

AGENDA



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MEMBERSHIP: Her Worship the Mayor Rehette Stoltz (Chair), Josh Wharehinga (Deputy Chair), Meredith Akuhata-Brown, Bill Burdett, Andy Cranston, Shannon Dowsing, Sandra Faulkner, Larry Foster, Debbie Gregory, Isaac Hughes, Tony Robinson, Pat Seymour, Terry Sheldrake and Kerry Worsnop

FINANCE & PERFORMANCE Committee

DATE: Wednesday 3 August 2022

TIME: 9:00AM

AT: Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne

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Finance & Performance

Reports to:	Council
Chairperson:	Mayor Stoltz
Deputy Chairperson:	Cr Wharehinga
Membership:	Mayor and all Councillors
Quorum:	Half of the members when the number is even and a majority when the membership is uneven.
Meeting frequency:	Six weekly (or as required)

Purpose

To assist Council to oversee financial and non-financial performance, including the delivery of the Council's Capital Programme and oversight of the Council Control Trading Organisation.

To monitor Council activities and services performance against budget, Annual Plans, the Long Term Plan, Annual Reports and corporate and financial policies.

The Finance and Performance Committee also receives enforcement and compliance performance activity reporting to ensure financial and non-financial performance oversight of its regulatory functions.

Terms of Reference

- Set, monitor and review plans and financial measures, practices and policies; the sources of funds, banking arrangements, insurance, investment and debt criteria, future financial arrangements.
- Monitor the performance of Council's treasury function – including strategic, investment and enterprise assets.
- Set fees and charges for Council services (including parking), and ensure these do not conflict with fee setting procedures of Bylaws of the Long Term Plan process and which are not set through the making of Bylaws.
- Approve preferred suppliers for capital projects and contracts where the value of the contract exceeds staff delegations.
- Approve expenditure (including substituted capital expenditure) items that are provided for in the Long Term Plan or Annual Plan where the value of that expenditure exceeds that authority delegated to officers.

- Approve debt write-offs where those debt write-offs are not delegated to staff.
- Consider all matters regarding the Local Government Funding Agency (LGFA).
- Monitor and review Council's strategic investment and enterprise assets – including consideration of the operational and financial effectiveness of Council Organisations, Council Controlled Organisations and Council's Controlled Trading Organisation (CCTO).
- In relation to the CCTO:
 - develop and approve the draft Statement of Intent for the CCTO
 - undertake any reviews of CCTO and make recommendations on any proposed changes to CCTO governance arrangements
 - consider and approve changes to service delivery arrangements arising from the service delivery reviews required under Local Government Act 2002 (LGA) that are referred to the Committee by the Chief Executive.
- Monitor the operational performance of Council's activities and services against approved levels of service.
- Monitor the operational performance of Council's regulatory activities and in particular enforcement and compliance, financial and non-financial performance reporting.
- Review and approve business plans including any related fees, charges and expenditure (including capital expenditure).
- Review the delivery of services under section 17A of the LGA.
- Monitor the delivery of the Council's Capital Programme, including inquiring into any material discrepancies from planned expenditure.
- Implement and review Health and Safety practices to ensure compliance with Council's legal responsibilities.

Power to Act

To make all decisions necessary to fulfil the role and scope of the Committee subject to the limitations imposed.

To establish subcommittees, working parties and forums as required.

To appoint non-voting advisory members and/or Tangata Whenua representatives to assist the Committee.

Power to Recommend

To Council and/or any standing committee as it deems appropriate.

3.1. Confirmation of non-confidential Minutes 1 June 2022

MINUTES

Draft & Unconfirmed



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MEMBERSHIP: Her Worship the Mayor Rehette Stoltz (Chair), Josh Wharehinga (Deputy Chair), Meredith Akuhata-Brown, Bill Burdett, Andy Cranston, Shannon Dowsing, Sandra Faulkner, Larry Foster, Debbie Gregory, Isaac Hughes, Tony Robinson, Pat Seymour, Terry Sheldrake and Kerry Worsnop

MINUTES of the FINANCE & PERFORMANCE Committee

Held in Te Ruma Kaunihera (Council Chambers), Awarua, Fitzherbert Street, Gisborne on Wednesday 1 June 2022 at 10:00AM.

PRESENT:

Her Worship the Mayor Rehette Stoltz, Deputy Mayor Josh Wharehinga, Bill Burdett, Andy Cranston, Shannon Dowsing, Larry Foster, Debbie Gregory, Tony Robinson, Pat Seymour and Terry Sheldrake.

IN ATTENDANCE:

Chief Executive Nedine Thatcher Swann, Director Lifelines David Wilson, Director Internal Partnerships James Baty, Director Liveable Communities Michele Frey, Chief Financial Officer Pauline Foreman, Chief of Strategy & Science Jo Noble, Liveable Spaces Manager De-Arne Sutherland, Revenue Team Leader Fiona Scragg, Democracy & Support Services Manager Heather Kohn, and Committee Secretary Jill Simpson.

The meeting commenced with a karakia.

Secretarial Note: Director Environmental Services & Protection Helen Montgomery and Cr Kerry Worsnop attended via audio visual link

1. Apologies

MOVED by Mayor Stoltz, seconded by Cr Sheldrake

That the apologies from Cr Faulkner, Cr Hughes & Cr Akuhata-Brown be sustained.

CARRIED

2. Declarations of Interest

There were no interests declared.

3. Confirmation of non-confidential Minutes 6 April 2022

3.1 Confirmation of non-confidential Minutes 6 April 2022

MOVED by Cr Seymour, seconded by Cr Burdett

That the Minutes of 6 April 2022 be accepted.

CARRIED

3.2 Confirmation of Public Excluded Minutes 6 April 2022

MOVED by Cr Seymour, seconded by Cr Burdett

That the Confidential Minutes of 6 April 2022 be accepted.

CARRIED

3.3 Action Sheet

Noted.

3.4 Governance Work Plan

Noted.

4. Leave of Absence

There were no leaves of absence.

5. Acknowledgements and Tributes

There were no acknowledgements or tributes.

6. Public Input and Petitions

There were no public input or petitions

7. Extraordinary Business

There was no extraordinary business.

8. Notices of Motion

There were no notices of motion.

9. Adjourned Business

There was no adjourned business.

10. Reports of the Chief Executive and Staff

10.1 DECISION Reports Finance

10.1.1 22-118 Fees and Charges Hearings Report

Debbie Bidlake attended via audio visual link and submitted on behalf of Federated Farmers.

Questions of clarification included:

- In a region like Gisborne with extensive sheep and beef farms most of the dogs on farms will be working dogs.
- If it is a user-pays service, irrespective of whether a dog is working or a farm pet, it is not having an impact on Council services. Dog control is mainly an issue in urban areas.

- Broaden the definition of working dogs and allow farmers to determine the working dog status.
- In many instances the landowners carry out their own pest control.
- There is an issue of dog control in our rural townships and need to ensure that it is well managed.
- Think more broadly and not to be too punitive. Agree that all dogs should be registered.
- Support a reduction in the fees for working dogs and widening the definition of working dogs.
- Government, through the Dog Control Act, provides working dog definition and it does not just cover rural working dogs.
- Costs should sit where they fall.

MOVED by Cr Seymour, seconded by Cr Dowsing

That the Finance & Performance Committee:

1. Considers all submissions (written and oral) on the draft Fees and Charges for the 2022/23 financial year.
2. Considers submissions on the proposal on joining the Regional Shared Services Organisation.
3. Recommends that Council:
 - a. Adopts the final Fees and Charges for the 2022/23 financial year but widen the definition of working dogs by removing the breed Huntaway and Heading.
 - b. Instructs the Chief Executive to carry out a zoning assessment and cost recovery analysis.
 - c. Agrees to join the Regional Shared Services Organisation.

