

Thursday, 15 September 2022

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Operations and Monitoring Committee Meeting

Kaupapataka

Agenda

Te Rā Hui:
Meeting date: **Thursday, 15 September 2022**

Te Wā:
Time: **1.00pm**

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

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

Te Āpiha Matua:
Responsible
Officer: **Group Manager: Corporate - Bruce Allan**

**Watch Council meetings
streamed live on our website
www.hastingsdc.govt.nz**

HASTINGS DISTRICT COUNCIL
207 Lyndon Road East, Hastings 4122 | Private Bag 9002, Hastings 4156
Phone **06 871 5000** | www.hastingsdc.govt.nz
TE KAUNIHERA Ā-ROHE O HERETAUNGA

Operations and Monitoring Committee – Terms of Reference

Fields of Activity

The purpose of the Operations and Monitoring Committee is to ensure consolidated and complete reporting and monitoring of all financial and non-financial information and performance measures against the Annual Plan, Long-Term Plan and Council Strategies, Goals and Priorities.

Membership

- (Mayor and 14 Councillors).
- Chair appointed by Council.
- Deputy Chair appointed by Council.
- 1 Heretaunga Takoto Noa Māori Standing Committee Member appointed by Council.

Quorum – 8 members

Delegated Powers

- 1) Authority to exercise all of Council's powers, functions and authorities (except where prohibited by law or otherwise delegated to another committee) in relation to all matters detailed in the Fields of Activity.
- 2) Authority to exercise all of Council's powers, functions and authorities (except where prohibited by law) at any time when the Chief Executive certifies in a report that;
 - the matter is of such urgency that it requires to be dealt with
 - the matter is required to be dealt with, prior to the next ordinary meeting of the Council.
- 3) Monitor the performance of Council in terms of the organisational targets set in the Long Term Plan and Annual Plan – both financial and nonfinancial.
- 4) Monitor operational performance and benchmarking.
- 5) Undertake quarterly financial performance reviews.
- 6) Develop the Draft Annual Report and carry forwards.
- 7) Monitor and review the performance of Council Controlled Organisations and other organisations that Council has an interest in.
- 8) Monitor and review tender and procurement processes.
- 9) Monitor major capital projects.
- 10) Recommend to Council on matters concerning project decisions where these are identified as a result of the committee's project monitoring responsibilities.
- 11) Writing off outstanding accounts for amounts exceeding \$6,000 and the remission of fees and charges of a similar sum.
- 12) Settlement of uninsured claims for compensation or damages where the amount exceeds the amounts delegated to the Chief Executive.
- 13) Guarantee loans for third parties such as local recreational organisations provided such guarantees are within the terms of Council policy.
- 14) Authority to exercise the Powers and Remedies of the General Conditions of Contract in respect of the Principal taking possession of, determining, or carrying out urgent repairs to works covered by the contract.
- 15) Grant of easement or right of way over Council property.
- 16) Approve insurance – if significant change to Council's current policy of insuring all its assets.

Thursday, 15 September 2022

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Operations and Monitoring Committee Meeting

Kaupapataka

Agenda

<hr/>	
	<i>Koromatua</i>
	Chair: Councillor Geraldine Travers
	<i>Ngā KaiKaunihera</i>
	Mayor Sandra Hazlehurst
<i>Mematanga:</i>	Councillors: Bayden Barber, Alwyn Corban, Malcolm Dixon, Damon
Membership:	Harvey, Tania Kerr (Deputy Chair), Eileen Lawson, Simon Nixon, Henare
	O’Keefe, Peleti Oli, Ann Redstone, Wendy Schollum, Sophie Siers and
	Kevin Watkins
	Heretaunga Takoto Noa Māori Standing Committee Appointee: Mike
	Paku
<hr/>	
<i>Tokamatua:</i>	
Quorum:	8 members
<hr/>	
<i>Apiha Matua</i>	Group Manager: Corporate – Bruce Allan (Lead)
Officer Responsible:	Group Manager: Asset Management - Craig Thew
	Group Manager: Strategy & Development – Craig Cameron
	Financial Controller – Aaron Wilson
	Chief Information Officer – Warren Perry
<hr/>	
<i>Te Rōpū Manapori me te</i>	
<i>Kāwanatanga</i>	
Democracy &	Christine Hilton (Extn 5633)
Governance Services:	
<hr/>	

Te Rārangi Take

Order of Business

1.0 Opening Prayer – *Karakia Whakatūwheratanga*

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

An apology from Councillor Oli has been received.

At the close of the agenda no requests for leave of absence had been received.

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.

4.0 Confirmation of Minutes – *Te Whakamana i Ngā Minitī*

Minutes of the Operations & Monitoring Committee Meeting held Thursday 28 July 2022.

(Previously circulated)

5.0 Non-Financial Performance Report for the Year Ended 30 June 2022 7

6.0 Drinking Water Capital Project Programme and Budget Update 9

7.0 Draft Financial Year End Results 30 June 2022 19

8.0	Regional Economic Development Agency update on Establishment	31
------------	---	-----------

9.0	Minor Items – <i>Ngā Take Iti</i>
------------	--

10.0	Urgent Items – <i>Ngā Take Whakahihiri</i>
-------------	---

11.0	Recommendation to Exclude the Public from Item 12	37
-------------	--	-----------

12.0	Summary of Recommendations of the Civic and Administration Subcommittee meeting held 6 September 2022
-------------	--

Thursday, 15 September 2022

Item 5

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Operations & Monitoring Committee Meeting

Te Rārangi Take

Report to Operations and Monitoring Committee

Nā:
From: **Lex Verhoeven, Strategy Manager**

Te Take: **Non-Financial Performance Report for the Year Ended 30 June**
Subject: **2022**

1.0 Purpose and summary - Te Kaupapa Me Te Whakarāpopototanga

- 1.1 The purpose of this report is to update the Committee on achievement against its non-financial performance management framework as contained within the 2021-2031 Long Term Plan.
- 1.2 The performance Management Framework forms part of the 2021-2031 Long Term Plan which the Council is legally required to report against annually. This is the first year of reporting against the 2021-2031 plan.
- 1.3 This report is for information only, and contains unaudited information. The audited version will be incorporated in the Council's Annual Report for Council adoption in October 2022.
- 1.4 A summary of Council performance is contained at the beginning of **Attachment 1**, and provides a high level overview of performance. Generally the Council performance has met its targets as set out in its performance framework, and in some cases such as the Water Supply activity, the completion of Council's drinking water capital investment programme will ensure full compliance with the mandatory performance measures.
- 1.5 The Council's Performance Management Framework has 3 levels as follows:
 - 1) **Future Aspirations** (what we are trying to achieve over time – trends and shifts)
 - 2) **Today's Commitments** (levels of service we have committed to the community)
 - 3) **Smart Business** (internally focused on continuous improvement)

1.6 Level Two (**Today's Commitments**) is the primary focus of this report. It captures the performance information contained within the Long Term Plan and has three separate reporting components as follows:

a) **Levels of Service**

b) **Customer Experience**

c) **Key Actions**

1.7 In regard to the 63 levels of service measures within the Long Term Plan, 85% of those able to be measured in 2021/22 were either fully or substantially achieved. Of those not achieved the key reasons were:

- Performance requirements of the new drinking water operating and legislative environment, which will be fully addressed upon completion of Council's water investment and upgrade programme;
- Ongoing disruption due to the Covid-19 pandemic;
- Some measures which span financial years;

1.8 In regard to the 7 customer experience measures, 1 was fully achieved, 2 were not measured (due to Covid-19 operational impacts) and the 4 measures not fully achieved being the result mainly of work volumes in the consenting area.

1.9 In regard to the 33 key actions contained in the Long Term Plan these are either broadly on track or have been completed. **Attachment 1** contains the full performance framework.

1.10 This report is for information only and once audited will form part of the Council's Annual Report.

2.0 Recommendations - *Ngā Tūtohunga*

That the Operations and Monitoring Committee receive the report titled Non-Financial Performance Report for the Year Ended 30 June 2022 dated 15 September 2022.

