	289	527	(238)
<b>Total Operating Revenue</b>	<b>81,558</b>	<b>82,689</b>	<b>(1,131)</b>



- 4.6 Fees & Charges are \$582k favourable, with Splash Planet \$153K ahead of budget along with Toitoti \$410k favourable as well. \$210k of the Toitoti revenue is from the lease income for 340 Heretaunga Street East (CityFitness). The higher revenue in Toitoti is offset by significantly higher than budgeted operational expenditure of \$1.3m, this is covered in expenditure commentary below. Other significant fees and charges revenue lines are building control revenue \$260k unfavourable, (offset by lower operational spend), and higher service and waste fees in the 3 waters.
- 4.7 Subsidies and Grants are \$2.1m behind budget due to the timing of funding reimbursement from Crown Infrastructure Partners for infrastructure spending in Flaxmere projects.
- 4.8 The other revenue variance of (\$238k) is related to when vested assets are received. This is purely timing with most vested assets received and processed at year end.

#### Expenditure

- 4.9 Overall expenditure is tracking unfavourably year to date for the second quarter by \$8.5m or 10% of total budgeted expenditure year to date. Main drivers include:
- 4.10 The negative variance to budget for non-cash entries in terms of Depreciation (\$6.2m) is driven by higher asset values due to prior year revaluations in 3 Waters and Transportation. The 3 Waters revaluation in asset value was significant and has been driven by higher contracted rates, and overall unit costs. This increase in asset values has seen a significant increase in depreciation and more than what was expected and budgeted. To-date the component of the depreciation budget that is funded by way of rates to meet the funding of asset renewals has not kept pace with the increases in asset values which have driven the large increases in depreciation.
- 4.11 The impact of asset revaluations are generally not known until later in the financial year and do not provide Council with an opportunity to increase funding in this space through rates collection in time to meet the budget processes. As such, there is a need incorporate increases in depreciation funding in future years and effectively smooth in the effects of revaluations.
- 4.12 The increasing gap between the value of the depreciation expense and the rates collected for renewals will need to be addressed and the next Long Term Plan would be the process to do that if 3 waters were to remain in Council control.
- 4.13 Personnel costs are favourable to budget by \$230k mainly due a number of vacancies across Council activities.
- 4.14 Finance costs are higher than budget and this is reflective of an increase in the average cost of debt that is related to an increasing portion of floating debt. The increase in the average cost of debt is due to the cyclical raising of the OCR rate by the Reserve Bank Governor, however the average cost of debt is being managed with approximately 60% of council's current debt held with fixed interest instruments at historical rates in line Council's Treasury Policy.
- 4.15 The net impact of finance costs to the organisation is and additional interest cost to budget of \$211k.
- 4.16 Other operating costs are unfavourable to budget by \$2m and were mainly driven by:
- 4.17 Maintenance and asset costs of \$728k, with higher than budgeted costs in terms of material damage insurance of \$415k, (ultimately due to budget phasing the variance on material damage insurance will be \$230 due to timing of budget phasing) along with \$210k annual software licensing and support costs. The licensing is an issue of budget phasing and timing of when the licenses have been invoiced.
- 4.18 To give some context in terms of material damage increases in insurance costs, in 2018 the Material Damage premiums were \$833k annually, in 2022 this had increased to \$1.81m. A similar impact can be seen across other insurances as well. Insurance costs have been driven higher by a combination of increasing asset values being insured and the global insurance markets being harder.

- 4.19 Legal Settlement costs of \$755k in relation to the area of planning and regulatory, this cost has been offset by reserve funding set aside for this purpose.
- 4.20 Services costs were higher than budget by \$199k mainly due to higher consulting and expert advice costs YTD.
- 4.21 Vehicle costs of \$184k were the last area contributing to the increased other operating costs, with higher fuel costs of \$94k, along with higher R&M and insurance costs. The area driving the unfavourable variance for the fuel and R&M costs is at the Landfill, mainly due to the compactors. A new compactor has arrived and is in operation, and the older one is also being used, hence the higher costs involved. Note that the Landfill costs are ring fenced and split between Napier City and Hastings District Councils.
- 4.22 As noted in the revenue section Toitoti has incurred significant spend over budget, with the net unfavourable effect being \$920k.
- 4.23 Higher depreciation due to the recent acquisition of 340 Heretaunga Street and the church property at 305 Heretaunga Street accounts for \$419k of this variance.
- 4.24 Other costs that are above expected budget is the higher personnel costs of running the facility at \$260k, marketing \$138k, and servicing costs such as cleaning.
- 4.25 Operational costs for running Toitoti have proved to be much higher than anticipated, and there have been several factors that have contributed to this. Staff at Toitoti are getting a much better appreciation of operating costs and are developing efficient ways of working as more activity develops across the whole Toitoti precinct. At the time the budgets were prepared, Toitoti management had yet to experience a clear run at operating the full facility with the inclusion of the Municipal Buildings and without Covid restrictions.