CARRIED

10.1.2 22-120 Request for Funding - Waingake UV Water Treatment Facility

Secretarial Note: Cr Wharehinga chaired the meeting during Her Worship the Mayor's absence. The Mayor resumed the Chair on her return to the meeting.

Points of clarification included:

- This will be loan funded however the interest on the capital expenditure debt will not be transferred to the new entity.
- UV treatment has already been installed at the Waipaoa Water Treatment Plant.

The Chief Executive advised that in relation to the 3-Waters Reform it was Central Government decision to hand over assets. The Water Services Bill is expected in October and will outline what the Entities will look like. The National Transition Unit has been set up and the local terms of reference established. Some Council staff are already sitting on Working Groups.

MOVED by Cr Dowsing, seconded by Cr Gregory

That the Finance & Performance Committee:

1. Notes that changing statutory compliance is the driver for requiring this unbudgeted capital expenditure in the 2023 budget.
2. Notes that additional operational budget will be required in 2024 onwards for depreciation and operating costs of the new water treatment UV facility.
3. Approves additional loan funding for capital expenditure of \$1.2m in the 2023 financial year for a UV treatment facility at the Waingake water treatment plant.

CARRIED

10.1.3 22-130 Annual Plan 2022/23 Capital Programme

Secretarial Note: The meeting adjourned at 11.04am and reconvened at 11.20am.

Points of clarification included:

- Investigative works for the 1000 Year Bridge has been completed by Currie Construction. The Variation to Consent has been granted.
- The Taruheru Walkway/Cycleway needs to be kept front of mind as it is a massive tourism opportunity for Tairāwhiti.
- A formal plan for the next phase of the work is being prepared for the Hawaiki Turanga project. Also working through the terms of reference for the project.
- Concerns raised regarding the significant carryovers and the impact on Years 2 and 3 of the Long Term Plan.
- There are two agreements in place relating to the Waiapu Catchment ie the Joint Management Agreement which is the planning for the Waiapu Catchment and this is operational expenditure so will not be listed in this report. The second agreement is the Joint Governance Group which is the Waiapu Restoration Programme. Again, Council's input is operational, so no capital expenditure included in the Long Term Plan. Working towards having a Programme Manager in place funded by MPI. There may be projects that fall out of the programme development that do require capital expenditure and this will come back through the next long term planning process.
- Dollardes are being used on the groynes at Tokomaru Bay and at the commencement of the Kaianga Hill. Waka Kotahi have also been utilising some of the dollardes. Approval from the Joint Governance Group is required before dollardes can be placed in the Waiapu River.

- \$5m of PGF funding has been carried over for the East Coast roadworks. Waiting to hear from Waka Kotahi regarding the range of different applications that have been submitted relating to the latest flood event. Staff will report back on the dollar value.
- Next year's Annual Plan is a reflection of works to be carried out in Year two of the Long Term Plan. Future reporting will be on projects over the following three years. Staff will be meeting with Contractors to look at the volume of work for this year. The Programme Overview of works for the year will be presented to the Operations Committee.

MOVED by Cr Seymour, seconded by Cr Burdett

That the Finance & Performance Committee:

1. Approves the capital investment program of \$99.5m as outlined in Attachment 1, to be included with the 2022/23 Annual Plan.

CARRIED

10.1.4 22-82 Rates and Sundry Invoice Debt Management Report to 31 March 2022

MOVED by Cr Dowsing, seconded by Cr Wharehinga

That the Finance & Performance Committee:

1. Requests the Chief Executive to review current rating debt that has significant penalties applied to it and remedy where appropriate.

CARRIED

10.2 INFORMATION Reports Finance

10.2.2 22-127 Financial Report - 30 April 2022

MOVED by Cr Foster, seconded by Cr Burdett

That the Finance & Performance Committee:

1. Notes the contents of this report.

CARRIED

11. Close of Meeting

There being no further business, the meeting concluded at 11.46am.

Rehette Stoltz

MAYOR

3.2. Governance Work Plan

FINANCE & PERFORMANCE - COMMITTEE OF THE WHOLE							Meeting Dates				
Group Activity	Activity	Name of agenda item	Purpose	Report type	Owner	6-Apr	8-Jun	3-Aug	14-Sep	9-Nov	
Community Lifelines	Journeys Operations	Request for Funding - Waingake UV Water Treatment Facility	The purpose of this report is to seek approval for funds for the commissioning of a UV water disinfection facility required to comply with new statutory water assurance rules at the Waingake Water Treatment Plant.	Decision	Judith Robertson						
Community Lifelines	4 Waters Operations	Review of Outsourcing LRC work to Fulton Hogan	A review of outsourcing 4 Waters Land Rivers and Coastal work to Fulton Hogan	Information	Mangala Wickramanayake						
Environmental Services and Protection	Compliance and Enforcement	Public Financial Report on Income and Expenses Related to the Operation of the District Licensing Committee.		Information	Gary McKenzie						
Finance and Affordability	Financial Services	Rates and Sundry Invoice Debt Management Report	Update on Council debt trends	Information	Angelee Brown						
Finance and Affordability	Financial Services	Fees and Charges Hearings Report		Decision	Ally Campbell						
Finance and Affordability	Financial Services	Financial Report		Information	Mary Davis						
Finance and Affordability	Financial Services	Treasury Report		Information	Melanie Hartung						
	Financial Services	Waingake Revenue Update report	PEX Update report on Waingake Revenue and ETS obligations	Information	Ally Campbell						
	Financial Services	Gisborne Holdings Limited Update Report	Public Excluded Report to adopt a Council Investment Purpose Statement, and define the Purpose Statement for GH	Decision	Pauline Foreman						
Finance and Affordability	Financial Services	Rates Remission Report	Review Rate Remission policy for LTP	Information	Fiona Scragg						

10.1. INFORMATION Reports Finance



22-163

Title: 22-163 Treasury Report 30 June 2022

Section: Finance & Affordability

Prepared by: Melanie Hartung - Finance Manager

Meeting Date: Wednesday 3 August 2022

Legal: No

Financial: No

Significance: **Low**

Report to FINANCE & PERFORMANCE Committee for information

PURPOSE

The purpose of this report is to report on the Council's interest rate exposure, debt and cash position as of 30 June 2022 compared to forecasts and policy limits.

SUMMARY

The Council was compliant with its Treasury Policy as of 30 June 2022.

On 30 June 2022, the Council's external debt was \$85.7m which is lower than the budget of \$109m. External debt is lower than planned due mostly to the timing of the Wastewater Treatment Plant, the phased timing of the redevelopment of the Olympic Pool, and surplus funds received from the timing of grants.

Interest rate cover is \$36m for the year to 30 June 2022 and the Council also has \$11.5m of forward start swaps in place. This is in line with Council's Treasury Strategy to keep within our minimum fixed/floated interest rate cover. At 30 June 2022, our fixed-rate cover was 55% of our debt forecast (Council policy is 40-90%).

Currently Council has 50% of its debt facilities maturing in 0-3 years (Council policy is 15-60%), 33% in 3-7 years (Council policy is 25-85%), and 17% in 7 years plus (Council policy is 0-40%).

Council has entered into two forward start swaps (\$8.5m of hedging) to replace existing swaps that mature in 2024. This will maintain compliance with policy beyond June 2022 and through until May 2023.