Attachments:

1⇒ Reporting Framework 2022

CG-16-4-00256

Under
Separate
Cover

Thursday, 15 September 2022

Item 6

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Operations & Monitoring Committee Meeting

Te Rārangi Take

Report to Operations and Monitoring Committee

Nā:
From: Graeme Hansen, Director: Major Capital Works

Te Take:
Subject: Drinking Water Capital Project Programme and Budget Update

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to update the Operations and Monitoring Committee on the remainder of the Drinking Water Major Capital Works Programme due for completion in July 2023. The last significant budget update was presented at the 8 April 2021 Council meeting, with particular emphasis on the Small Communities project, Frimley Park and Eastbourne/ Waiaroha projects.
- 1.2 Council's 'Drinking Water Strategy' adopted in 2018 recognised that the assumptions of plentiful and pristine water were no longer valid. A range of objectives were established as a result of the extensive investigations and recommendations from the Board of Inquiry into the Havelock North contamination event in 2016. The focus following the Board of Inquiry process has been on achieving compliance with the New Zealand Drinking Water Standards.
- 1.3 It has been the officer's experience that demand for services from the civil engineering and sub trades market, exceeds industry supply capacity since early 2021. The outcome of this is a small number of Tenders for Council water contracts along with inflationary effects evident in both materials and services costs. Additional to this has been the ongoing effects of the Covid pandemic since early 2020. Officers are making best attempts to mitigate these challenges by working directly with suppliers and utilising procurement innovations to ensure delivery of Council's Waters Services Objectives and to protect our Community's wellbeing.
- 1.4 This report summarises the additional work completed since April 2021 and provides further refined budget detail for Council to approve, to ensure delivery of its Water Services Objectives by July 2023.

- 1.5 Detail for the small communities projects provides an update on final estimated project costs now that a significant amount of work has been completed and the remaining work is now well defined and committed for completion by November 2022.
- 1.6 The Frimley Park update provides clarity on estimated final costs now this project is substantially complete and is due to commence the testing and commissioning phase, and is also due for completion by November 2022.
- 1.7 The Eastbourne/ Waiaroha update will confirm works completed to date, the position of the remaining works for the water treatment plant, education building and associated groundworks, due for completion for the Matariki celebrations in July 2023.
- 1.8 This update report is presented in these 3 key work streams.
- 1.9 The remaining work identified in this paper completes the Major Drinking Water Capital Programme of works, which commenced in 2018. The impact of committing to the significant component parts of the Frimley, Eastbourne/ Waiaroha and Small Communities projects and the ongoing challenging impacts of Covid, material delays and costs, along with a buoyant civil contracting environment, requires a further debt funding commitment of \$8.7m from Hastings District Council.
- 1.10 This additional funding commitment represents 9.5% of the total estimated project cost and is reflective of a combination of events since 2019, as described above, that are ongoing and culminating in significant cost and time pressures for various components of these major works.

A summary of the current financial situation is as follows:

Drinking Water Major Capital Works Programme		
	\$m	\$m
Total Capital Spend to Date		\$70.1m
Committed Costs Remaining		
Treatment Facilities	\$10.75m	
Waiaroha mitigation	\$10.00m	
		\$90.85m
Total projected Expenditure		\$90.85m
Approved Funding		
HDC Debt	\$68.05m	
3 Waters Stimulus Funding	\$14.10m	
		\$82.15m
Funding Shortfall		\$8.70m
Proposed Funding for shortfall		
Additional HDC Debt funding requested		\$8.70m

- 1.11 The recommended option for Council is to commit to the completion of the remainder of the Drinking Water Capital Works Programme as outlined in this report. This will require Council debt

funding of \$8.7m for the completion of the Drinking Water project in the 2022/23 financial year. This will be accommodated within the recast capital plan approach that recognises that within the overall \$121m programme for the 2022/23 year there will be some interchange of projects which are ready to be procured and delivered.

2.0 Recommendations - *Ngā Tūtohunga*

- A) That the Operations and Monitoring Committee receives the report titled Drinking Water Capital Project Programme and Budget Update dated 15 September 2022.
- B) That the Committee considers the views and preferences of the community have been well canvassed in previous Long Term Plan processes, and that completion of the project is now paramount to finalise Council's commitment to safe drinking water compliance.
- C) That Committee notes the inclusion of an additional \$8.7m of loan funding for the completion of the Drinking Water Capital Works project in the 2022/23 financial year and that the additional loan funding is managed within Council's overall loan funding facilities and work programme for the 2022/23 financial year, in accordance with the recast capital plan philosophy adopted by Council and outlined within the 2022/23 Annual Plan.
- D) That Committee notes officers will continue to explore and apply for other funding opportunities in an effort to offset the impact on HDC debt funding.
- E) That Committee notes officers will continue to explore value engineering opportunities and cost savings for the duration of the project.

3.0 Background – *Te Horopaki*

- 3.1 Council's 'Drinking Water Strategy' adopted in 2018 recognised that the assumptions of plentiful and pristine water were no longer valid. A range of objectives were established as a result of the extensive investigations and recommendations from the Board of Inquiry into the Havelock North contamination event in 2016. The focus following the Board of Inquiry process has been on achieving compliance with the New Zealand Drinking Water Standards.
- 3.2 Council's Drinking Water Strategy also recognised that a multiple barrier approach to drinking water safety is required, with treatment of raw water and critical controls of those processes being essential steps. Council also has commitments made in its Water Safety Plan in regards to the installation of treatment of raw water, these commitments and timeframes have been set in agreement with Ministry of Health officials.
- 3.3 A significant project update titled "Drinking Water Capital Project Update" was presented to Council at its meeting on 8 April 2021. At this meeting three key areas of the Drinking Water Major Capital Works Programme were presented, as follows:
 - Small Community Water Treatment supply upgrades.
 - Frimley Park upgrade project.
 - Eastbourne upgrade project.
- 3.4 At this meeting Council resolved to:
 - Approve the additional funding requirement of \$6.8m for the completion of the Drinking Water Capital Works programme, to be funded by debt as part of the 2021-2031 Long term Plan,
 - That Council requests the reallocation of \$3.0m of Crown Infrastructure Partners funding for backflow prevention work to the Drinking Water programme, and Council notes the

\$3.0m for backflow prevention will be budgeted for at a later date in the 2021-2031 Long Term Plan programme.

- That Council notes officers will continue to explore value engineering opportunities and cost savings for the duration of the project.

- 3.5 \$14.1m, which includes the approved \$3.0m backflow reallocation, of a funding commitment of \$15.36m from the Government's 3 Waters Stimulus Package, obtained in 2020, has been used to fund discrete elements of the Drinking water programme.
- 3.6 Work on the various major component parts has continued since April 2021, with the specific detail expanded on in the Discussion section below.

4.0 Discussion – *Te Matapakitanga*

- 4.1 The range of works that have been negotiated and are progressing during the period from 8 April 2021 up to present time are;

4.2 Small Communities (\$14.3m)

- All design, consents, land requirements finalised.
- Haumoana, Esk/Whirinaki, Waimarama, Te Pohue and Clive Water treatment plants complete and operational.
- Waipatiki complete and in commissioning.
- Whakatu in construction, due for completion by November 2022.

4.3 Frimley Project (\$23.6m)

- Frimley reticulation pipeline contract completed.
- 8,000 cubic metre steel bolted Reservoir completed.
- 3 New Water supply bores completed.
- Water Treatment Plant substantially completed and due for commissioning.

4.4 Eastbourne/ Waiaroha Project (\$32.9m)

- Eastbourne reticulation pipeline contract completed.
- 2 x 5,000 cubic metre Reservoirs in construction, South reservoir complete and North reservoir 80% complete.
- 1 New Water supply bore due for installation in September 2022.
- Water Treatment plant under construction and due for completion in June 2023.
- Waiaroha Education building and associated groundworks under construction and due for completion in July 2023.

