

7.7 HALF YEAR FINANCIAL REPORTING TO DECEMBER 2020**File Number:** COU1-1410**Author:** Brent Chamberlain, Acting Chief Financial Officer**Authoriser:** Monique Davidson, Chief Executive**Attachments:** 1. December 2020 Financial Commentary**PURPOSE**

The purpose of this report is to provide the Committee with a summary of Council's financial performance and highlight the key financials for the first half of 2020/21 financial year.

RECOMMENDATION

That, having considered all matters raised in the report, the report on Council's second quarter financial performance for the 2020/21 financial year be noted.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as being of some significance.

DISCUSSION

The aim of this report is to provide Council with a summary of the financial performance of Council and highlights the key trends for the first half for the year ended 30 June 2021.

The report contains a Financial Overview for Whole of Council and the Groups of Activities.

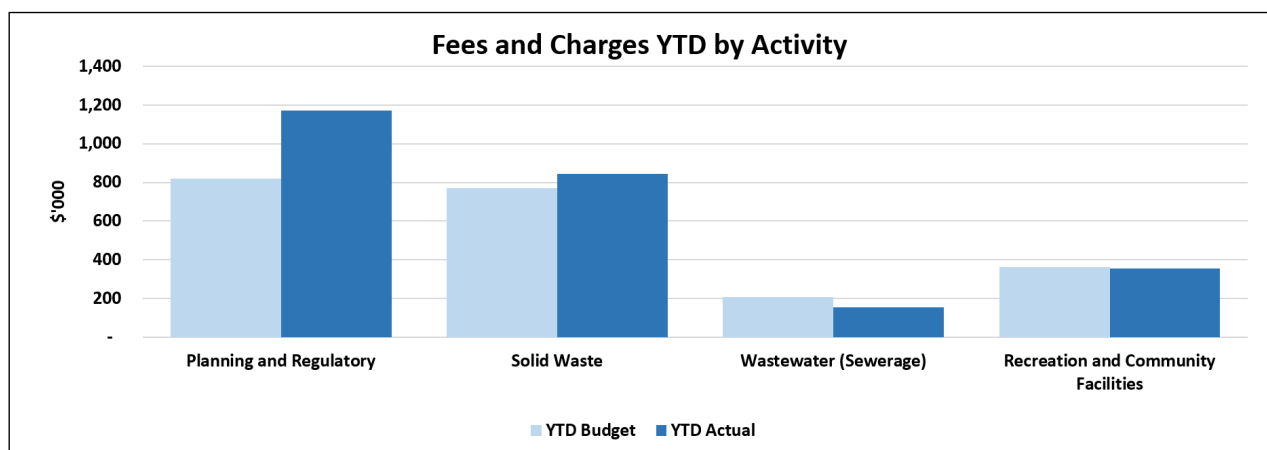
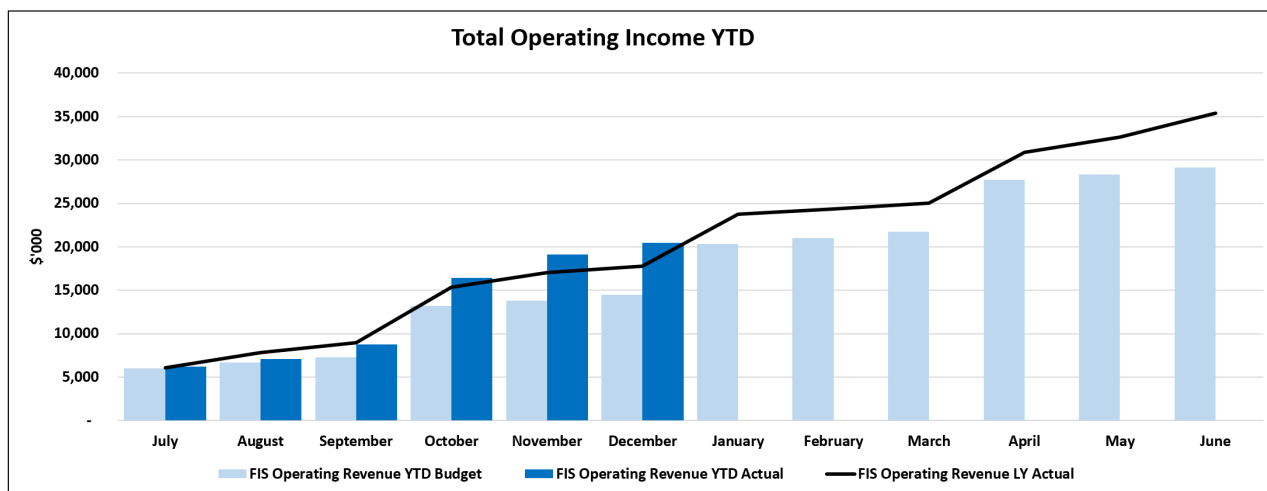
Budget Commentary

At a high level, operating revenue is \$5.0m ahead of budget at December 2020 (\$20.5m achieved versus \$14.5m budget).

This difference is largely caused by unbudgeted external funding - 3 Waters Reform \$1.175m operational, Economic Development Work Creation \$3.5m, He Ringa Whanau Ora \$0.1m.

The balance is driven by additional fees and charges and is volume related. For example, Council continues to experience a high demand for Resource Consents and Building Consents and this revenue is \$353k up on budget.

In addition, Council has received a one off back payment from NZTA of \$280k due to the change in the FAR rate (Funding Assistance Rate).



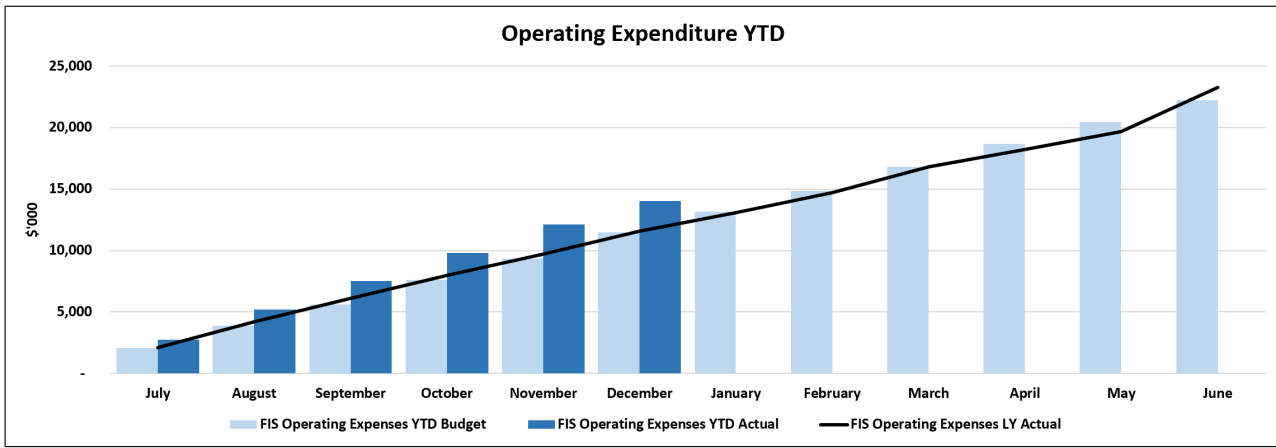
Just like revenue, operating costs are also up on budget by \$2.5m (actually spent \$14.0m versus a budget of \$11.5m).