Council will continue to look at opportunities to prefund maturing core debt, and to blend and extend existing swaps to take advantage of current market conditions. In addition, Council is reviewing with long term and short-term debt considering the Three Water Reform Programme.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Performance Committee:

- 1. Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: councils financial position, interest swaps, interest rate exposure, councils debt facilities

TREASURY REPORT 30 JUNE 2022

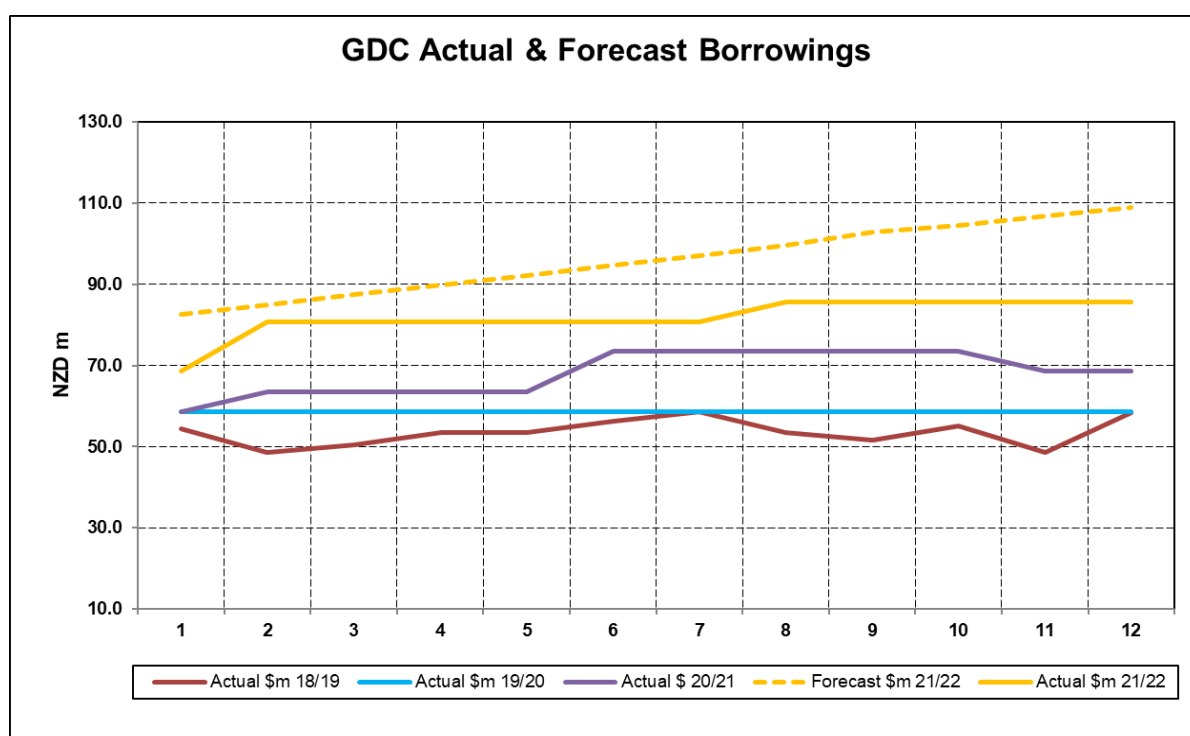
Detailed Reports

Cash Management (General Funds)				
Deposit/Loan	Rate	S&P Rating	Maturity	Amount
Westpac Bank Balance - WPB	0.25%	AA-	Current	\$438,904
Money Market Deposit - WPB	0.25%	AA-	Current	\$255,000
Short Term Deposit - ANZ	0.30%	AA-	Current	\$7,109,790

Debt position

External (Public) Debt	30 June 2022 \$000s	30 December 2021 \$000s
Opening Balance	80,700	80,700
Plus: Long Term Loans Raised	5,000	-
Less: Long Term Loans Repaid	-	-
Plus/(less): Movement in Short Term Loans	-	-
Total External Debt	85,700	80,700

June 2022	December 2021	2021/22 YE Annual Plan	2020/21 YE Actual
\$85.7m	\$80.7m	\$109m	\$68.6m



BACKGROUND

1. Council updated its Treasury Management Policy in July 2019 [Report 19-233]. The policy replaced the previous interest risk management, which had a 12-monthly debt forecast focus on a 'corridor style' approach. The new policy provides greater certainty over interest rate fluctuations when looking at debt over extended periods.
2. This approach is more flexible and is typically a better fit for councils with increasing debt over longer than a ten year plus time horizon. The new policy now strategically aligns the interest rate risk management framework within the Long Term Plan (LTP) and associated debt path.
3. Pricewaterhouse Coopers (PwC) are engaged by the Council to monitor, review and give advice over the Council's Treasury Management. Monthly meetings assist us to match our treasury strategies' alliance with current market conditions.

DISCUSSION and OPTIONS

4. On 30 June 2022, Council's external debt was \$85.7m; lower than the full year budget of \$109m. This is largely due to an overall underspend in our capital works programme for the year. This includes projects that will not be completed by 30 June that will that now roll into the first half of 2022/23 amounting to \$16.5m
5. Total external debt is \$85.7m. Borrower notes of \$1.7m offset this debt balance which results in a debt level of \$84m.
6. The table below shows the Council's Loan Funding Facilities:

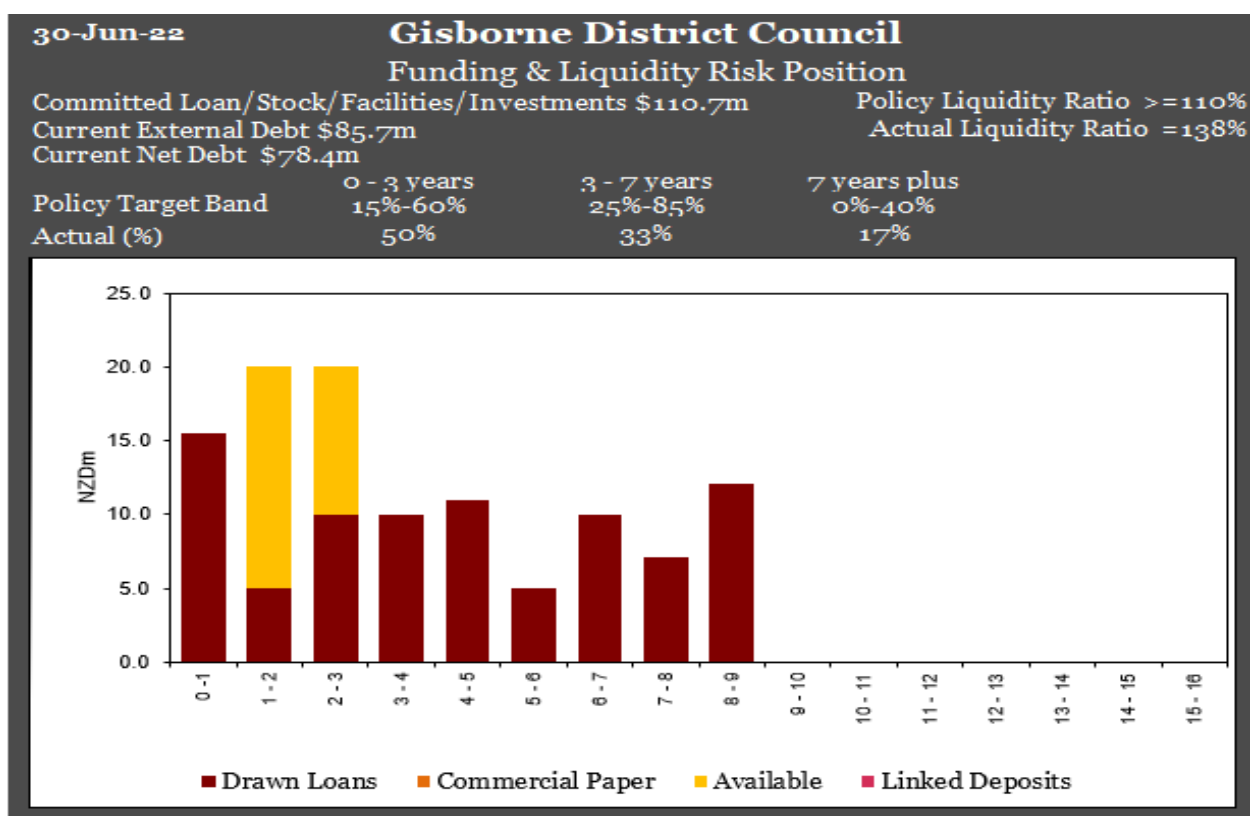
Table 1 – Loan Funding Facilities as of 30 June 2022