- 4.5 Earlier works completed prior to the 8 April 2021 update totalled \$20.0m, relating to Havelock North Trunkmain, Havelock North Booster Pumpstation and Wilson Road bore and treatment projects.

4.6 Budget Review and Implications

A revised budget was presented at the 8 April 2021 Council meeting totalling \$82.0m for the various elements of the Drinking water programme. This report included known costs for those elements of works committed to at the time and an estimate for those works that were still in a design or development phase. The estimates for works in development were assessed with information available at the time and taking account of the detail known but were also caveated around not knowing certain costs until these works were formally tendered or negotiated in the market.

- 4.7 The net result of this and the process of tendering the Frimley and Eastbourne water treatment plants and Eastbourne pipelines in 2021, and more recently negotiating the delivery of the Waiaroha education building and associated site works has allowed a more critical review of costs and budget implications, through to July 2023.

Drinking water major capital budgets					
	Est. Cost to complete project March 2021	Est. Cost to complete project August 2022	Percentage Complete	Completion date	Comment
Small Supplies	12,551,971	13,503,000	90%	Nov-22	5 of 6 sites complete.
Havelock North Trunkmain	11,198,448	11,198,448	100%	Complete	
Havelock North Booster	6,311,461	6,311,461	100%	Complete	
Wilson Road	2,516,000	2,516,000	100%	Complete	
Eastbourne/ Waiaroha	27,436,030	32,936,030	35%	Jul-23	Revised Project Estimate, 3 Waters Stimulus funding \$14.1m
Frimley	21,072,430	23,572,430	95%	Nov-22	In commissioning
Te Pohue Upgrade	813,988	813,988	100%	Complete	
Total budget	81,900,328	90,851,357			

Table 1: Drinking Water Capital Budget

A summary of the current financial situation is as follows;

Drinking Water Major Capital Works Programme		
	\$m	\$m
Total Capital Spend to Date		\$70.1m
Committed Costs Remaining		
Treatment Facilities	\$10.75m	
Waiaroha mitigation	\$10.00m	
		\$90.85m
Total projected Expenditure		\$90.85m
Approved Funding		
HDC Debt	\$68.05m	
3 Waters Stimulus Funding	\$14.10m	
		\$82.15m
Funding Shortfall		\$8.70m
Proposed Funding for shortfall		
Additional HDC Debt funding requested		\$8.70m

4.8 Variances to 8 April 2021 budget

There have been a significant number of variances since the 8 April 2021 meeting, relative to the \$8.70m funding shortfall to deliver the Drinking Water Strategy to completion and these are explained as follows:

4.9 Small Communities (\$0.95m)

Components of the budget variance in this area have been reported to Council as elements of the works have proceeded since April 2021, such as land purchase requirements for the Clive, Waipātiki, and Whakatu sites (\$475k).

4.10 Other site specific issues have arisen on a site by site basis requiring additional design or mitigation measures, primarily relevant to geotechnical and ground conditions, relocation of services and other compensation works such as playground equipment at Whakatu (\$325k).

4.11 The impact of Covid, including contractual delays, accounts for the remaining costs (\$150k).

4.12 Frimley (\$2.50m)

The separate contractual commitments for the Frimley project includes the 8,000m³ reservoir, reticulation pipelines from source water to the proposed treatment plant and network, 3 new water supply bores within Frimley Park and the Water Treatment plant. The Reservoir, reticulation pipelines and bore contracts have all been completed and the Water Treatment plant is substantially complete, and entering the testing and commissioning phase, due for completion in November 2022.

4.13 Cost increases for the earlier contracted work for the reticulation pipelines and reservoir have been relatively more manageable and less impacted than the more substantial work on the water treatment plant which commenced in 2021.

4.14 The Water treatment plant had not been tendered at the time of the last financial report to Council in April 2021, however an allowance for predicted costs had been included in the April 2021 report. Since that time, actual tender costs, variations and delays, along with material and labour cost increases that were not able to be fixed within the contracts have impacted this project. This along with Covid impacts and delays to these committed works has seen a \$2.50m variance to budget.

4.15 Eastbourne/ Waiaroha (\$5.50m)

The separate contractual commitments for the Eastbourne/ Waiaroha project includes 2 x 5,000m³ reservoirs, reticulation pipelines from source water to the proposed water treatment plant and network, 1 new water supply bore at the Eastbourne site, the water treatment plant and the education building and associated groundworks for the Waiaroha project. The South reservoir and reticulation pipelines have been completed. Work is advancing on the North reservoir, water treatment plant and education building, with work due to commence on the water supply bore and Waiaroha groundworks.

4.16 As for the Frimley project, the Eastbourne reticulation pipelines and water treatment plant were tendered as one project and commenced in 2021. These projects are also being impacted by the same costs affects highlighted for the Frimley project and are being further exacerbated by the timing of these works after the Frimley project, through 2022, into 2023.

4.17 The Waiaroha project is built around the principle of Ki Uta Ki Tai (mountains to sea) and significant cultural elements are proposed within the project. Specific elements are a Toanga rock water feature, Waharoa, Mahau structure and adornments to the building entrance, Taniwha water feature, cultural etching and features added to walkways and structures and designs to the exterior walls of the Water treatment plant.

4.18 The Waiaroha Education building and associated ground works are being delivered as part of a lump sum contract, resulting from an Early Contractor Involvement (ECI) in 2021. Original Quantity Survey and budget estimate work carried out in mid-2020 established the \$6m estimated budget for this

work. The lump sum offer for the consented design, currently under final negotiation, is circa \$8m, and is resulting from significant material cost increases since 2020, some scope refinements from final design detail with emphasis on educational and cultural opportunities and incorporating sustainable thinking into the building design and development of groundworks. The lump sum commitment will deliver the project through to the deadline of the Matariki celebrations in July 2023.

4.19 **Funding**

The original 4 year Drinking Water Capital Works programme was committed to in the 2018 LTP with debt funding being used as the proposed funding mechanism for the works.

- 4.20 Additional to HDC debt funding has been the opportunity to source funding of \$14.1m through 2020 from Crown based sources for specific components of the Drinking Water treatment programme. This funding has been focussed on water treatment activities, along with supporting significant mitigation elements of the project as included in the project resource consent conditions.

4.21 **Significance and Engagement**

This report recommends approval of unbudgeted expenditure of \$8.7m. Councils Significant and Engagement Policy and has been assessed.

- 4.22 The relevant matters given consideration include:

- **The status of the Water Investment Strategy within the Council's Long Term Plan** – Safe Drinking Water was ratified by the community as its Number One priority within the 2018 LTP and the community expectation is that this programme will be delivered.
- **The impact on Council's fiscal position** – Whilst this is additional and unforeseen expenditure, it does reflect the realities and difficulties of undertaking significant capital infrastructural projects, particularly given the challenges within the worldwide economy and exacerbated by the Covid-19 environment.
- **Recast Capital Plan** – The Council have already recognised that a number of factors are impacting on the timing and delivery of the Council's overall capital plan and adopted a capital plan recast addendum with its 2022/23 Annual Plan. This approach takes a whole of capital programme approach versus a project specific approach and recognises that within the overall \$121m programme for the 2022/23 year there will be some interchange of projects which are ready to be procured and delivered.
- **The practical options** - The body of this report outlines the practical options in respect of this matter given where the Frimley and Eastbourne projects are at in terms of committed investments, obligations in respect of the consenting process and the wider obligation to achieve drinking water compliance. This analysis indicates that the project is fundamentally required to be delivered.

- 4.23 Given the considerations above, it is assessed that the Council can ratify the resolutions within this report (should it determine to) without further community engagement and in accordance with the criteria outlined within Council's Significance and Engagement Policy.

- 4.24 This decision is within the delegations of the Operations and Monitoring Committee as new funding is not being requested, rather an adjustment to the 2022/23 capital programme in line with the approach adopted as part of the 2022/23 Annual Plan.