The unbudgeted revenue, also comes with unbudgeted costs - \$1.7m of Work Creation payments. Note that this project should be rate neutral which suggests at 31 December Council is holding \$1.8m of unspent work creation revenue.

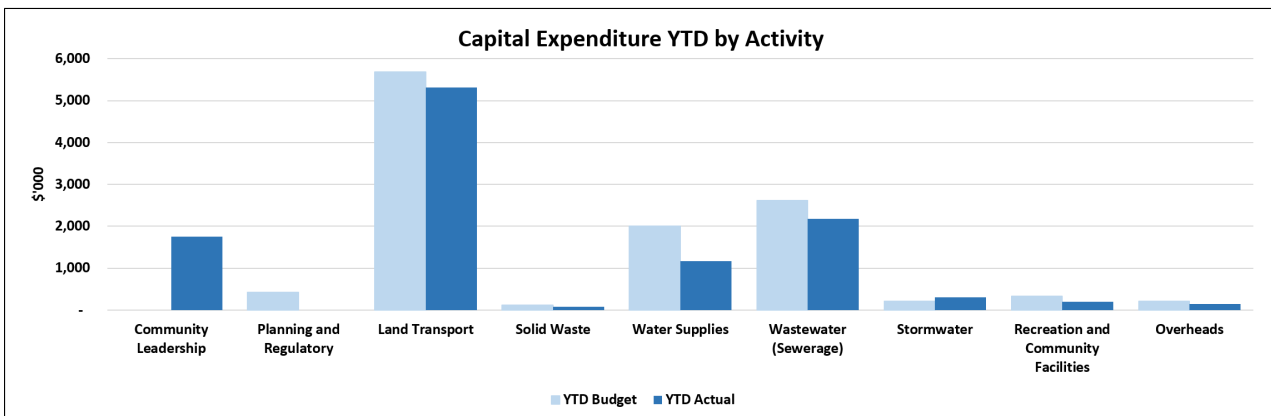
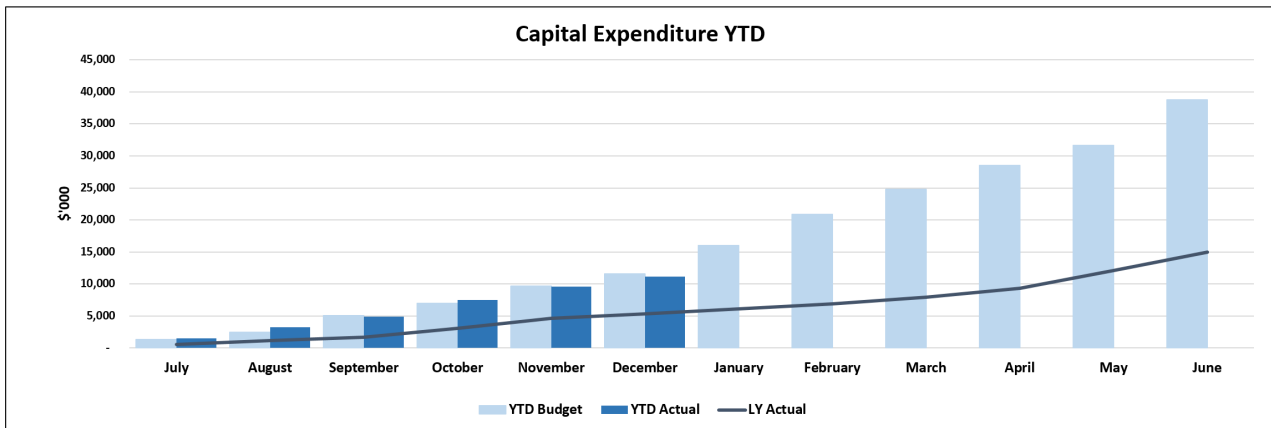
In terms of business as usual, Council is also experiencing cost overruns which is a mixture of demand/volume driven, and operational overspends.

For consents, matching to the additional revenue, Council has spent an additional \$309k on outsourcing consent processing. Solid Waste is \$174k overspent due to a series of events including the disposal of accumulated tyres and concrete, transport of green waste to Napier, S17a review costs, and the purchase of carbon credits. Our 3 waters maintenance contracts are also over due to additional reactive maintenance - Water Supplies \$335k (includes \$98k to be recharged to 3rd parties for new connections), Wastewater \$141k, and is offset by stormwater savings of \$41k.

The district plan is also showing \$209k overspent operationally, although the budget of this activity sits in the capital budget so is currently shown as mismatched.



At a high level Council looks like it is on budget for capital spend, although this view disguises the unders and overs. For example the Nga Tipuna project is sitting in Community Leadership with no budget, while the District Plan budget is showing but not the spend (see previous operating expenditure commentary section).