Bank		This Month \$m	Available Facility \$m	Unutilised Facility \$m
ANZ (Bank Facility)		-	15.0	15.0
WPB (Bank Facility)		-	10.0	10.0
LGFA (Debenture Stock)		85.7	85.7	0.0
LGFA Borrower Notes		(1.7)	-	0.0
Total Debt	A	84.0	110.7	25.0
Short Term Deposit	B	(7.3)	-	-
Total Debt less short-term deposit	A - B	76.7	110.7	25.0

7. The following graph and table show the Council's current debt maturity profile:

Table 2 – Council's current debt maturity profile

Maturity Profile	Borrowing \$m	Borrowing	Facilities \$m	Facilities (Excluding Deposits)	Policy	Compliance
0 – 3 years	30.5	36%	55.5	50%	15–60%	✓
3 – 7 years	36.0	42%	36.0	33%	25–85%	✓
7+ years	19.2	22%	19.2	17%	0–40%	✓
Total	85.7	100%	110.7	100%		



8. The following graph and table show the Council's Interest Rate Risk Policy:

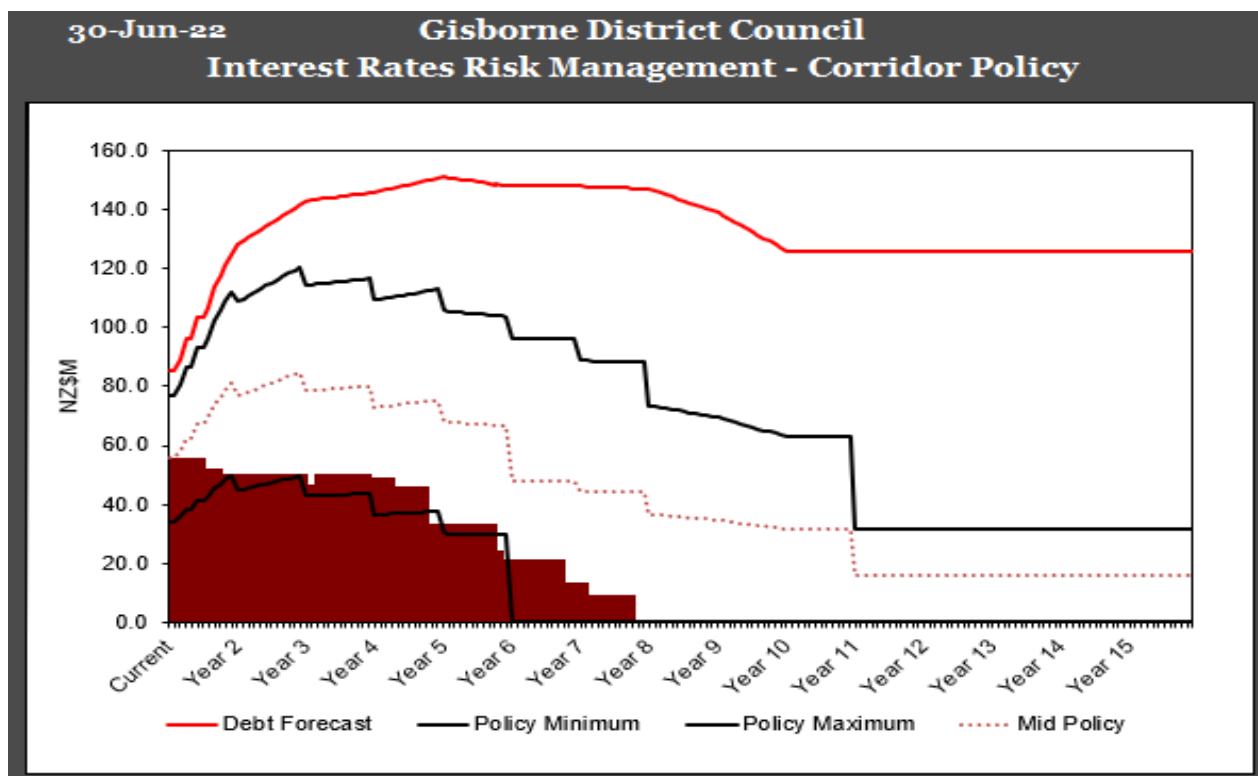
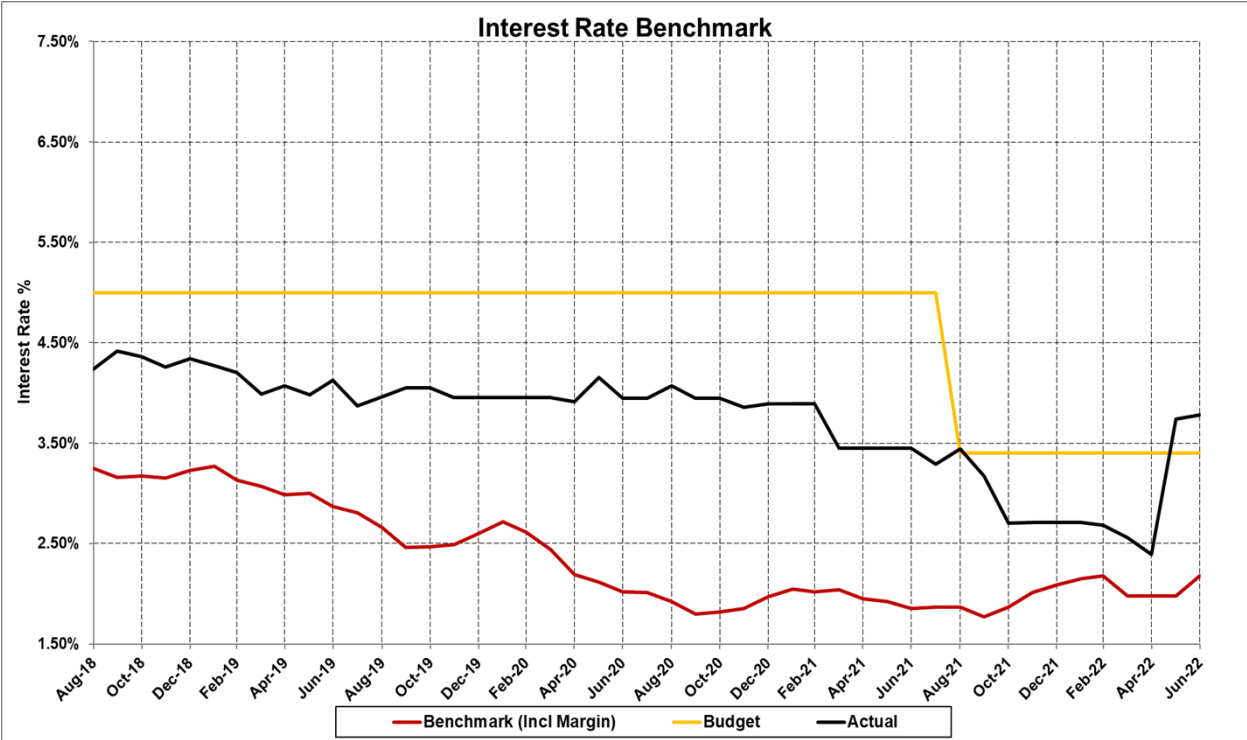