#### Unbudgeted but approved spend

- 4.26 Across the activities of Council there are many projects underway that Council has approved unbudgeted spend within the current financial year, to either complete the project, meet additional demand or position Council strategically going forward.
- 4.27 Whilst these projects in terms of spend fall in the current 2022/23 year, all the decisions were made by Council in the previous financial year in order to continue the completion of projects like water or enable work/ agreements to be signed.
- 4.28 It is important to keep a track on these projects, while they will have positive outcomes and are due to well-justified decisions, Council needs to be aware of how they are funded, and what the longer-term view is where Council debt is concerned in understanding the intergenerational impact these projects will have.
- 4.29 In addition to this there will be some revenue streams over the longer term that will help offset the initial capital outlay. This is particularly relevant in relation to the purchase of building assets, where Council will receive circa \$500k in lease revenue.
- 4.30 The increase in debt will mean additional financing costs in servicing that debt. Some of that debt servicing cost will be offset from delayed spending on other projects and from lease revenue derived from those assets.
- 4.31 The table below highlights the unbudgeted projects that have been approved by Council so far, this table will be updated on a quarterly basis. The funding for these projects is by way of debt.

<b>Approved Unbudgeted Projects 2022/23</b>	<b>Funded by</b>	<b>\$'000</b>
Drinking Water Improvement Programme	Debt	8,700
340 Heretaunga Street West	Debt	7,500
305 Heretaunga Street East	Debt	1,000

Other	Debt	1,500
Stormwater Management	Debt	1,500
<b>Total</b>		<b>20,200</b>

- 4.32 During the first quarter of the year Council made the decision to purchase 340 Heretaunga Street East (occupied by CityFitness Gym) as a long term strategic property acquisition to support future development choices for Council into the future. While unbudgeted, the strategic nature of this property in relation to the Toitōi – Hawke’s Bay Arts and Events Centre was seen as the main driver and with the long term lease in place (12 years with 2 rights of renewals of 6 years each) the lease income will largely service the debt and operational costs over that time.
- 4.33 Council also acquired the Hastings Church property at 305 Heretaunga Street East and officers are working through future use opportunities and will be reporting back to Council on progress and options.
- 4.34 In addition to the table above, a significant level of funding (\$18m) has been allocated from central government for a large infrastructure project to support growth that will help “unlock” parts of the district that are currently constrained by limitations within the current wastewater network. This will require Council to invest further into that infrastructure which will be considered in a Long Term Plan amendment in 2023.

#### Capital Spend

- 4.35 Council’s total revised capital budget (including carry forwards, renewals, new works and growth projects) for 2022/23 is \$148m. This level of expenditure is a significant increase on what has been delivered previously by Council and there is risk associated with the ability of Council to deliver on this programme. Helping to offset some of this risk is a much more detailed programme of the works budgeted.
- 4.36 The large capital budget is made up of:
- |                                       |              |
|---------------------------------------|--------------|
| 2022/23 Annual Plan                   | \$121m       |
| Carry forwards and budget adjustments | <u>\$27m</u> |
| Total revised budget                  | \$148m       |
- 4.37 Projects by Activity within the three types of capital spend are shown below:

## Year to date Summary of Capital Spend by Type

	YTD Actuals	YTD Budgets	YTD variance	% Spent to Total Budget	Revised Budgets
<b>COUNCIL CAPITAL</b>					
Renewals	15,249,238	16,158,979	909,740	34%	45,217,437
New Works	39,226,004	31,250,459	(7,975,545)	51%	76,659,627
Growth	2,458,838	4,101,569	1,642,731	9%	26,300,250
	<b>56,934,081</b>	<b>51,511,007</b>	<b>(5,423,074)</b>	<b>38%</b>	<b>148,177,313</b>
<b>SUMMARY</b>					
<b>RENEWALS</b>					
Stormwater Services	583,029	849,835	266,806	50%	1,168,000
Wastewater Services	2,173,767	2,643,620	469,853	19%	11,743,500
Water Services	2,393,586	2,537,330	143,743	49%	4,876,298
Transportation RA 1	5,745,781	6,119,769	373,988	32%	18,110,394
<b><u>Rest of Council</u></b>					
Parks	1,177,759	974,000	(203,759)	56%	2,119,929
Building services	1,323,414	632,727	(690,687)	61%	2,165,081
Municipal Strengthening	41,467	-	(41,467)	-	-
Server Infrastructure	74,837	80,000	5,163	94%	80,000
Landfill	-	23,243	23,243	0%	46,486
Other	1,735,597	2,298,453	562,856	35%	4,907,748
	<b>15,249,238</b>	<b>16,158,979</b>	<b>909,740</b>	<b>34%</b>	<b>45,217,437</b>
<b>NEW WORKS</b>					
Stormwater Services	2,693,895	3,325,500	631,605	47%	5,685,300
Wastewater Services	346,474	278,100	(68,374)	18%	1,968,651
Water Services	13,155,341	11,919,505	(1,235,836)	53%	24,820,136
Transportation	4,399,946	4,832,413	432,467	31%	14,031,225
Landfill	1,035,897	4,523,805	3,487,908	23%	4,524,219
Parks	3,378,012	2,349,608	(1,028,404)	27%	12,725,600
Building services	72,374	187,500	115,126	48%	150,000
<b><u>Rest of Council</u></b>					
Flaxmere Town Centre	2,106,534	900,000	(1,206,534)	59%	3,550,000
206 Queen St	75,986	100,000	24,014	38%	200,000
Food Hub Phase 2	-	-	-	-	-
New Cemetery Setup	42,362	436,500	394,138	5%	873,000
HB Museum Storage	207,672	1,000,000	792,328	10%	2,000,000
Flaxmere Housing	2,819,919	462,000	(2,357,919)	78%	3,597,000
Other	8,896,795	935,529	(7,961,266)	351%	2,534,496
	<b>39,231,206</b>	<b>31,250,459</b>	<b>(7,980,747)</b>	<b>51%</b>	<b>76,659,627</b>
<b>GROWTH</b>					
Stormwater Services	423,416	1,223,947	800,532	5%	8,463,500
Wastewater Services	430,048	827,967	397,919	10%	4,377,000
Water Services	452,750	897,655	444,905	23%	1,995,500
Transportation RA 1	673,741	618,000	(55,741)	6%	10,630,250
Parks	478,883	534,000	55,117	57%	834,000
	<b>2,458,838</b>	<b>4,101,569</b>	<b>1,642,731</b>	<b>9%</b>	<b>26,300,250</b>
<b>Total Capital</b>	<b>56,939,282</b>	<b>51,511,007</b>	<b>(5,428,276)</b>		<b>148,177,313</b>

Item 7

- 4.38 Capital spend for the year to date is \$57m and is ahead of budget by \$5.4m. This is partly due to the Waters Services project and Flaxmere projects being ahead of budget, along with the one-off impact of the unbudgeted but approved purchase of buildings. (This can be seen in the table above under New Works/Rest of Council/Other)
- 4.39 The Landfill valley development is very close to getting underway, now resource consent has been approved. This capital expenditure project has now gone out to tender, with work expected to start in the third quarter of the financial year.
- 4.40 Whilst urban transport renewals were behind budgeted spend in the first half of the year, Cyclone Gabrielle has changed all that and work is being reprioritised.

### Treasury

- 4.41 Council's total gross debt position as at 31 December was \$252m. This amount included borrowing \$32m for 2022/23 capital works with a further \$15m borrowed to maintain adequate cashflow, given the capital project spend undertaken to date. At the time of writing a further \$20m had been borrowed to meet ongoing cashflow requirements.
- 4.42 Council is currently compliant with Treasury Management Policy. The Risk and Assurance Committee reviews and monitors Council's treasury performance and policy with advice from Bancorp Treasury Services.