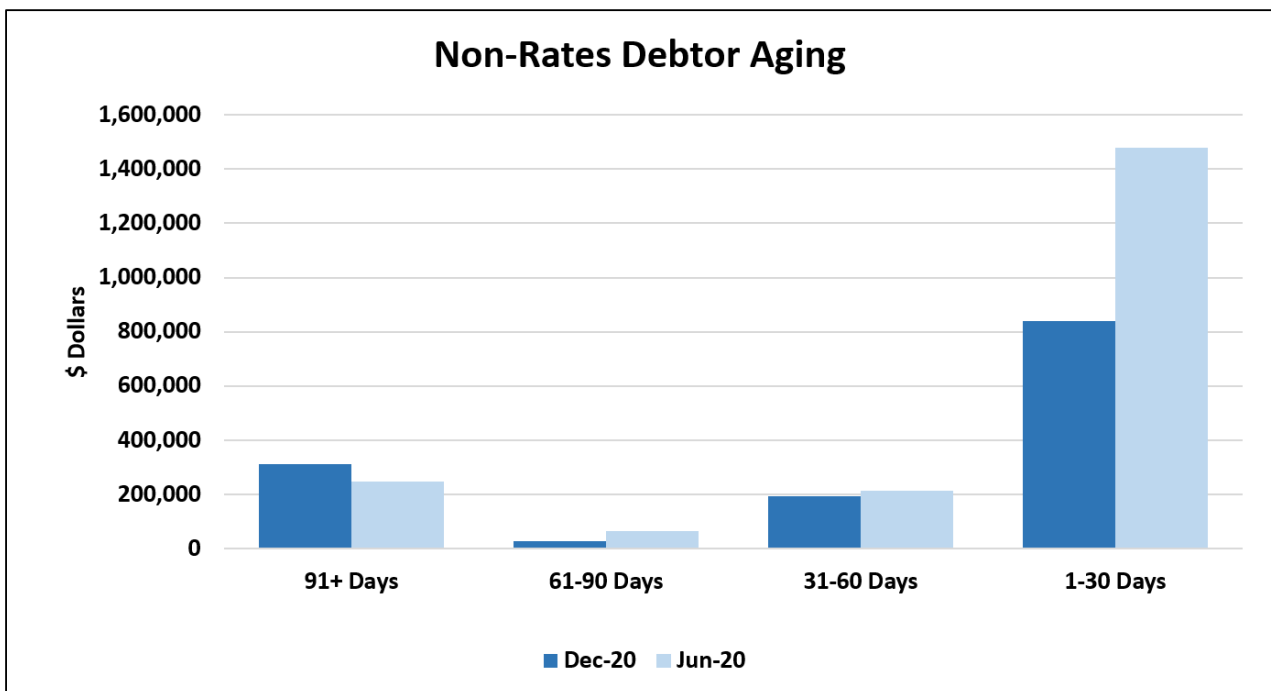
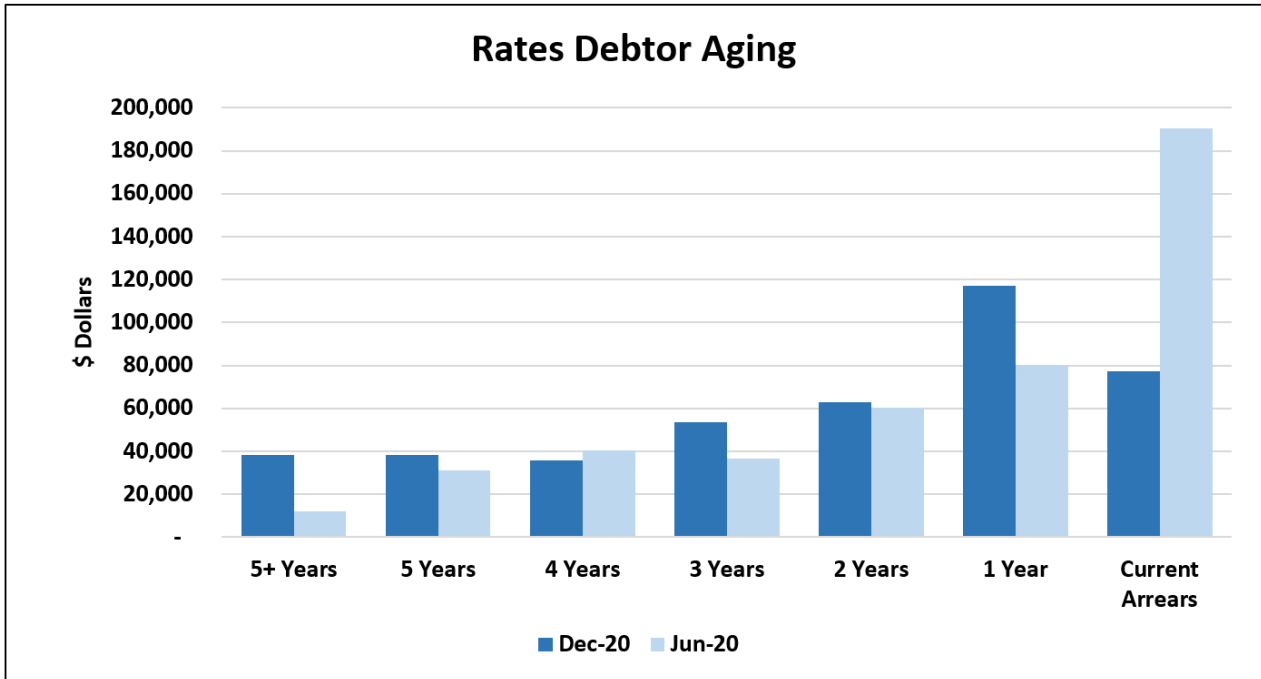


Cash Position

At the end of December Council was holding \$13.9m in its call account and a further \$6.0m in term deposits meaning it has plenty of funding available to fund its capital program for the months ahead.

Part of the reason Council was holding so much cash in December was due to the quarterly rates that were received at the end of November, and the first tranche of the 3 Waters Reform (\$5.5m) was also received late November.

Debtors



Council Officers continue to work with our debtors to ensure collection. The earlier fears about what impact Covid-19 and the drought might have on debt arrears haven't become apparent at the time of writing. In fact, the Covid-19 rates relief policy has only been used by 2 rate payers across the district since the policy was adopted.

Treasury Policy

The table below shows that Council is compliant with both its existing treasury policy, and its proposed treasury policy contained in the draft Long Term Plan.

Treasury Compliance with Policy

Liquidity (Liquid Assets + Debt / Debt)

	Existing Limit	Proposed Limit	Actual
✓	>110%	>115%	177%

Finance Costs / Total Revenue

	Existing Limit	Proposed Limit	Actual
✓	<10%	<20%	0.7%

Finance Costs / Total Rates Revenue

	Existing Limit	Proposed Limit	Actual
✓	<20%	<25%	2.1%

Debt per Head of Population

	Existing Limit	Proposed Limit	Actual
✓	<\$2,000	Removed	\$ 1,405

Debt to Operating Revenue

	Existing Limit	Proposed Limit	Actual
✓	New	<150%	32.4%

Comprehensive Income and Expenditure Statement

The budget commentary above is all based on the FIS (Funding Impact Statement) view of Councils finances (as required by the Local Government Act 2002).

When you display the same data using IFRS (International Financial Reporting Standards – standard accounting reporting format) then Councils revenue is inflated by capital grants (such as NZTA, PGF, and MBIE funding). For this financial period this includes the NZTA funding assistance and the 3 Waters Reform monies.

Offsetting this is the disclosure of depreciation (\$5.9m) as a cost.

By including this external funding, Council is showing an \$11m Comprehensive Income Surplus as at 31 December 2020.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;

- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

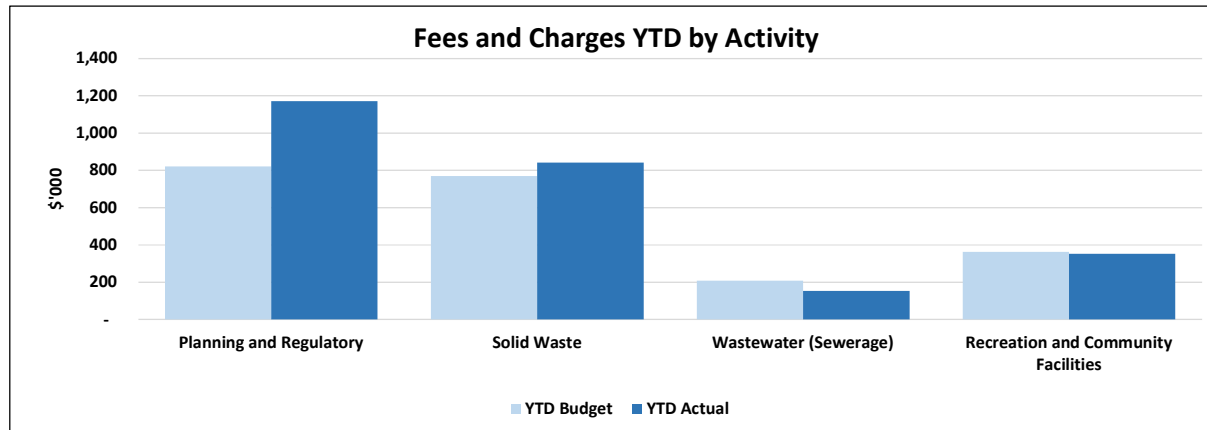
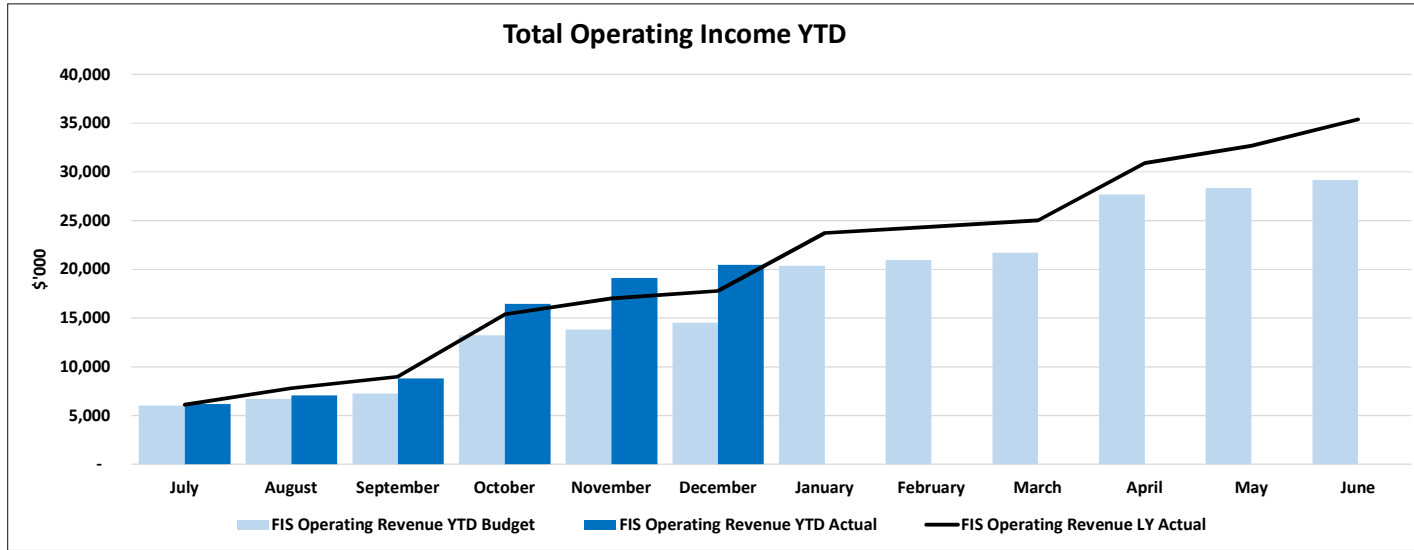
NEXT STEPS

Officers will continue to monitor and manage the finances of Council.