Table 3 – Council's Interest Rate Risk Policy

Debt Period Ending	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	55%	90%	76%	Yes
Year 1	55%	90%	76%	Yes
Year 2	45%	85%	64%	Yes
Year 3	40%	80%	51%	Yes
Year 4	35%	75%	42%	Yes
Year 5	30%	70%	41%	Yes
Year 6	20%	65%	29%	Yes
Year 7	10%	60%	20%	Yes
Year 8	0%	55%	8%	Yes
Year 9	0%	50%	0%	Yes
Year 10	0%	45%	0%	Yes
Year 11	0%	40%	0%	Yes
Year 12	0%	35%	0%	Yes
Year 13	0%	30%	0%	Yes
Year 14	0%	25%	0%	Yes
Year 15	0%	20%	0%	Yes

- 9. Council currently has \$47.5m of interest rate cover in place, along with forward start swaps of \$11.5m.
- 10. In June Council took out \$8.5m of forward start swaps as part of our interest rate strategy to maintain compliance beyond June 2022. The strategy is based on 80% LTP debt forecast scenario.
- 11. The Council will continue to look for opportunities to blend and extend existing swaps or enter forward start swaps to further reduce the cost of debt.

Table 4 – Council's Cost of Funds



- 12. The above graph shows the actual weighted average cost of funds for 30 June at 3.74%, which is higher than the 2.18% benchmark and higher than the budget rate used throughout the 2021-2031 Long Term Plan of 3.4%.
- 13. Higher than expected inflation, the markets Official Cash Rate (OCR) increases has meant that Council is now seeing higher interest rates than what was forecast, and this is expected to continue for some time.
- 14. The Budget (yellow line) is the interest rate used in the 2021/22 budget and throughout the LTP 2021-2031, based on a set of assumptions around debt levels, capital spends income and expected OCR changes at that time. It should be noted that the Annual Plan 2022/23 has a provided for an interest rate that is close to 3.7%.
- 15. The Benchmark (red line) refers to a basket of interest rate swaps Council uses to benchmark against, assuming no interest management is in place.
- 16. The Actual (black line) is the weighted average cost of the Council's debt – including bank margins, interest rate swaps and line fees. The actual line fluctuations are based on the debt levels and short-term cash requirements.

Interest Costs

	YTD Actual Jun 2022 \$000	YE Budget Jun 2022 \$000	YTD Actual Jun 2021 \$000
Interest Cost	2,122	3,813	1,923
Fair Value of Swaps	898		(2,734)

17. The fair value of swaps is the bank's current market pricing (as of 30 June 2022) of the difference between the 90-day swap rates and the fixed rate of the swap for the duration of the swap.
18. Council has realised a gain in fair value of \$3.6m, this means that the fair value of the swaps moves from a liability of (\$2,734) to an asset of \$898 as of 30 June 2022.
19. There are a few reasons for this increase:
- The floating interest rate has started to increase for the first time since 2008 and;
 - Council's fixed rate swaps that are over 6% are maturing within the next two years and Council's fixed rate swaps that are around 1% don't mature for five years
20. Swaps are a mechanism used to minimise risk. Council fixes rates so we know what we have to pay. If the swap "fixed rate" is higher than the current floating rates (the bank benefits) and if the swap "fixed rate" is lower than the current floating rates (Council benefits).
21. The fair value of \$898k is the estimated paper value asset, recognised under New Zealand accounting rules. The Council receives no actual cash for the change in fair value of its swaps; however, the movement recognised in the Council's Statement of Financial Performance (an increase in fair value resulting in a loss and a decrease resulting in a gain).

Counterparty Credit Risk

22. Policy Credit Limit (NZ\$) per New Zealand Registered bank for interest rate risk management instruments only. All counterparty banks are Standard & Poor's AA-rated.

Table 6 - Council's counterparty credit risk

Bank	Notional \$m	Credit Exposure \$m	Compliance
ANZ	44.5	4.71	Within Policy
WBC	0	0.00	Within Policy

Table 7 – Borrowing Limit Compliance as of 30 June 2022

Ratio/Covenant	Policy Compliance	Current Position
Net debt as a % of income = <130%	✓	53%
Net interest as a % of income <10%	✓	1%
Total debt per capita <\$2,800	✓	\$1,611
Net external debt per rateable unit <\$4,400	✓	\$3,865
Net interest as a % of rates income <10%	✓	3%
Liquidity over existing external debt >=110%	✓	133%

ASSESSMENT OF SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

This Report: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Low Significance

This Report: Low Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: Low Significance

This Report: Low Significance

23. The decisions or matters in this report are considered to be of Low significance in accordance with Council's Significance and Engagement Policy.

At this point, both the accounting gain and the timing of capital grants does not impact on Council's bottom line. The swap market movements may or may not eventuate when the swaps are realised in the future. The capital grants for Kiwa Pools, PGF roading resilience projects and the 1000-year bridge will still occur. However, the timing of receiving them will fall outside this financial year, and into the first half of 2022/23 as the projects are completed.

- **YTD total expenditure is \$105m**, \$7.2m above Annual Plan. Expenditure on operating activities is \$9.8m above the YTD Plan, mostly due to roading emergency works and 100% funded PGF operational projects. Finance costs are lower than expected due to the timing of capital works programme.
- **YTD capital expenditure is \$67.8m** (76%) against Annual Plan budget of \$89m. Most of the YTD variances relates to PGF roading resilience works (\$5m), Kiwa Pools and the Wastewater Treatment Plant.

In addition, the capital variance also includes the Enterprise Solutions Project (Annual Plan Project \$2.4m) where the project is now recorded as an operational project due to changes in accounting standards "recognition of intangible assets" applied to software enhancements. The accounting standards occurred after the adoption of the Long-Term Plan.

Refer to report **[22 130]** to Finance and Performance Committee 1 June 2022, which identified the projects that had been included within the 2021/22 Annual Plan but are now expected to be completed within the 2022/23 Annual Plan.

The decisions or matters in this report are considered to be of **Low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Performance Committee:

1. **Notes the contents of this report.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: councils financial report, annual plan, statement of comprehensive revenue and expenses, capital expendituree

ATTACHMENTS

1. Attachment 1 - Financial Summary May 2022 [**10.1.2.1** - 11 pages]



**Council
Summary Financial Report**

May 2022

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**Draft Statement of Comprehensive Revenue and Expenses
For the Period Ended May 2022**

	Note	May-22 Actual \$000s	YTD Budget \$000s	YTD Variance \$000s	Full Year Budget \$000s
REVENUE FROM NON-EXCHANGE TRANSACTIONS					
Grants and Subsidies - Operational	1	21,458	13,324	8,134	14,699
Grants, Donations, Subsidies and Contributions - Capital	2	45,439	56,600	(11,160)	61,396
Other Non Exchange Revenue	3	866	1,507	(641)	2,138
General Rates And Uniform Annual General Charge		22,868	22,493	376	22,493
Targeted Rates		43,288	43,288	(0)	43,288
REVENUE FROM EXCHANGE TRANSACTIONS					
Development and Financial Contributions		840	1,455	(615)	1,587
Other Revenue	4	8,309	8,810	(500)	10,429
Targeted Water Rates		2,952	3,085	(133)	3,366
Dividends		1,662	1,500	162	1,500
Interest Received		110	0	110	0
Other Gains/(Losses)	5	3,437	46	3,391	(474)
Total Revenue		151,231	152,107	(875)	160,422
EXPENSES					
Employee Benefit Expenses	6	24,086	24,353	266	26,570
Expenditure on Operating Activities	7	57,999	48,178	(9,821)	56,477
Depreciation and Amortisation	8	21,257	21,755	498	23,733
Financing Costs	9	1,589	3,496	1,906	3,813
Total Expenses		104,932	97,781	(7,151)	110,593
Net Surplus/(Deficit) Before Taxation		46,300	54,326	(8,026)	49,829
Subvention payment		0	0	0	600
Net Surplus/(Deficit)		46,300	54,326	(8,026)	50,429
Gains/(Losses) on Property Revaluation		0	0	(0)	35,747
TOTAL COMPREHENSIVE REVENUE AND EXPENSES		46,300	54,326	(8,026)	86,176
CAPITAL EXPENDITURE	10	67,784	89,139	(21,355)	103,467