5.0 Options – Ngā Kōwhiringa

- 5.1 Option One - Recommended Option - Te Kōwhiringa Tuatahi – Te Kōwhiringa Tūtohunga
Approve \$8.7m in unbudgeted funding for completion of the Drinking Water Capital Works Programme by July 2023:
- 5.2 Advantages
This option provides the project with all the certainties of funding to deliver the project to completion, recognising the compliance deadlines the project is operating under.
- 5.3 This option allows officers to secure best pricing for materials and resources in an inflationary market.
- 5.4 This option does not preclude Council from negotiating available savings and value engineering options within the contracts currently under tender, but will allow the contract commitments to be made and for this process to continue and for officers to negotiate any further possible savings.
- 5.5 Option Two
The alternate option is for Council not to approve \$8.7m in unbudgeted funding for completion of the Drinking Water Capital Works programme or to approve a lesser amount than \$8.7m. Officers recommend that this is not a viable option for Council to consider due to commitments already in place for the various components of work and it may result in the risk of Council failing to meet its Water Services Objectives per its adopted Drinking Water Strategy.

6.0 Next steps – Te Anga Whakamua

- 6.1 Approval for the shortfall in funding will ensure the remaining work for the Drinking Water Capital Works programme is delivered by the July 2023 deadline.
- 6.2 Subject to this further approval the works will then be progressed within the context of the contractual arrangements negotiated.

Attachments:

There are no attachments for this report.

Summary of Considerations - He Whakarāpopoto Whakaarohanga

Fit with purpose of Local Government - E noho hāngai pū ai ki te Rangatōpū-ā-Rohe

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

Link to the Council's Community Outcomes – Ngā Hononga ki Ngā Putanga ā-Hapori

This proposal promotes all of the wellbeings of communities in the present and for the future by providing safe and healthy drinking water.

Māori Impact Statement - Te Tauākī Kaupapa Māori

While consultation and engagement has been undertaken as part of the wider project development and LTP process for the Drinking Water Strategy, Iwi consultation has also been undertaken on a project by project basis within the wider project. This has included presentations to the Heretaunga Taiwhenua in 2019 and direct engagement for the Small Communities, Eastbourne and Frimley projects as the works have proceeded.

Sustainability - *Te Toitūtanga*

Water treatment plant upgrades and above ground reservoir storage are key elements of the project that provide a safer and more secure supply of potable drinking water for the community, with a focus on long term sustainability.

Financial considerations - *Ngā Whakaarohanga Ahumoni*

The financial implications for the Eastbourne, Frimley and Small Community projects are included in this paper and the impacts of additional loan funding will be dealt with in the 2022/23 financial year.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

This decision/report has been assessed under the Council's Significance and Engagement Policy as being of high significance and has been canvassed in the report under its own section.

Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto / ā-waho*

A communications plan has been developed for all major components of the Drinking water upgrade programme and has been used to guide the process on a site by site basis. Formal notified consent processes have been required for the major works which ensured all parties are able to participate in the development and construction stages. Regular Council updates, including targeted community consultation and wider ratepayer media avenues have been provided as works progress and budget reviews are undertaken.

Risks

Legal/ Health and Safety risks will continue to manifest due to the current non-compliant position of some of the existing drinking water supplies. Ongoing direct engagement with Drinking Water Assessors (Ministry of Health), along with monthly reporting, is being used to manage risks on the road to compliance.

Rural Community Board – *Te Poari Tuawhenua-ā-Hapori*

There are no specific implications for the Rural Community Board, however regular updates on project progress will be provided as required, with particular relevance to the Small Community upgrade programme, which is now nearing completion.

Thursday, 15 September 2022

Item 7

*Te Hui o Te Kaunihera ā-Rohe o Heretaunga***Hastings District Council: Operations & Monitoring Committee Meeting***Te Rārangi Take*

Report to Operations and Monitoring Committee

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

Te Take:
Subject: **Draft Financial Year End Results 30 June 2022**

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

- 1.1 The purpose of this report is to inform the Committee of the unaudited accounting and rating result for the year ended 30 June 2022 and for the Committee to approve the allocation of the rating result. It also seeks the approval from Committee to carry forward project budgets. The Hastings District Rural Community Board has approved the recommendations submitted to it on 5th September 2022 relating to the year-end rating result for Rating Area 2 (RA2).
- 1.2 The **rating result** is a surplus to budget. The result in RA1 is a consequence of higher than budgeted revenue and interest rate savings and offset by increasing cost pressures within areas of Council along with a number of approved but unbudgeted spends in the financial year. RA2 has benefited in addition from favourable budgeted rates remissions, penalties and rates revenues.
- 1.3 The unaudited rating result for the 2021/22 year is as follows:

Rating Area 1	\$545,755	<i>Surplus</i>
Rating Area 2	\$25,938	<i>Surplus</i>
Total for the District	\$571,693	<i>Surplus</i>

- 1.4 The rating result is recommended to be allocated in terms of one of the following options:
1. Repay Debt (Heretaunga House)
 2. Allocate to the Contingency Reserve
 3. Allocate to the General Purpose Reserve

- 1.5 In addition to the Rating Result, Council has received, revenue from the surpluses at the Landfill totalling is \$1.278m. Development is about to commence on the new Landfill valley with consents having now been granted. Given development works are imminent, the allocation of the Landfill Surplus to fund those development works is the preferred option.
- 1.6 The report also recommends that budget allocations proposed to be carried forward from 2021/22 to 2022/23 to enable project completion be approved.
- 1.7 Council is provided with quarterly financial reports during the year with the unaudited year-end result presented annually at the September Operations and Monitoring Committee meeting.
- 1.8 Officers' report on the operating financial result (operating surplus/deficit) as well as the rating result. The operating (accounting) financial result is reported on quarterly during the year and, at year end, a report is prepared on the rating result in addition to the accounting result.
- 1.9 The rating result differs from the accounting result in respect of non-cash items such as depreciation, gains or losses on interest rate swaps, vested assets, impairment of assets and investments and development contributions income which have no impact on setting rates and are therefore excluded from the rates calculations. The rating result is also affected by the extent of rates-funded carry forwards that are approved. The rating result reports on the variance of rates collected and net total expenditure (including capital and reserve transfers) for Council.
- 1.10 The Financial Reports attached to supplement this report include:
- Attachment 1** – Interim Rating Result for the year ended 30 June 2022
Attachment 2 – Dash Board Summary of Financial Performance
Attachment 3 – Draft Unaudited Financial Statements
Attachment 4 – Carry Forwards 2021/22
- 1.11 The financial reports contain summarised information. **Please feel free to contact the report writer or the Group Manager: Corporate directly on any specific questions from the reports before the meeting.** This will ensure that complete answers can be given at the meeting on the detail that forms the basis for these reports.

2.0 CURRENT SITUATION

- 2.1 The start of the 2021/22 financial year the Hawke's Bay economy was being impacted by national and international cost pressures in terms of both supply chain logistics and inflationary impacts.
- 2.2 This affected number of Council areas that experienced operational cost pressures in responding to economic conditions along with a tightening of resources in order to complete large capital projects.
- 2.3 In addition, The COVID-19 lockdowns have had a significant impact on a wide range of areas within Council, with the community-facing activities very much affected in revenue terms.
- 2.4 To have achieved a rating surplus in the current environment is a strong outcome and is a result of prudent decision making at Council level and active budget management by staff.

3.0 THE RATING AND LANDFILL RESULT

- 3.1 Council adopts focussed financial management practices and prepares a balanced budget to deliver Council's desired programme, including high levels of fiscal tensioning and stretch targets.
- 3.2 This year the overall general rating result for 2021/22 is a surplus to budget as shown below by rating area.