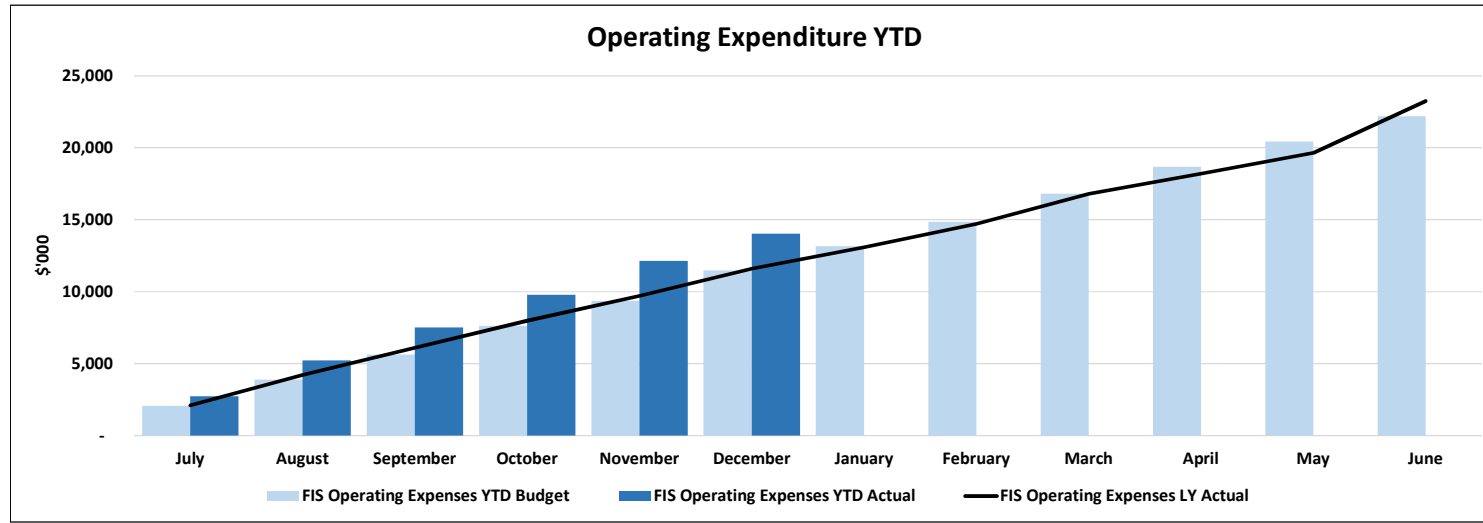
RECOMMENDATION

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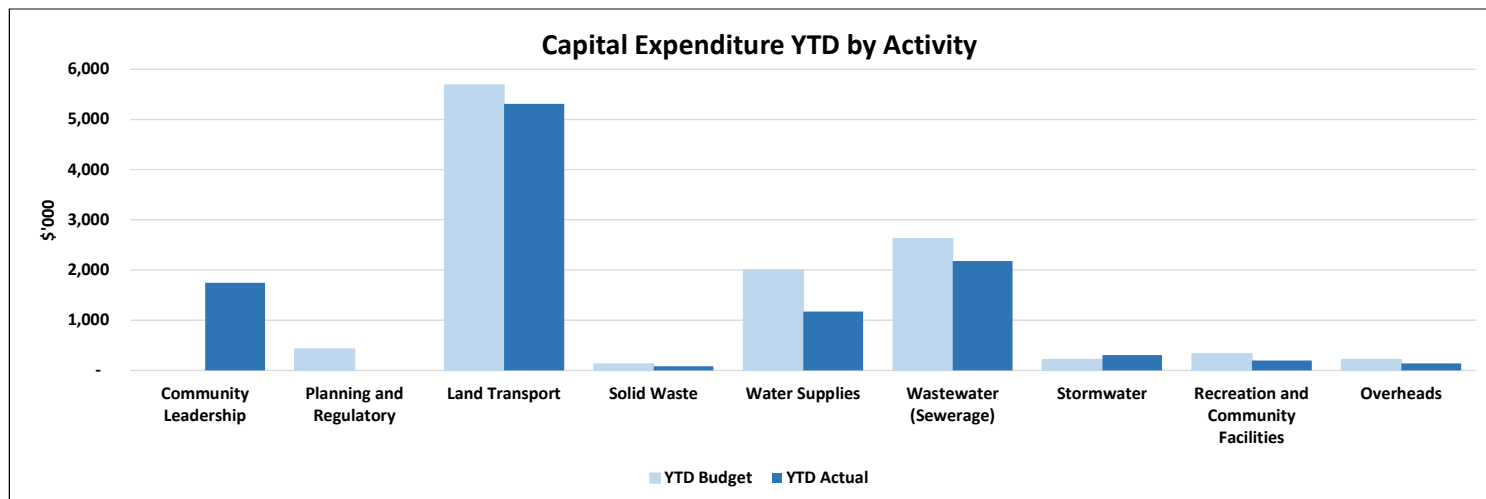
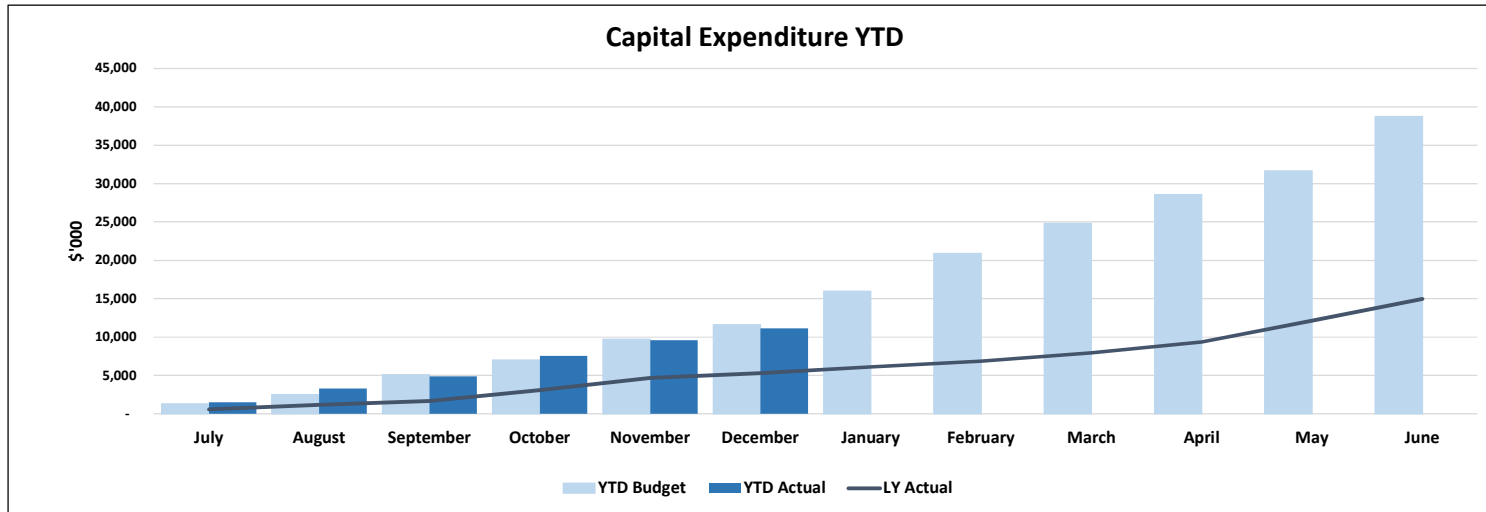
OPERATING INCOME



OPERATING EXPENDITURE



Capital Expenditure



Central Hawkes Bay District Council
For the Period July 2020 - December 2020

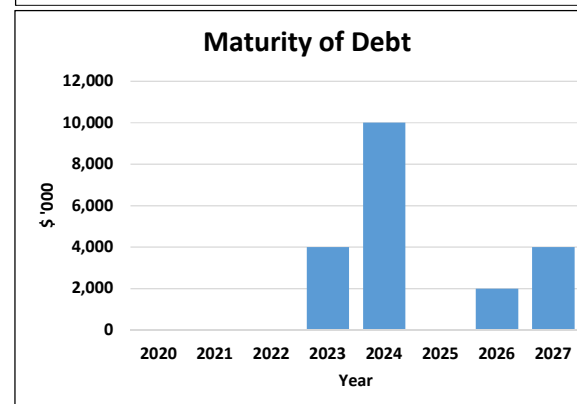
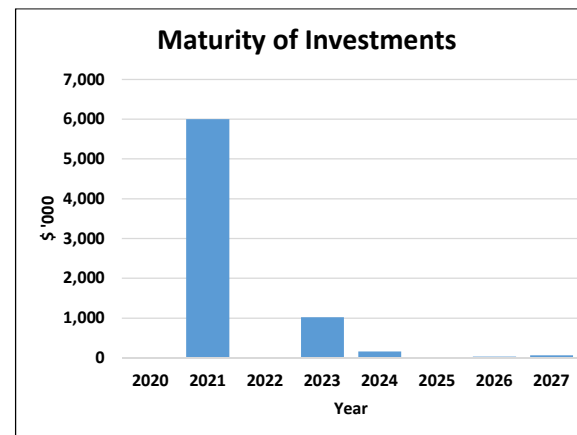


Cash and Investment Position

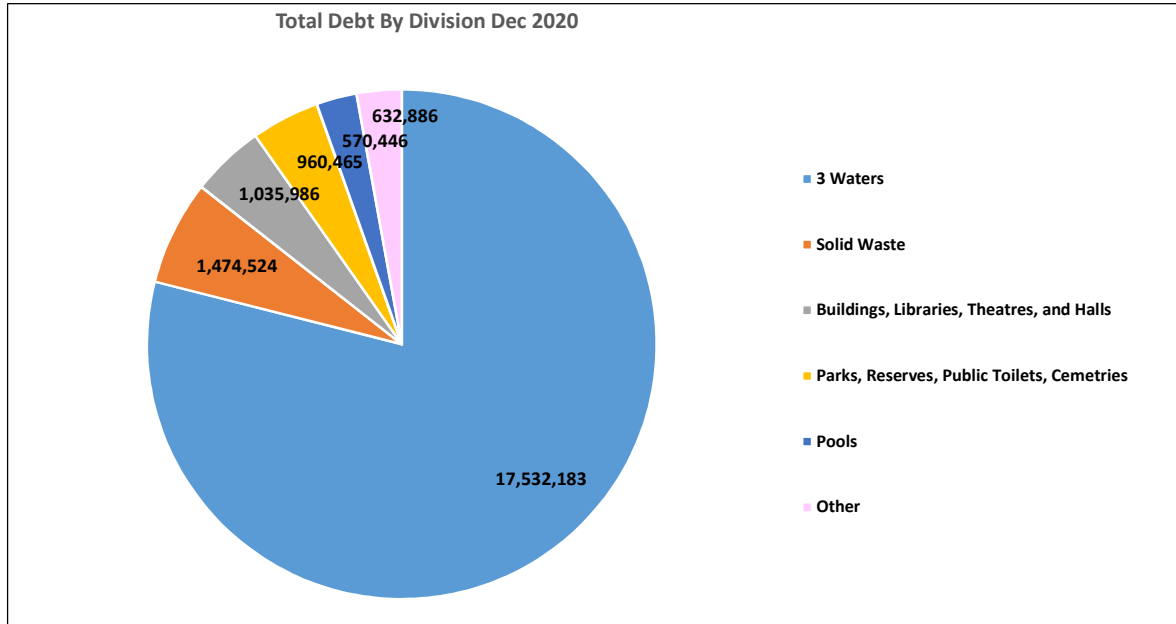
	Maturity Date	Int Rate (Face)	Int Rate (Actual)	Amount 30/06/2020	Amount Now	Movement
<u>ANZ Cheque and Call Accounts</u>				2,527,145	13,917,742	11,390,597
<u>Term Deposits with maturity < 90 days</u>						
BNZ Term Deposit (AA-)	12/09/2019	5.61%	5.61%	4,000,000	-	(4,000,000)
ANZ Term Deposit (AA-)	18/09/2020	2.45%	2.45%	2,000,000	-	(2,000,000)
BNZ Term Deposit (AA-)	19/10/2020	2.55%	2.55%	2,000,000	-	(2,000,000)
BNZ Term Deposit (AA-)	19/11/2020	2.60%	2.60%	1,000,000	-	(1,000,000)
BNZ Term Deposit (AA-)	19/12/2020	2.13%	2.13%	2,000,000	-	(2,000,000)
				11,000,000	-	(11,000,000)
<u>Bonds, Capital Notes, & Term Deposits with maturity > 90 days</u>						
LGFA Capital Notes	25/08/2025	3.54%	3.54%	32,000	32,000	0
LGFA Capital Notes	15/04/2024	1.79%	1.79%	160,000	160,000	0
LGFA Capital Notes	15/04/2023	1.56%	1.56%	64,000	64,000	0
LGFA Capital Notes	15/04/2027	1.63%	1.63%	64,000	64,000	0
ANZ Bond (AA-)	1/09/2023	3.71%	3.71%	355,000	355,000	0
ASB Bond (AA-)	7/09/2023	3.33%	3.33%	600,000	600,000	0
Westpac Term Deposit (AA-)	31/05/2021	1.52%	1.52%	-	4,500,000	4,500,000
BNZ Term Deposit (AA-)	31/05/2021	1.41%	1.41%	-	1,500,000	1,500,000
				1,275,000	7,275,000	6,000,000
<u>Total Cash and Investments Held</u>				14,802,145	21,192,742	6,390,597