Notes to the Statement of Comprehensive Revenue and Expense

01 Grants and Subsidies – Operational

Most of this revenue comes from roading subsidies through Waka Kotahi and the Provincial Growth Fund (PGF). This financial year we recover 68% of roading maintenance costs (excluding emergency works) from Waka Kotahi. Higher subsidies of 88% are received for high impact roading emergency works including the 2020 flood events. Tracking favourably \$8.1m over YTD budget due to roading subsidies related to emergency roading flood events, PGF projects (that were approved after the adoption of the LTP) and \$740k of additional grants have been received from Central Government for programs that include Freshwater Improvement, Covid Vaccination Fund, and Mayors Task Force.

02 Grants, Donations, Subsidies and Contributions – Capital

The capital grants expected to be received this year are from Waka Kotahi for roading renewals, PGF for the roading resilience programme and capital grant funding for projects such as Kiwa Pools, Wastewater Treatment Plant, Waipaoa Stop banks, the 1000-year bridge and 3 Waters Reform fund. Currently, capital grants are \$11.2m lower than where it was expected to be, mainly due to 100% funded PGF resilience capital project, Kiwa Pools and the 1000-year bridge. These projects will still occur, but the receiving of the grant will fall outside of the financial year and into the first quarter of 2022/23 financial year, aligning to when the project is completed.

03 Other Non-Exchange Revenue (Includes penalties, infringement fees, court enforcement fees, and other fees)

This includes court enforced fees, penalties received and infringements. Revenue is lower than budget due mostly to lower rates penalty after the “annual penalty” on overdue rates was removed and ceases to be applied. This penalty is referred to as P2 under section 58 (1) b of the Local Government (Rating) Act 2002 (refer **[22-82]** at Finance and Performance Committee 1 June 2022).

04 Other Revenue (Rent income, lease income, and all other fees and charges)

Other revenue includes fees and charges such as dog registration fees, rents, parking fees and trade waste charges.

05 Other Gains/(Losses)

Other Gains/losses includes gains or losses arising from the sale of assets and financial gain recognitions (such as interest rate swaps). The main movements arise from interest rate swaps. This year we have recognised a gain in fair value of swaps of \$3.6m. The floating rate has started to increase for the first time since 2008 and the swap fixed rates are mostly lower than the floating rate resulting in a benefit to Council.

06 Employee Benefit Expenses

Employee Benefit expenses are mostly on track with budget.

07 Expenditure on Operating Activities

Overall expenditure is over YTD annual plan by \$7.2m, mainly due to PGF operational costs and higher than expected roading emergency works. Emergency works completed May YTD is \$13m, against YTD budget of \$3.6m. The FAR Roding Reserve was approved at Sustainable Tairāwhiti 28 October **[21-198]** to pay for the local share of emergency works that were over and above the Annual Plan provision. While the PGF operational costs were not within the Plan (as the funding approved after the adoption of the LTP), it has nil rate payer impact due to being 100% externally funded.

08 Depreciation and Amortisation

Growth movements calculated for assets at year-end may alter the actual depreciation slightly.

09 Financing Costs

Financing costs are lower than the YTD budget due to lower interest rates than was forecast and to lower than expected capital spend YTD.

10 Capital Expenditure

Overall, the capital expenditure is \$67.8m against a \$89.1m YTD budget and includes major projects and renewal programs.

This year there have been many challenges that have impacted the progression of the capital works programme. Covid, extreme weather events, rising inflation and supply shortages all contributed to delays in the delivery of capital works.

The main drivers for the variance to YTD budget are: the Enterprise Solution project has a YTD capital budget of \$2m but actual costs have been moved to operational; the Wastewater Treatment Plant is \$4m behind YTD budget due to ongoing delays relating to COVID (Levels 3 and 4 Quarter 1), the Kiwi Pools is \$5.5m under YTD budget; and Journey's PGF projects are under YTD phased budget of \$4m.

Carryover of budgets for projects that will be completed in the first half of 2022/23 were assessed at \$16.5m **[report 22-130]** and it is expected that we will reach around \$80m of capital expenditure at 30 June 2022.

More information regarding capital projects can be found under "Notes to Capital Expenditure" below.

Statement of Financial Position
For the Period Ended May 2022

	Notes	YTD Actual \$000s	Full Year Budget \$000s
CURRENT ASSETS			
Cash & Bank	01	7,953	9,967
Non Exchange Trade and Other Receivables	02	11,382	11,486
Exchange Trade and Other Receivables	03	13,393	11,933
Inventories	04	38	101
Non Current Assets Held for Resale	05	80	(0)
Total Current Assets		32,847	33,487
CURRENT LIABILITIES			
Deposits Held	06	534	431
Trade and Other Payables	07	32,019	30,604
Employee Benefits and Suspense	08	3,231	2,625
Borrowings	09	15,500	5,000
Provisions for Other Liabilities	10	93	94
Derivative Financial Instruments	11	0	1,219
Total Current Liabilities		51,377	39,973
Total Net Working Capital		(18,530)	(6,486)
NON CURRENT ASSETS			
Property Plant and Equipment	12	2,472,043	2,491,959
Intangible Assets	13	5,959	6,427
Biological Assets	14	2,778	3,309
Investments	15	34,384	33,595
Total Non Current Assets		2,516,062	2,535,290
NON CURRENT LIABILITIES			
Borrowings	09	70,200	104,288
Employee Benefit Liabilities	08	122	176
Provisions for Other Liabilities	16	2,452	2,892
Derivative Financial Instruments	11	0	4,029
Emission Trading Scheme Liabilities	17	1,950	1,950
Total Non Current Liabilities		74,723	113,335
Total Net Funds Employed		2,422,809	2,415,469
EQUITY			
Accumulated Surplus		523,066	551,341
Special Funds	18	47,844	33,481
Revaluation Reserves	19	1,851,899	1,830,647
Total Equity		2,422,809	2,415,469

Notes to the Statement of Financial Position

- 01 Cash at Bank**
Westpac current account balance and overnight ANZ money market.
- 02 Non-Exchange Trade and Other Receivables**
Includes rates receivable and other current receivables such as Waka Kotahi receivables.
- 03 Exchange Trade and Other Receivables**
Includes sundry debtors, prepayments and GST where receivable.
- 04 Inventories**
Includes product and or stock on hand.
- 05 Non-Current Assets Held for Resale**
Includes any identifiable assets that have been held for disposals. Decisions relating to disposals must be approved by Council.
- 06 Deposits Held**
Includes footpath deposits, bond deposits and theatre ticket sale deposits.
- 07 Trade and Other Payables**
Includes accounts payable, sundry creditors, audit fee accruals, GST where payable and other IRD payables, Waerenga o Kuri Liability.
- 08 Employee Benefits Liabilities and Suspense**
Includes holiday pay and other current and non-current employee benefit liabilities.
- 09 Borrowings**
Includes long term and short-term borrowings from LGFA and Money market loan obtained from other banks.
- 10 Provisions for Other Liabilities - Current**
Includes provision for various legal matters and other liabilities.
- 11 Derivatives Financial Instruments**
Interest rate swaps.
- 12 Property Plant and Equipment**
Council's fixed assets.
- 13 Intangible Assets**
Includes computer software.
- 14 Biological Assets**
Includes the value of livestock and forestry.
- 15 Investments – Non-Current**
Includes investments in GHL and CCTO.
- 16 Provisions for Other Liabilities – Non-Current**
Includes non-current provisions such as Paokahu landfill and Waiapu landfill aftercare provisions.
- 17 Emissions Trading Scheme**
Provision for Emission Trading Scheme Liability.
- 18 Special Funds**
Includes various reserves such as depreciation reserve.
- 19 Revaluation Reserves**
Gain on asset revaluation.