Rating Area 1	\$545,755	<i>Surplus</i>
Rating Area 2	\$25,938	<i>Surplus</i>
Total for the District	\$571,693	<i>Surplus</i>

- 3.3 It should be noted that the rating result is after all necessary reserve transfers have been made, there are a number of significant activities where surpluses or deficits are ring fenced and/or transferred to reserves and include water supply, waste water and refuse & recycling.
- 3.4 In allocating surpluses and reserves, Council's prudent financial policy approach has traditionally focused on debt repayment or borrowing reduction. It is with this in mind that the following options have been provided for consideration in allocating the rating surplus:

	RA1	RA2	Total
Total Surplus on General Rate	545,755	25,938	571,693
<u>Allocation of Surplus:</u>			
1. Repay Heretaunga House Debt			
2. Contingency Reserve			
3. Council General Purpose Reserve			
Allocated Surplus	545,755	25,938	571,693

- 3.5 The repayment of Heretaunga House debt would be in line with treasury policy on the allocation of surpluses, that states: *"The funds from all asset sales and operating surpluses will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use,"* this would be considered a prudent option.
- 3.6 The second option is to continue to ensure that there is adequate contingency to cover those costs that arise during the year, especially during this time where there is continuing pressure at an economic level where inflation, resourcing and supply chains are concerned.
- 3.7 The third option is to transfer to the General Purpose Reserve, this option is to increase the reserve to act as an offset should against any future rating deficits being incurred.
- 3.8 In addition to the general rating result, the Council has received, revenue from the surpluses at the Landfill totalling is \$1.278m.
- 3.9 Development is about to commence on the new landfill valley with consents having now been granted, this means the recommended use of the 2021/22 landfill surplus is for it to be allocated to the Landfill Development Reserve as a contribution towards the funding required for the new landfill valley development.
- 3.10 In determining priorities for the Rating Area 2 general rate surplus, the Hastings Rural Community Board recommended that given the small size of 2021/22 the RA2 surplus that any allocation of that surplus should align with the overall allocation resolved by the Operations and Monitoring Committee.

4.0 The Unaudited Accounting Result

- 4.1 Draft Unaudited Financial Accounting Result compared to Annual Plan
- 4.2 Set out below is a summary of the 2021/22 financial year. Please note that this is not the same as the rating result. The budget below is against the Annual plan as required by the accounting standards, and does not include carry forwards from the prior year and in year adjustments.

Unaudited Financial Accounting Result	Budget Council \$'000	Actual Council \$'000	Variance
Operating Revenue	178,450	163,780	(14,670)
Less: Operating Expenditure	148,601	145,470	3,131
Net Surplus/(Deficit)	29,849	18,310	(11,539)
Unrealised movement on Swaps	-	11,974	11,974
Net Surplus/(Deficit) after Swaps	29,849	30,284	435
Gain/(Loss) on Revaluations	52,259	549,214	496,955
Net Surplus after accounting gains and losses	82,108	579,498	497,390

- 4.3 The draft unaudited financial result for the year ended 30 June 2022 before gains or losses on revaluations and losses on interest rate swaps is an accounting deficit of \$18.3m with an unfavourable variance to the budget of \$11.5m.
- 4.4 It is important to note that budget variances noted in the table above, refer to variances against the Annual Plan excluding carry forwards or any other budget adjustments as this is what Council is required to report against in the Annual Report. By comparison, the attached dashboard reports include budgeted information that includes all budget adjustments including carry forwards from the previous year.
- 4.5 The unrealised gain on interest rate swaps of \$11.97m is an accounting entry and reflects the potential cost or gain to Council of replacing all of its interest rate swaps at the prevailing swap interest rates on 30 June 2022. Council is, however, extremely unlikely to do this and the gain is therefore recognised as an 'unrealised gain' and is reflective of the current situation with interest rates.
- 4.6 Council has interest rate swaps in place to hedge against interest rate exposure by reducing uncertainty of future Cashflows. This is in line with Council's prudent financial approach and meets the requirements of Council's treasury policy. Market conditions have changed from several years ago when many of these swaps were taken out.
- 4.7 In addition to this there were three revaluations this year. These were roading, three waters and library assets. The total increase in asset value for these three classes was \$549m. The primary driver was the water revaluation, where assets value has increased due to the significant increases in contract and unit rates over the last two years since the last revaluation was completed.

5.0 Revenue

- 5.1 The table below shows total revenue against the revised budget and includes any in year adjustments.

Total Revenue Streams	Actual Ytd (\$'000)	Revised Budget Ytd (\$'000)	Variance Ytd (\$'000)
Rates (Budget)	94,974	93,860	1,115
Fees, charges & metered water supply charges	31,091	33,942	-2,851
Subsidies and Grants	26,422	35,704	-9,282
Development and financial contributions	5,125	5,785	-660
Interest revenue			99
Other revenue	6,168	1,537	4,632
Operating Revenue	163,781	170,828	-7,047
Accounting Adj. (Swaps)	11,974		11,974
Total Revenue	175,755	170,828	4,927

- 5.2 Operating Revenue has ended the financial year \$7.0m unfavourable, mainly due to lower fees and charges to budget of \$2.8m and Subsidies and Grants lower than budget at \$9.2m. This was offset by

higher than budgeted vested assets. The unrealised gain on swaps of \$11.9m along with has resulted in total revenue being favourable to budget by \$4.9m.

- 5.3 Early in this financial year COVID-19 lockdowns had a significant impact on a wide range of areas within Council, with the community-facing activities very much affected in operational revenue terms. In addition to this, Subsidies and Grants, the lower than budgeted grants funding had a material effect on the overall level of revenues received. These projects will be reimbursed as spend occurs in the 2022/23 financial year.
- 5.4 Fees and charges revenue across Council are unfavourable by \$2.8m with the main drivers being:
- Planning and Regulatory services are unfavourable to budget by \$1.2m driven by lower than budgeted building consent fees (\$1.04m) along with lower parking revenues (\$650k).
 - The lower revenue to budget is offset by lower than budgeted expenditure in personnel (due to a number of unfilled vacancies) and contracted services with the Planning and Regulatory Group reporting an overall favourable rating result.
 - Lower parking revenues are reflective of the impact of COVID-19 with pay and display metering not being collected during Alert Levels 4 & 3, free parking prior to Christmas along with lower overall revenues collected with lower levels of usage.
 - Splash Planet has been one of the most affected by the pandemic after the summer season closure with budgeted revenue \$2.2m not achieved. Offsetting the lower revenue is lower expenditure to budget of \$1.4m along with a transfer from the Splash Planet reserve as resolved by Council.
 - Offsetting these unfavourable variances are higher than budgeted water connection fees (\$790k) due to the number of new residential connections along with a prior year adjustment into the revenue line.
- 5.5 Subsidies and Grants are \$9.3m behind budget partly due to lower Waka Kotahi (NZTA) subsidies of \$3.2m, along with budgeted subsidies not yet received for Flaxmere development \$6m, both of which are offset by lower subsidy-related expenditure. This year is the first of the current three year agreement, and the delay finalising the agreement at the beginning of the financial year has contributed to when elements of the Transport programme could start.
- 5.6 Development contributions while unfavourable to YTD budget by \$660k, phasing of budgets in relation to when contributions occur is difficult, and creates timing differences as it is not always known in advance in what month a payment will occur when the budget is being set.
- 5.7 Offsetting the lower operating revenue streams, were non cash adjustments at year end for other revenues (\$16.4m), with an unrealised gain on swaps of \$11.9m along with higher than budgeted vested assets of \$4.2m

6.0 Expenditure

- 6.1 Expenditure over Council ended the year, \$3.6m or 2.4% of total revised budgeted expenditure year to date. Main drivers include:
- Personnel costs are favourable to budget by \$1.49m due to a number of vacancies across Council activities. This underspend in personnel cost is one of the many contributing factors in not being able to start and complete initiatives and projects on time.
 - The negative variance to budget for non-cash entries in terms of Depreciation (\$2.2m) were driven by higher asset values due to prior year revaluations in Land & Buildings, along with increased spend in infrastructure projects in water and roading.
 - Finance costs were favourable by \$1.6m which is a reflection of lower levels of debt than phased in the budget and lower average cost of funds when compared to that assumed in the budget.

- Other operating costs are favourable to budget by \$2.7m, and are driven by lower, expert advice (\$1m), legal advice (\$260k) along with the timing of grants budgeted but not paid and adjustments for accounting treatments of provisions.