Debt Position

	Draw Date	Maturity Date	Interest Rate	Amount 30/06/2020	Amount Now	Movement
LGFA - Fixed Rate	28/08/2017	25/08/2025	3.85%	2,000,000	2,000,000	-
LGFA - Fixed Rate	22/07/2019	15/04/2024	2.19%	10,000,000	10,000,000	-
LGFA - Fixed Rate	16/12/2019	15/04/2023	1.96%	4,000,000	4,000,000	-
LGFA - Fixed Rate	16/03/2020	15/04/2027	2.03%	4,000,000	4,000,000	-
ANZ Seasonal Facility (\$1,500,000)				-	-	-
<u>Total Debt</u>			2.28%	20,000,000	20,000,000	-



Actual	0%	0%	0%	20%	50%	0%	10%	20%
Policy	35%	35%	35%	35%	35%	35%	35%	35%
Met	Y	Y	Y	Y	N	Y	Y	Y



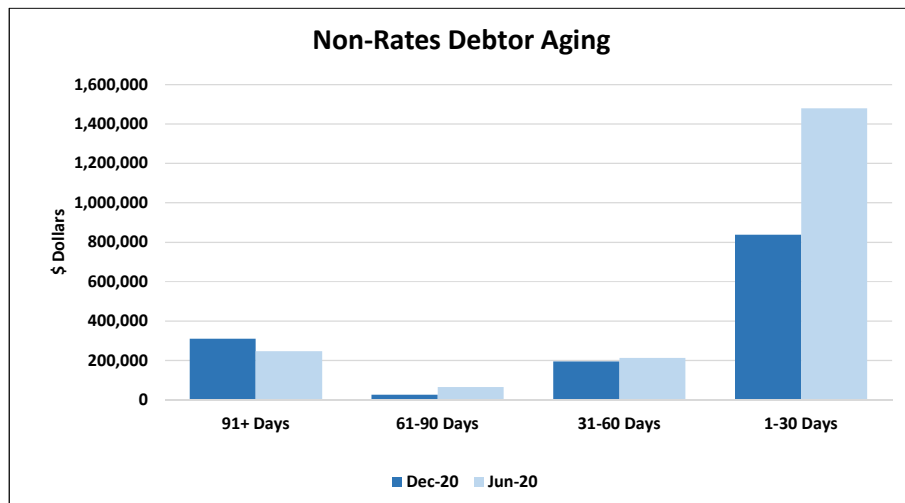
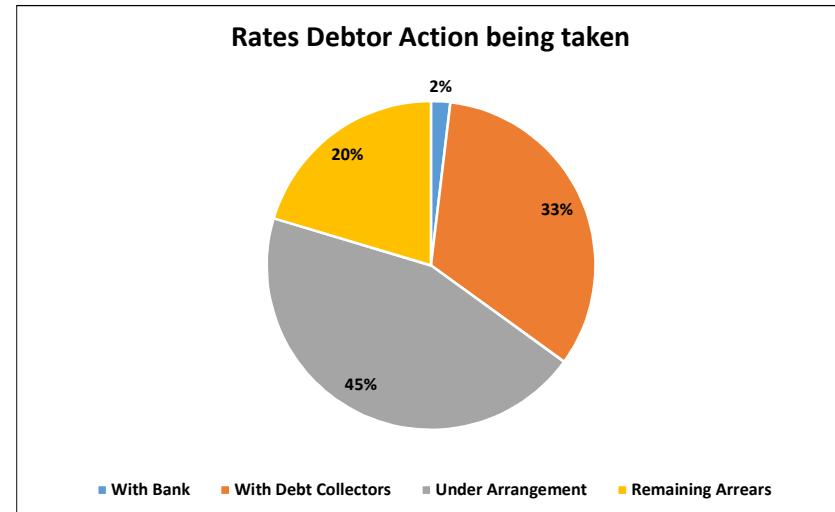
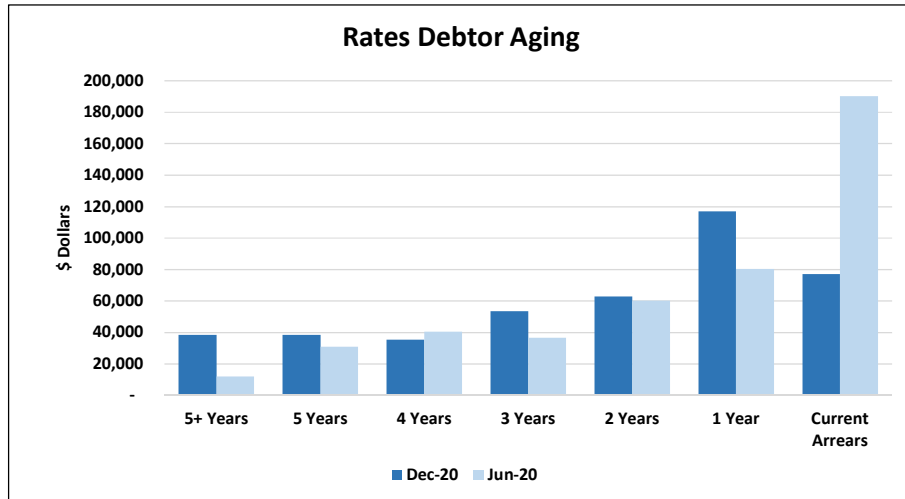
Treasury Compliance with Policy