Gisborne District Council
Statement of Capital Expenditure for the period ended May 2022

Activity	Notes	May-22 Actuals YTD \$000s	May-22 Budget YTD \$000s	% Spent	
				YTD Actuals of YTD Budget %	2021 / 2022 Full Year Budget \$000s
Including Major Projects					
Community Lifelines		43,944	56,318	78%	62,936
Roading	1	20,169	24,279	83%	26,776
Wastewater	2	15,060	21,282	71%	22,495
Stormwater	3	861	1,336	64%	2,018
Water Supply	4	3,189	3,813	84%	5,871
Solid Waste	5	8	257	3%	281
Land, Rivers & Coastal	6	4,655	5,351	87%	5,495
Liveable Communities	7	20,995	26,671	79%	32,939
Land & Soil Resources		846	926	91%	1,438
Theatres		8	25		25
Conveniences		292	746	39%	831
Reserves		843	1,523	55%	1,693
Cemeteries		127	23		23
Community Property Mgmt		18,290	21,432	85%	26,670
Arts & Public Places		345	1,657	21%	1,900
Pool Operations		64	67		67
District Library Operations		179	272	66%	293
Regional Leadership & Support Services	8	2,285	5,656	40%	7,075
Information Services		1,297	3,337	39%	4,128
Customer Service & Townships		79	803	10%	958
Civic		1	-		-
Parks & Community Pty Mgmt		1	-		-
Water and Coastal Resources		431	338	128%	477
Civil Defence		106	719	15%	1,000
Environmental Monitoring		66	86	77%	105
Facilities & Plant Management		303	373	81%	407
Environmental Services & Protection	9	388	250	155%	250
Environmental Health & Risk		29	-		-
Parking		359	250	144%	250
Commerical Operations	10	172	245	70%	267
Community Housing		172	245	70%	267
Grand Total (Including Major Projects)		67,784	89,139	76%	103,467

Notes to the Statement of Capital Expenditure 31 May 2022

1. Roothing

The roading budget includes renewals (\$16.2m), PGF (\$8.8m) and other projects (\$1.7m) such as walking and cycling.

YTD Capital expenditure is tracking \$4m under budget. This variance is mainly due to an PGF East Cape work programme which will now be completed in 2022/23. Phasing of the 3-year budget and unexpected adverse weather events have shifted the timing of the spend but the programme of work is track for a timely completion.

Renewals May YTD are tracking to budget.

2. Wastewater

This budget consists mainly of the Wastewater Treatment Plant (\$18.8m) and renewals (\$3m). Actuals YTD are \$15.1m against YTD budget \$21.3m.

The WWTP upgrade actual spend YTD is \$13.7m, \$4m under YTD budget. Although work is progressing, COVID has caused delays in deliveries of equipment. The project is forecast to be \$3m down on the fully year budget by 30 June 2022. The project is on track for completion April 2023.

3. Stormwater

Stormwater projects are mainly renewals and Drainwise.

Renewals are 58% spent YTD, under budget \$368k. A forecasted carryover of renewal work of \$375k is expected to complete work that has been delayed.

Capital Expenditure is \$861k, against YTD budget of \$1.3m. Drainwise has also been slowed due covid-related delays, access difficulties due to drains on private property as well as severe weather events.

4. Water Supply

Water Supply capital budget includes \$2.5m of renewals and \$3.3m of upgrades. The \$3.3m upgrades includes \$500k for Ruatoria Bulk Supply and \$2.8m for Muriwai Pipeline and reticulation project which are both 100% grant funded.

Total YTD spend is \$3.2m against \$3.8m budget (or 84%).

Renewal actuals to date are \$2.3m (or 94%) against the phased YTD budget. It is expected to be on par with budget by year end. The 100% grant funded Muriwai Pipeline & reticulation and Ruatoria Bulk Supply Point projects have a full year budget of \$3.3m and are tracking under budget YTD. These projects will now be completed by 31 December 2022.

5. Solid Waste

There are 6 projects in this budget, the largest is the Paokahu Closed Landfill project with a budget of \$105k. Paokahu capital work is still in the planning stage while maintenance and monitoring continue onsite. The remaining 5 projects are provisions for renewal of capex, as and when they are needed. It includes provisions for transfer stations, litter bins and heritage landfill remediation.

6. Land, Rivers and Coastal

The main project in this budget includes \$4.7m for the Waipaoa River Flood Control Scheme as well as a renewals programme of \$810k.

YTD actuals is \$4.7m, against the phased YTD budget of \$5.4m. The variance relates to phasing of the Taruheru & Turanganui revetment project (under budget \$187k). There have been delays in delivery of materials and the project has been reforecast to complete in the first half of the 2023 financial year. The Waipaoa River FCS is under by \$300k YTD due to adverse weather events. It is forecasted to be on track for year end.

7. Liveable Communities

The Kiwa Pools is the main project in this grouping with a full year budget of \$33m. Also included are major projects 1000-year Bridge - \$1.4m, and Waingake Restoration - \$1.4m.

Actual capital spend YTD us \$20.9m against \$26.7m budget. Most of the variance relates to 1000 Year Bridge (currently external consultants preparing the resource consent) and the Kiwa Pool project.

Kiwa Pools is under the Annual Plan budget by \$5.5m, due to combination of phasing of the budgets over two financial years, building restrictions from COVID lockdowns and also some structural steel supply issue. However, it is still expected to be completed by March 2023, aligning to the project completion dates when they were first planned.

There are underspends in Conveniences and Reserves of \$454k (Peel street) and \$680k, respectively. Reserves variances is mostly due to delays in delivery of supplies and contractor availability.

8. Regional Leadership & Support Services

Several activity budgets sit under this grouping. Information Services has a \$4.1m full year budget with the main project Enterprise Resource Planning (\$2.4m). This project was reclassified as operational in December and although the budget remains in capital, the costs are reported under operational expenditure. The \$1m Emergency Coordination Centre is also part of this budget.

Actual costs for this group are \$2.3m against the YTD budget of \$5.6m. Information Services capital projects are under budget \$2m, this is because the actual costs for Enterprise Solutions have been reclassified to operational cost; this variance will remain through year end. Facilities and Plant Management is our vehicle replacement budget, under YTD \$70k. An order expected for June has been delayed, so expecting to be under at year-end.