7.0 COVID-19 Impacts in the current financial year:

- 7.1 Toitoti revenue has been affected by the impact of COVID-19 under all of the levels this financial year. Restrictions, along with the traffic light settings of orange and red, have curtailed activity.
- 7.2 Toitoti cancelled or postponed a large number of events during the financial year, meaning a significant loss in revenue. In addition to this once the country went to an “orange” setting Toitoti then started to incur costs of hiring staff in order to be prepared and be ready further shows.
- 7.3 Splash Planet, in terms of revenue with the closure of Splash Planet for the 2021/2022 season, has materially affected the fees and charges line at Council level. Whilst there has been an offset in lower spend in not hiring staff etc., the impact on the unfavourable rating requirement has been somewhat offset by the Splash Planet reserve as resolved by Council.
- 7.4 Alert level restrictions have also affected the parking revenue with pay and display not collected during Levels 4 & 3, along with lower levels of patronage. The COVID-19 protection framework red and orange traffic light settings have impacted foot traffic in the CBD and the corresponding parking revenue.
- 7.5 Community-facing activities and facilities such as libraries, the Flaxmere gym along with sports and community centres have all faced lower activity levels which has affected revenue streams.
- 7.6 Capital projects have also been affected by COVID-19, with issues relating to logistics and supply. These issues include:
 - Pressure on shipping and airfreight
 - Design modifications to allow for available materials
 - Pressure on specific trades
 - Costs of COVID down time
 - Increases in pricing of projects and materials

8.0 SUMMARY BY AREAS OF ACTIVITY OF COUNCIL

Corporate & Governance

- 8.1 The corporate and Governance group is a wide ranging group that includes HR, Finance, and I-site, through to Leadership and cultural & Heritage. This group ended the year \$339k favourable mainly due to lower operational project costs across Central Admin buildings, Cultural & Heritage and leadership areas.

Strategy and Development

- 8.2 The Strategy and Development Group ended the year on track, with a number of economic and social development projects to be carried forward into the 2022/23 financial year.

Community Facilities & Programmes

- 8.3 This group of activities has had a challenging year due to the impact of COVID -19, and was one of the most badly affected groups due to the customer facing nature of the activities it is involved in. The unfavourable rating requirement of \$889k showed the negative effects of having to close Splash Planet for the season, along with the limitations of when and how Toitoti could operate, and in other cases lower numbers through activities than what was budgeted for.

Planning & Regulatory Services

- 8.4 Planning and Regulatory Services had an overall rating result of \$585k favourable to budget, and whilst revenue as previously reported was lower to budget in the areas of building control and parking, vacancies in personnel along with lower contracting and legal costs were a significant offset.

Asset Management

- 8.5 Landfill was favourable to budget, producing a surplus of \$1.278m, this has been transferred into the Landfill Reserve, as development of the next valley is imminent with consent now having been granted.
- 8.6 Transportation was favourable to budget by \$388k after carry forwards of \$517k have been accounted for. These carry forwards are driven by the unspent local share of the budget that would be subsidised by the Waka Kotahi share. Late in budget process Waka Kotahi then advised their share would be less than the amount budgeted. Council kept the local share in the budget, with the expectation that at some stage further work may be agreed with Waka Kotahi and that additional unspent local share was put to the Transport Reserve to be used as the opportunity arises.
- 8.7 The RA1 unspent local share that was put into the Transport reserve was to the value of \$753k, whilst in RA2 this amount was \$257k.
- 8.8 Water Services: Council continues to respond to the water change programme with elevated expenditure supply activity through 2021/21 including both capital and operational expenditure. This activity is funded by way of a targeted rate and accounted for in a separate water account which is designed to either accumulate reserves or run in deficit depending on expenditure needs and Council decision making. This allows Council to spread the impact of “lumpy” expenditure in this activity.

9.0 Capital Spend

- 9.1 Council's total capital budget (including carry forwards, renewals, new works, and growth projects) for 2021/22 is \$159.0m. This level of expenditure is a significant increase on what has been delivered previously by Council. The large capital budget is made up of :
- | | |
|---|----------|
| • 2021/22 Annual Plan | \$127.9m |
| • Carry forwards and revised budget adjustments | \$ 32.8m |
| Total revised budget after carry forwards and adjustments | \$160.7m |
- 9.2 At the end of May Council was presented with a strategic capital plan, recognising the pressures in being able to complete the large capital programme set. This resulted in a revised budget that was being reworked in tandem with the next three years going forward.
- 9.3 This also saw the decision to increase flexibility where if some projects were delayed other project budgets could be moved forward into its place to reduce delays and improve the completion rates of projects. As a result there is a greater carry forward number into future years to align with the strategic decision taken.
- 9.4 Capital spend for the year to date is \$90m, this is against the March forecast of \$94.5m. The impact of COVID on the capital programme cannot be overstated, with logistics and supply along with the availability of resourcing to complete projects providing a significant challenge.
- 9.5 These issues impacted the capital programme in the 2021/22 year, with a large number of projects delayed and carried forward into the next financial year. The effect of delays in capital projects can be seen in the lower funding costs in the current year.

9.6 Projects by Activity within the three types of capital spend are shown below:

Year to date Summary of Capital Spend by Type				
2021/22	YTD Actuals	YTD Budgets	YTD variance	% Spent to Total Budget
COUNCIL CAPITAL				
Renewals	42,232,459	55,603,634	13,371,175	76%
New Works	44,210,480	77,546,117	33,335,636	57%
Growth	4,248,438	27,564,707	23,316,269	15%
	90,691,377	160,714,458	70,023,081	56%
SUMMARY				
RENEWALS				
Stormwater Services	752,776	1,450,500	697,724	52%
Wastewater Services	6,567,337	14,560,000	7,992,663	45%
Water Services	3,724,862	4,871,000	1,146,138	76%
Transportation RA 1	13,721,692	15,964,904	2,243,212	86%
Rest of Council				
Parks	2,292,653	2,128,286	(164,367)	108%
Building services	1,932,283	2,777,990	845,707	70%
Municipal Strengthening	6,456,682	6,750,000	293,318	96%
Server Infrastructure	1,562,502	1,650,000	87,498	95%
Landfill	707,128	423,472	(283,656)	167%
Other	4,514,544	5,027,482	512,939	90%
	42,232,459	55,603,634	13,371,175	76%
NEW WORKS				
Stormwater Services	1,476,172	3,718,500	2,242,328	40%
Wastewater Services	1,021,049	752,000	(269,049)	136%
Water Services	20,804,294	35,136,531	14,332,237	59%
Transportation	8,883,901	12,118,290	3,234,389	73%
Landfill	1,939,307	7,440,394	5,501,087	26%
Parks	4,140,809	5,389,300	1,248,491	77%
Building services	373,296	1,121,000	747,704	33%
Rest of Council				
Flaxmere Town Centre	1,349,852	2,080,000	730,148	65%
206 Queen St	112,389	374,702	262,313	30%
Food Hub Phase 2	-	800,000	800,000	0%
New Cemetery Setup	177,722	1,215,000	1,037,278	15%
HB Museum Storage	666,164	2,700,000	2,033,836	25%
Flaxmere Housing	2,183,871	4,020,000	1,836,129	54%
Other	1,081,655	680,400	(401,255)	159%
	44,210,480	77,546,117	33,335,636	57%
GROWTH				
Stormwater Services	1,043,032	9,229,500	8,186,468	11%
Wastewater Services	357,048	4,807,000	4,449,952	7%
Water Services	1,240,830	2,976,500	1,735,670	42%
Transportation RA 1	1,439,573	9,547,707	8,108,134	15%
Parks	167,956	1,004,000	836,044	17%
	4,248,438	27,564,707	23,316,269	15%
Total Capital	90,691,377	160,714,458	70,023,081	

9.7 Renewals –Wastewater renewals are the more substantive contributor to the under-spend in renewals spending during 2021/22. The larger wastewater projects that were not delivered in 2022/22 include the Eastern Interceptor upgrade which was retendered during the year and will now commence in early 2023 and the Inland Trunk Sewer renewals which is part of a 5 year programme of works that will be tendered in September 2022.