<u>Liquidity (Liquid Assets + Debt / Debt)</u>			
Existing	Limit	Proposed Limit	Actual
✓	>110%	>115%	177%
<u>Finance Costs / Total Revenue</u>			
Existing	Limit	Proposed Limit	Actual
✓	<10%	<20%	0.7%
<u>Finance Costs / Total Rates Revenue</u>			
Existing	Limit	Proposed Limit	Actual
✓	<20%	<25%	2.1%
<u>Debt per Head of Population</u>			
Existing	Limit	Proposed Limit	Actual
✓	<\$2,000	Removed	\$ 1,405
<u>Debt to Operating Revenue</u>			
Existing	Limit	Proposed Limit	Actual
✓	New	<150%	32.4%

Central Hawkes Bay District Council
For the Period July 2020 - December 2020
Sources of Capital



Rates Outstanding



Central Hawkes Bay District Council
For the Period July 2020 - December 2020
 Month



Comprehensive Income and Expenditure Report

	YTD Actuals	YTD Budget	Bud Var	FLAG	Comments
Operating Income					
General rates, uniform annual general charges and rates penalties	6,960,940	6,962,360	(1,420)	✘	
Targeted rates	3,681,898	3,666,594	15,304	⚠	The bulk of metered water revenue comes later in the year - Residents get the first 300 cubic metres included in their fixed targeted rate, and only pay additional charges once this level has been exceeded. After a dry summer, we have seen an increase in billing in recent months, particularly in Waipukurau and are now ahead of budget.
Subsidies and Grants (Operating and Capital)	17,177,900	6,025,920	11,151,980	✔	Unbudgeted external funding \$11.0m - 3 Waters Reform \$5.5m, Economic Development Work Creation \$3.5m, He Ringa Whanau Ora \$0.1m, Nga Tipuna \$1.9m.
Fees, charges	2,578,407	2,195,218	383,189	✔	Resource Consents and Building Consents are up \$353k on budget collectively, transfer stations up \$36k, landfill up \$48k, retirement housing \$11k up, dog registrations \$15k up, land transport fees \$15k up, offset by rubbish bag sales down \$14k, and Municipal Theatre down \$4k (impact of Covid), Compliance and Monitoring down \$23k, Trade Waste down \$55k.
Interest and dividends from investments	114,969	45,960	69,009	✔	Interest on additional Term Deposits we are holding
Development Contributions	68,201	53,274	14,927	✔	Good level of Development across Waipawa and Waipukurau
Other Income	372,465	131,772	240,693	✔	Includes \$280k of NZTA FAR adjustment back pay. Down in Petrol Tax \$2k, EC Read Income at the Library \$7k, and asset sales \$17k
TOTAL	30,954,780	19,081,098	11,873,682	✔	
Applications of Operating					
Payments to staff	2,805,288	2,965,339	160,051	✔	Savings in Building Control \$54k, Governance Staff 36k, People and Capability staff (delayed return from maternity) \$41k, and vacancies and maternity leave across a number of back office staff, offset by Museum Wages +\$24k (matched by reduction in grant)
Payments to suppliers	10,998,716	8,308,517	(2,690,199)	✘	\$1.7m of unbudgeted Work Creation payments, \$309k of outsourcing consents, \$209k of district plan review costs, \$174k of solid waste (disposal of tyres and concrete, transport of greenwaste, S17a review, purchase of carbon credits), \$53k PGF Land Transport Investigations, Water Supplies \$335k (includes \$98k to be recharged), Wastewater \$141k, offset by storm water savings \$41k
Depreciation and Amortisation	5,940,870	6,507,216	566,346	✔	Savings as against budget mainly relates to roading and is a result of the negative revaluation of roading assets at year end.
Finance costs	227,379	229,956	2,577	⚠	
TOTAL	19,972,252	18,011,028	(1,961,224)	✘	
Operating Surplus/(Deficit)	10,982,528	1,070,070	9,912,458	✔	

Central Hawke's Bay District Council
For the Period July 2020 - December 2020



Funding Impact Statement Report

Sources of Operating	YTD Actuals	YTD Budget	Bud Var	FLAG	Comments
General rates, uniform annual general charges and rates penalties	6,960,940	6,962,360	(1,420)	✘	
Targeted rates	3,681,898	3,666,594	15,304	⚠	The bulk of metered water revenue comes later in the year - Residents get the first 300 cubic metres included in their fixed targeted rate, and only pay additional charges once this level has been exceeded. After a dry summer, we have seen an increase in billing in recent months, particularly in Waipukurau and are now ahead of budget.
Subsidies and Grants for Operating Purposes	6,743,994	1,522,857	5,221,137	✔	Unbudgeted external funding - 3 Waters Reform \$1.175m operational, Economic Development Work Creation \$3.5m, He Ringa Whanau Ora \$0.1m
Fees, charges	2,578,512	2,194,468	384,044	✔	Resource Consents and Building Consents are up \$353k on budget collectively, transfer stations up \$36k, landfill up \$48k, retirement housing \$11k up, dog registrations \$15k up, land transport fees \$15k up, offset by rubbish bag sales down \$14k, and Municipal Theatre down \$4k (impact of Covid), Compliance and Monitoring down \$23k, Trade Waste down \$55k.
Interest and dividends from investments	114,969	45,960	69,009	✔	Interest on additional Term Deposits we are holding
Local authorities fuel tax, fines, infringement fees and other receipts	372,361	115,260	257,101	✔	Includes \$280k of NZTA FAR adjustment back pay. Down in Petrol Tax \$2k, EC Read Income at the Library \$7k, and asset sales \$17k
TOTAL	20,452,674	14,507,499	5,945,175	✔	
Applications of Operating					
Payments to staff	2,805,288	2,965,339	160,051	✔	Savings in Building Control \$54k, Governance Staff 36k, People and Capability staff (delayed return from maternity) \$41k, and vacancies and maternity leave across a number of back office staff, offset by Museum Wages +\$24k (matched by reduction in grant)
Payments to suppliers	10,997,991	8,393,689	(2,604,302)	✘	\$1.7m of unbudgeted Work Creation payments, \$309k of outsourcing consents, \$209k of district plan review costs, \$174k of solid waste (disposal of tyres and concrete, transport of greenwaste, S17a review, purchase of carbon credits), \$53k PGF Land Transport Investigations, Water Supplies \$335k (includes \$98k to be recharged), Wastewater \$141k, offset by storm water savings \$41k
Finance costs	227,379	208,860	(18,519)	✘	Started the year with higher debt than budgeted, but funds invested so additional costs matched by additional interest income. Nb - difference between FIS budget and Comprehensive budget is due to Landfill Aftercare which is non cash.
Other operating funding applications	725	(85,172)	(85,897)	✔	
TOTAL	14,031,383	11,482,716	(2,548,667)	✘	
Net Operating Cash Flows	6,421,291	3,024,783	3,396,508		