## **5.0 Cyclone Gabrielle Update - Funding**

- 5.1 Whilst it is still too early to quantify the value of spend currently underway within Council with regards the cyclone, there will be significant levels of spend in responding, supporting those members of the community that are either displaced, isolated or have been impacted by this event.
- 5.2 In addition to this there is the recovery of the region, with this event having taken a heavy toll on businesses, community, and key infrastructure such as roads and bridges.
- 5.3 Large parts of Council are only just starting to return to business as usual (BAU), whilst for other activities such as transport, this will now become their focus of BAU for some time to come. As the full impact on infrastructural assets and the need for further ongoing support is understood, the financial impacts will continue to be refined as more information comes to hand.
- 5.4 There are several avenues that Council will be able to apply to for funding, in relation to response costs through to the rebuilding and recovery costs.
- 5.5 For the benefit of the committee's understanding, below is the different types of funding streams and what areas of Council that these funding streams may assist Council in helping to reduce the direct financial impact on the district's ratepayers. In summary, a large proportion of the costs being incurred through this response phase and through to the end of the financial year will be met from other funding sources and while there will be a financial impact to Council's operating result, the real impacts in a financial sense for Council will be felt next year and beyond when the significant infrastructure rebuild is required and when the level of external funding support may be more difficult to find.

### Insurance

- 5.6 Material Damage Insurance – Council is covered for assets listed on its material damage schedule with a \$10k excess. At this point it is unknown as to the quantum of the claim that will be made but will include claims for assets such as the Whirinaki Water Treatment Plant, Pakowhai Hall, Omarunui Landfill Kiosk and Weighbridge.
- 5.7 Business Interruption Insurance – this insurance is triggered by a material damage claim and relates to a particular asset, i.e. the costs of providing alternative water supply solutions to the community of Whirinaki would be covered while the treatment plant is rebuilt.

- 5.8 Bridges insurance – Council has its bridges insured to the replacement value on the insurance schedule. Council insurance cover is for the local share of the bridge repairs noting the funding relationship with Waka Kotahi and has a lost limit of \$10m which would have the effect of providing cover for circa \$40m of damage. While this insurance is in place, it is expected that the local share component of each bridge may be more than is covered by the replacement values noted on the schedule with more resilience to be required to be designed into any bridge replacements and repairs.

#### Waka Kotahi

- 5.9 Waka Kotahi have advised that for the local roads for the current financial year, their subsidy will increase from a 53% to a 93% share of the response costs or until the \$250m allocated by the Government has been utilised. This will greatly assist the financial impact on Council, as it will leave only 7% of required funding to be met by the rate payer. There will be some reprioritisation of the 2022/23 work programme for the transportation network which will go some way to supporting the additional costs being incurred to support the local share requirement of the response.
- 5.10 At the time of writing there had been no further confirmation from Waka Kotahi regarding additional funding support beyond the current subsidy rate of 53% for 2023/2024 and beyond.

#### Ministry of Civil Defence and Emergency Management

- 5.11 Funding can be applied for the reimbursement of costs relating to the response of the event.
- 5.12 100% of claims will be reimbursed for the welfare costs *e.g. caring for directly affected people (accommodating, transporting, feeding, and clothing people as a result of an emergency)*. Council have spent a significant amount on welfare to ensure people are looked after.
- 5.13 Other response costs not relating to welfare will be 60% funded, at this stage Council's costs relevant to this funding stream are not expected to be significant.

#### LAPP Insurance

- 5.14 This insurance relates to any underground assets that may have been affected. It is designed as catastrophe cover and as such the excess is \$600k with a threshold of \$1.5m in costs before a claim can be made. Assessment is still taking place as to whether the threshold will be triggered.

#### Waste

- 5.15 As can be seen through the media and photos of the affected areas, the level of waste and refuse that is being collected and needs collection is significant. The government has announced \$15m funding in the short term for Council's across NZ while a longer term approach is developed. This is an area where Council is impacted and work is underway to understand how this funding can be applied for.

#### Cyclone Summary

- 5.16 It is expected that for the May Performance and Monitoring Committee meeting a more complete picture of the financial impacts of Cyclone Gabrielle will be able to be reported. It is however expected that the impacts of Cyclone Gabrielle will force Council into a rating deficit position. As noted in the first half of this report, the financial results to December were presenting a challenging operating environment with escalating costs and any forecast to June 2023 prior to Cyclone Gabrielle would have presented a challenging picture. Cyclone Gabrielle has just made that more challenging and a rating deficit should now be expected.

### **Attachments:**

1 [↓](#) Qrtly Dashboard December 2022

FIN-09-01-23-211