9.8 Total renewal spend was 76% of total renewals budgeted with large projects including the Municipal Building strengthening and redevelopment. The transportation activity was also a major contributor with \$13.7m spent during the year.

- 9.9 New Works - The drinking water major capital works programme contributed \$15.6m towards the new works capital delivery in 2021/22 and accounted for \$13.5m of the underspend and carry forwards into 2022/23. The new valley development at the Landfill was the other major contributor towards capital delivery underspend in 2021/22 and with the resource consent now approved this project will progress through 2022/23 and into future years.
- 9.10 The Museum Storage project has now completed the detailed design stage, building consent application has been lodged and construction is due to commence early 2023 subject to external funding sources.
- 9.11 Growth – development works delivered in the growth area focussed around infrastructure at Omahu Road (\$2.4m), Iona/Middle Road (\$1.1m) and Lyndhurst Stage 2 (\$0.8m). Delays were experienced with development at Howard Street, however contracts have been let for the external works for the Howard Street development area and work will progress through 2022/23.

10.0 Carry forward Schedule

- 10.1 Included in **Attachment 4** is a detailed Schedule of Projects and budget amounts that officers have requested to be carried forward to the 2021/22 year
- 10.2 As noted in the previous section on capital, total Capital spend was \$90m against the revised budget of \$160.7m. As per the meeting and strategy plan around the capital programmes looking forward, the review of projects that need to be carried forward into the 2022/23, along with those to be budgeted in the three out years, the total carry forwards are \$74.1m
- 10.3 It must be remembered that Council are working in an extremely “tight” market where resources are concerned in terms of personnel and contractors along with the challenges of the current supply chain constraints.
- 10.4 The carrying forward of budget is the accepted mechanism to allow those capital projects to be delivered and reported on, in the following year or to enable re-budgeting in future years.
- 10.5 The level of carry forwards from rates funding is \$1.082m. While the table provides a summary of the major carry forward items, the \$88k of rates carry forwards classified as other is made up of a number of smaller carry forward projects across Council groups.
- 10.6 Included in the Loan Funded carry forwards is \$13.5m for the major drinking water project. In addition, there is a range of carry forwards across a number of Council activities, from the Te Mata Peak Road project (\$3m) through to Heretaunga Street Laneways \$500k.
- 10.7 Growth funded projects include a number of significant projects including Howard Street at \$9.8m and Iona/Middle road project at \$6.5m
- 10.8 The table below shows a summary of projects requested to be carried forward by funding type:

2021-22 Carry Forward Summary		
Growth	\$	\$
Iona/Middle	6,519,000	
Howard street	9,887,000	
Omahu industrial	1,605,000	
Lyndhurst	1,523,000	
Medium density	1,015,000	
Other	593,000	
		22,142,500
Rate Funded		
Parks projects	100,000	
Economic Development	236,000	
Social Development	95,000	
Events	95,500	
Transportation	468,000	
Other	87,500	
		1,082,000
Loan & Reserve funded		
Major Drinking water project	13,511,000	
Transportation	3,473,000	
Landfill	3,184,000	
Te Mata Peak road	3,053,000	
Eastern Intceptor	2,993,000	
Inland Trunk Sewer renewals - Industrial	2,611,000	
Land Subdivision - Flaxmere	2,587,000	
Hawkes Bay Museum Storage development	2,000,000	
Park projects	1,650,000	
Lowes Pit	1,600,000	
Building Services	1,593,000	
Whakatu West Industrial development	1,286,500	
Cemetery	943,000	
Rising main renewals	936,000	
Heretaunga House	800,000	
WWTP Infrastructure Renewals	618,000	
Campbell Street Stormwater	600,000	
Reservoir Upgrades	532,000	
Cranford Hospice	500,000	
Heretaunga street laneways	500,000	
Information Services	491,500	
Other	5,426,500	
		50,888,794
Total Carry Forwards		74,113,294

11.0 External Debt

- 11.1 Total net borrowing as at the end of June 2022 is \$190.7m, an increase from last year (\$165.7m). At yearend Council has cash on hand of \$32m, along with facilities of \$15m. The liquidity ratio is at 120% in line with the policy minimum of 110%.

	30 June 2022 (\$000)
Borrowing at start of year	205,740
New Loans Drawn	55,000
Loan Repayments	(23,000)
Gross borrowings at end of period	237,740
Funds held on deposit	32,000
Total Net borrowings	190,740
<i>Liquidity Ratio</i>	<i>120%</i>

12.0 Allocation of the Rating Surplus

12.1 Council's Treasury Policy states the following on the allocation of surpluses:

"The funds from all asset sales and operating surpluses will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use."

12.2 This year the total of the surplus is \$571,693 across both rating areas. Given the positive result considering the challenges Council has faced there are three possible outcomes of what to do with the surplus.

	RA1	RA2	Total
Total Surplus on General Rate	545,755	25,938	571,693
<u>Allocation of Surplus:</u>			
1. Repay Heretaunga House Debt			
2. Contingency Reserve			
3. Council General Purpose Reserve			
Allocated Surplus	545,755	25,938	571,693

12.3 The first is to use the surplus to repay some of the debt associated with Heretaunga House, which is sitting at \$3.04m. As discussed earlier this would be in line with Treasury policy.

12.4 Maintaining the contingency reserve is a second option that allows Council to have more options should unbudgeted projects that make delivery of budgeted projects difficult to achieve with those budgeted constraints. The current Council has been keen to take advantage of opportunities as they arise and be proactive in those situations. Couple that with a strong inflationary environment and Council finances will be under pressure in 2022/23 and additional support through the Contingency Reserve may be required in the coming years.

12.5 Increasing the General Purpose reserve is a third option that will allow that reserve to have a balance that can be used in future years should there be a rating deficit. While the Rating Area 2 General Purpose Reserve has a balance of \$628,617, the Rating Area 1 General Purpose Reserve has a small balance of \$9,316 and is therefore of no value in supporting any deficit should one be delivered. As noted in 12.4 above, the current financial year will face inflationary pressures including rising interest rates that will put pressure on budgets.

12.6 In determining priorities for the Rating Area 2 general rate surplus, the Hastings Rural Community Board recommended that given the small size of 2021/22 the RA2 surplus that any allocation of that surplus should align with the overall allocation resolved by the Operations and Monitoring Committee.

12.7 The recommendation of this report, is allocate the surplus to the contingency reserve. Council is facing significant financial pressures and having access to this additional financial support could be very beneficial in 2022/23.

13.0 Recommendations - Ngā Tūtohunga

- 13.1 That the Operations and Monitoring Committee receive the report titled Draft Financial Year End Results 30 June 2022 dated 15 September 2022
- 13.2 That the funds arising from the Rating Area 2 surplus for the 2020/21 financial year, as recommended by the Hastings Rural Community Board, align with the overall allocation resolved by the Operations and Monitoring Committee.
- 13.3 That the rating surplus be allocated to the Contingency Reserve:
- 13.4 That the budgets as per the schedule of Carry Forwards funded by rates and loans be approved to be carried forward to the 2022/23 financial year.
- 13.5 Landfill Surplus of \$1.278m is allocated to the Landfill Development Reserve.

Attachments:

1⇒	Interim Rating Result for the year ended 30 June 2022	FIN-09-01-22-206	Under Separate Cover
2⇒	Dashboard Summary of Financial Performance June 2022	Fin-09-01-22-209	Under Separate Cover
3⇒	Draft Unaudited Financial Statements 30 June 2022	FIN-09-01-22-207	Under Separate Cover
4⇒	Carry Forwards Requested 2021/22	FIN-09-01-22-208	Under Separate Cover

Thursday, 15 September 2022

Item 8

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Operations & Monitoring Committee Meeting

Te Rārangi Take

Report to Operations and Monitoring Committee

Nā:
From: Lee Neville, Economic Development Manager

Te Take:
Subject: Regional Economic Development Agency update on Establishment

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

- 1.1 The purpose of this report is to provide an update on the establishment of the Regional Economic Development Agency (REDA) at 5th September 2022.
- The report is attached along with a draft REDA establishment roles and responsibilities matrix.