Central Hawkes Bay District Council
For the Period July 2020 - December 2020



Funding Impact Statement Report Continued

Sources of Capital	YTD Actuals	YTD Budget	Bud Var	FLAG	Comments
Subsidies and grants for capital expenditure	10,433,905	4,503,063	5,930,842	✓	Unbudgeted external funding \$6.2m - 3 Waters Reform \$4.25m, Nga Tipuna \$1.9m.
Gross proceeds from sale of assets	0	17,262	(17,262)	✗	Haven't replaced any vehicles in 2020
Development and financial contributions	68,201	53,274	14,927	✓	Good level of Development across Waipawa and Waipukurau
Increase (decrease) in debt	0	3,950,278	(3,950,278)	✗	Still holding Term Deposits and 3 waters reform money, no new debt required till 2021
TOTAL	10,502,106	8,523,877	1,978,229		
Applications of Capital					
to meet additional demand	0	0	0		
to improve the level of service	5,480,044	5,481,620	1,576	!	Includes \$1.7m of Nga Ara Tipuna offset by District Planning \$425k (costs are all currently sitting in operating costs), Wastewater \$557k, Drinking Water \$674k, and Storm water Projects \$96k
to replace existing assets	5,652,809	6,139,835	487,026	✓	Ordinary Land Transport (excluding PGF) \$401k under budget, Vehicle Replacements \$55k underspent, Aerial Imagery \$26k underspent, Community Facilities \$131k underspent. 3 Waters is \$148k overspent.
Increase (decrease) in reserves	(154,770)	17,409	172,179	✓	Budget includes the Carry Forwards from year end which haven't been "brought back" yet - Mainly Land Transport
Increase (decrease) of investments	(5,000,000)	(93,432)	4,906,568	✗	Reflects the consumption of the term deposits, rather than borrowing new debt
TOTAL	5,978,084	11,545,432	5,567,348		
Net Capital Cash Flows	4,524,023	(3,021,555)	7,545,578		
Grand Total	10,945,314	3,228	10,942,086		

Central Hawkes Bay District Council
For the Period July 2020 - December 2020



Funding Impact Statement Report by Activity

	Community Leadership		Planning and Regulatory		Land Transport		Solid Waste		3 Waters		Recreation and Community Facilities	
	YTD Actuals	Bud Var	YTD Actuals	Bud Var	YTD Actuals	Bud Var	YTD Actuals	Bud Var	YTD Actuals	Bud Var	YTD Actuals	Bud Var
Sources of Operating												
General rates, uniform annual general charges and rates penalties	702,462	(730)	409,781	(1,873)	3,428,115	1,273	613,335	15,209	0	0	1,818,829	(3,319)
Targeted rates	0	0	0	0	0	0	186,720	330	3,495,178	14,974	0	0
Subsidies and Grants for Operating Purposes	3,711,485	3,690,240	0	0	1,732,121	301,839	64,530	37,030	1,175,000	1,175,000	60,858	17,028
Fees, charges	21,004	6,610	1,171,276	350,512	32,648	14,894	842,843	72,933	157,866	(51,516)	352,745	(9,519)
Interest and dividends from investments	0	0	0	0	0	0	0	0	0	0	0	0
Local authorities fuel tax, fines, infringement fees and other receipts	0	0	4,476	(4,026)	350,296	269,686	0	0	0	0	17,693	(7,705)
TOTAL	4,434,951	3,696,120	1,585,532	344,612	5,543,181	587,693	1,707,428	125,502	4,828,044	1,138,458	2,250,125	(3,515)
Applications of Operating												
Payments to staff and suppliers	2,309,483	(1,729,924)	1,237,370	(445,482)	2,482,017	(52,892)	1,362,557	(181,537)	2,094,484	(321,586)	1,703,399	100,713
Finance costs	0	0	2,907	14,385	0	0	18,729	3,309	181,543	186,245	36,450	12,378
Other operating funding applications	167,437	841	285,467	1,437	817,976	4,094	244,296	1,224	774,785	3,156	455,651	2,276
TOTAL	2,476,920	(1,729,083)	1,525,744	(429,660)	3,299,993	(48,798)	1,625,581	(177,003)	3,050,812	(132,185)	2,195,501	115,366
Net Operating Cash Flows	1,958,031	5,425,203	59,788	774,272	2,243,187	636,491	81,846	302,505	1,777,232	1,270,643	54,625	(118,881)
Sources of Capital												
Subsidies and grants for capital expenditure	1,916,836	1,916,836	0	0	4,147,069	(355,994)	0	0	4,370,000	4,370,000	0	0
Gross proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0	0
Development and financial contributions	0	0	0	0	103	(1,391)	0	0	67,923	18,123	175	(1,805)
Increase (decrease) in debt	0	0	(12,127)	(422,615)	0	0	(63,120)	(86,220)	(407,621)	(4,106,969)	(88,716)	(188,496)
TOTAL	1,916,836	1,916,836	(12,127)	(422,615)	4,147,172	(357,385)	(63,120)	(86,220)	4,030,302	281,154	(88,541)	(190,301)
Applications of Capital												
to meet additional demand	0	0	0	0	0	0	0	0	0	0	0	0
to improve the level of service	1,747,950	(1,747,950)	0	425,944	753,022	(42,828)	38,493	48,603	2,852,721	1,327,875	76,417	1,373
to replace existing assets	0	0	0	0	4,556,839	423,157	41,798	(4,917)	804,123	(148,491)	121,516	131,358
Increase (decrease) in reserves	0	(9,006)	0	129,380	0	518,660	0	29,231	(58,000)	(258,121)	(12,272)	(273,859)
Increase (decrease) of investments	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	1,747,950	(1,756,956)	0	555,324	5,309,861	898,989	80,291	72,917	3,598,844	921,263	185,662	(141,129)
Net Capital Cash Flows	168,886	3,673,792	(12,127)	(977,939)	(1,162,689)	(1,256,374)	(143,411)	(159,137)	431,458	(640,109)	(274,203)	(49,173)
Grand Total	2,126,916	2,126,916	47,662	47,662	1,080,499	1,080,499	(61,565)	(64,805)	2,208,690	2,208,690	(219,579)	(219,579)

Activity Comments
Community Leadership: PGF Job Creation is distorting this cost centre (+\$3.5m income, and +\$1.7m in costs). In addition Nga Ara Tipuna +\$1.9m in grants and \$1.7m in capex.
Planning and Regulatory: *Resource Consents and Building Consents are up \$353k on budget collectively, over in costs due to \$309k of outsourcing consents. District plan review costs are \$209k over in opex costs, but under \$425k in capex - there is a mismatch to be fixed here.
Land Transport: \$2.6m of Route 52 Funding, and \$2.4m in capex. Yet to spend last years carry forwards (reserve movement of \$1.1m)
Solid Waste: Revenue - transfer stations up \$36k, landfill up \$48k, offset by rubbish bag sales down \$14k. The overspend +\$174k of relates to disposal of tyres and concrete, transport of greenwaste, S17a review, purchase of carbon credits.
3 Waters: \$5.5m of 3 waters reform money received (\$1.175m operating and 4.325m capital). Water meters revenue now \$15k ahead of budget after a dry summer, but trade waste revenue is behind budget \$55k. Over in maintenance contract payments - Water Supplies \$235k (includes \$98k to be recharged), Wastewater \$141k, offset by storm water savings \$41k. Capital Program - Drinking Water \$831k behind, Wastewater \$441k behind, and storm water \$94k ahead.
Recreational and Community Facilities: Wages +28k (mainly Museum Staff covered by grant). Operational Costs impacted by insurance \$65k over budget. Capital under budget \$132k spread across a number of renewal lines