2.0 Recommendations - *Ngā Tūtohunga*

That the Operations and Monitoring Committee receive the report titled Regional Economic Development Agency update on Establishment dated 15 September 2022.

Attachments:

- | | | |
|----|---|-----------------|
| 1↓ | REDA RACI matrix 5th September 2022 | EXT-02-20-22-14 |
| 2↓ | Information Paper REDA Establishment September 2022 | EXT-02-20-22-16 |

DRAFT REDA Establishment RACI

Roles and Responsibilities
 Responsible, Accountable,
 Consulted, Informed

Item	REDA Project Team	REDA Board	REDA Establishment Group	REDA Board Appointment Panel	Matariki Governance Group	Matariki Executive Steering Group	Chamber of Commerce (on behalf of business)	TKO (on behalf of Maori/Iwi)	Councils
Board Appointments Process & Decisions			C	R	A	I	I	I	I
Onboarding of Board Members			R		A	I	I	I	I
Company Structure & Shareholding			R		C	I	A	A	A
Company Constitution			R		C	I	A	A	A
Funding Agreement	R				I	I	I	I	A
Setting of KPI's			R		A	I	C	C	C
Business Hub Transition	R	A			I	I	I	I	C

R	Responsible
A	Accountable
C	Consulted
I	Informed

Assigned to complete the task or deliverable.

Has final decision-making authority and accountability for completion.

An adviser, stakeholder, or subject matter expert who is consulted before a decision or action.

Must be informed after a decision or action.

Regional Economic Development Agency
Information Paper: REDA Establishment
5 September 2022

Purpose of report

1. This paper provides councillors with an update on the establishment of the Regional Economic Development Agency (REDA). It outlines the:
 - a. Governance and shareholding framework for REDA
 - b. Roles and accountabilities of key parties in relation to REDA
 - c. Updated establishment timeline
 - d. Business Hub relocation
 - e. Current activity and next steps

Governance and Shareholding

2. The Matariki Governance Group (MGG) met in August to confirm the governance and shareholding arrangements for REDA.
3. A skills-based board for REDA will be appointed by MGG, delegated to an appointments panel comprising representatives from iwi/hapū, councils, business and Māori business.
4. The legal entity for REDA will be a limited liability company with shareholding in equal thirds to the following parties:
 - a. Councils – apportioned pro-rata according to funding level
 - b. Te Kāhui Ōhanga o Takitimu – representation to be confirmed
 - c. Business in two parts being:
 - i. Business represented by the Hawke's Bay Chamber
 - ii. Māori business, representation to be confirmed

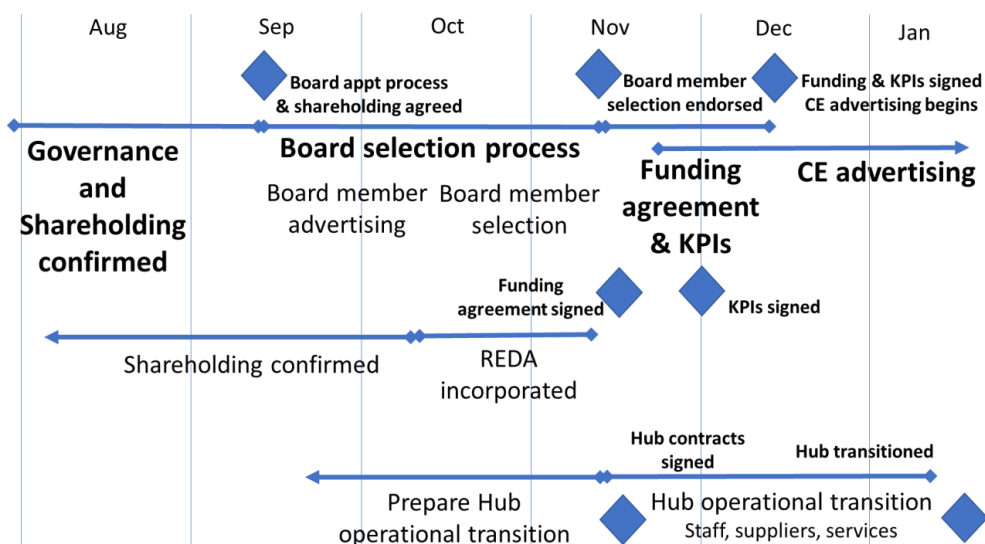
Roles and Accountabilities

5. At their August meeting, the Matariki Governance Group also confirmed the roles and responsibilities of the various stakeholders in relation to REDA. These are illustrated in the **attached RACI model**.
 - a. Matariki Governance Group is accountable for:
 - i. Board Appointments Panel and process to approved board members
 - ii. Determining the Key Performance Indicators (KPIs) for REDA supporting the Matariki vision and strategy
6. In order to better fulfil its role for oversight of regional economic development in the region, Matariki has agreed to seeking further business representation onto the Governance Group.

High-level timeline

7. An updated high-level timeline for REDA establishment follows.

REDA High-level Establishment Timeline 2 September 2022



8. The revised summary timeline sets out the following:

- The board appointments process will start mid-September. Board members are expected to be announced in mid-November.
- Confirmation of the shareholding entities for REDA and incorporation of REDA will occur in parallel and is expected to be completed end of October.
- The funding agreement with councils will be signed by the end of November, allowing REDA to enter into contracts and transition the Business Hub functions.
- KPIs will be reviewed and confirmed by the REDA Board and MGG by the end of November.

Relocation of Business Hub

- HBRC has provided funding and management of the operational home for the Business Hub pending its transfer to REDA when it is established.
- Owners of the premises have given notice of termination for the lease effective at the end of January 2023.
- Whilst this is an additional complexity to establishing REDA, it offers the opportunity to reset the Business Hub alongside a newly formed REDA.
- Councils are working with tenants and stakeholders to identify new location options and plan for relocation.

Related activity

13. Chief Executives are exploring the scope for a piece of work to support the inaugural board with areas of focus for the REDA to support the strategic priorities and objectives in Pou 4: Economic Growth of the Matariki Regional Development Strategy.
14. Related to the above, the Matariki Governance Group will consider a proposal received from Napier Port for REDA funding of \$250,000 to progress the development of a Hawke's Bay Distribution Network Strategy, subject to an acceptable statement of work, deliverables and business plan.

Current activity and next steps

15. The following activity has been completed:
 - a. Governance and shareholding arrangements confirmed
 - b. Board appointments process has been confirmed
 - c. Roles and Responsibilities associated with REDA by MGG confirmed
 - d. Parties confirmed that the board appointments process should proceed
 - e. Constitution and legal advice have been drafted and undergoing amendments by the parties
 - f. KPIs have been drafted and undergoing review
16. Next steps include the following activity:
 - a. Assemble the board appointments panel and initiate the appointments process
 - b. MGG co-chairs to release media about REDA establishment and board appointments process in line with advertising of the roles
 - c. Work with tenants and stakeholders to identify and plan for relocation of the Business Hub
 - d. Finalise the constitution
 - e. Confirm shareholding entities for PSGEs and Māori Business and incorporate REDA
 - f. Review draft KPIs ready for review by the incoming REDA Board

HASTINGS DISTRICT COUNCIL

OPERATIONS AND MONITORING COMMITTEE MEETING

THURSDAY, 15 SEPTEMBER 2022

Item 11

RECOMMENDATION TO EXCLUDE THE PUBLIC

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

THAT the public now be excluded from the following part of the meeting, namely:

12 Summary of Recommendations of the Civic and Administration Subcommittee meeting held 6 September 2022

The general subject of the matter to be considered while the public is excluded, the reason for passing this Resolution in relation to the matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this Resolution is as follows:

<i>GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED</i>	<i>REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED</i>	<i>GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION</i>
12 Summary of Recommendations of the Civic and Administration Subcommittee meeting held 6 September 2022	As stated in the minutes	Section 48(1)(a)(i) Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.