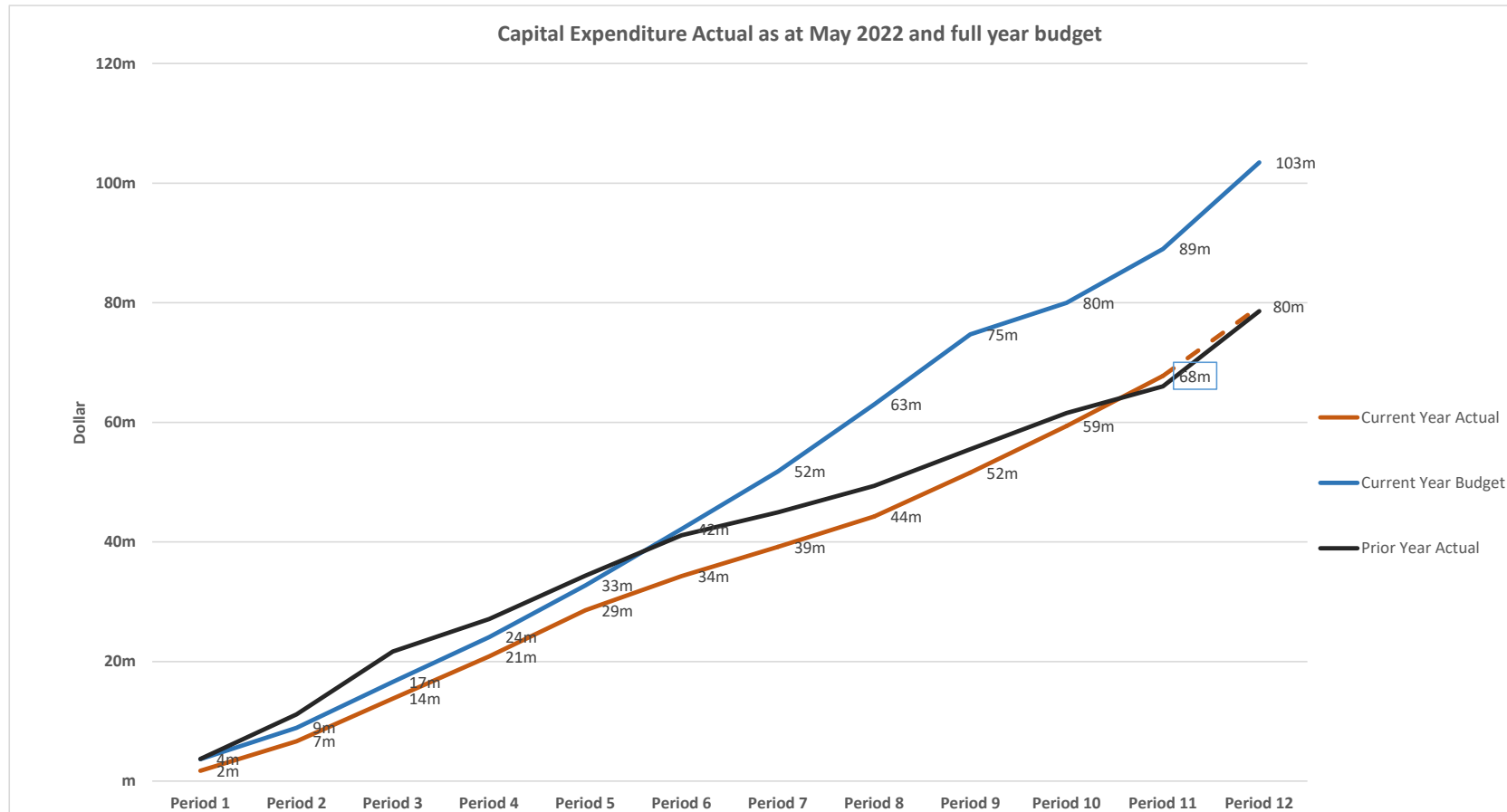
The new Emergency Co-Ordination Centre is under budget \$612k YTD and will be completed in the next financial year. The resource consent will be submitted early July and site work is expected to begin mid-late September.

9. Environmental Services & Protection

YTD capital expenditure is \$388, up \$138k on the YTD plan. This is due to bringing forward Year 2 budget for parking meter renewals and for a Waihora rock buoy which sits as a marker for safe navigation.

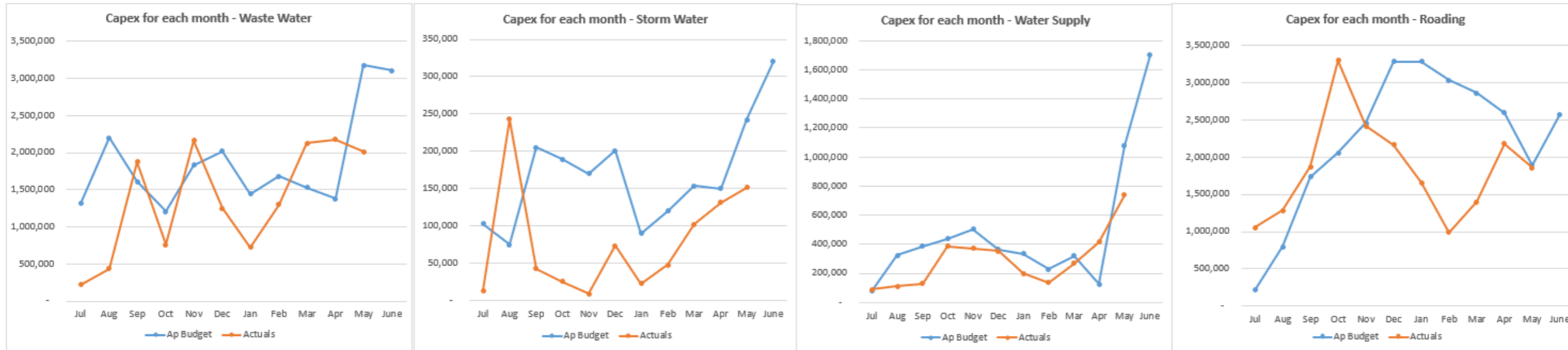
10. Commercial Operations

This budget is for Staff and Community Housing upgrades. GHM manages this work. The budget has been phased evenly over the year. Roofing upgrades are planned for June, where all capital expenditure is expected to be completed on par with budget.

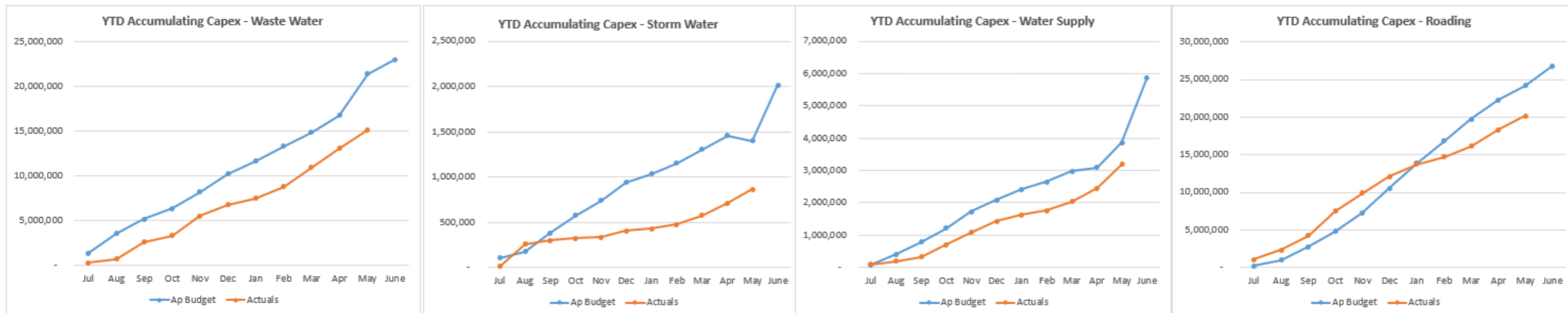


Gisborne District Council

Periodical CAPEX charts for the period ended May 2022



YTD Accumulating CAPEX Charts



10.2. INFORMATION Reports Performance



22-188

Title: 22-188 Review of Outsourcing Land Rivers Coastal Maintenance Work to Fulton Hogan

Section: 4 Waters Operations
Community Lifelines 4 Waters Operations - Land Rivers & Coastal

Prepared by: Mangala Wickramanayake

Meeting Date: Wednesday 3 August 2022

Legal: No

Financial: Yes

Significance: **Medium**

Report to Finance & Performance Committee for information

PURPOSE

The purpose of this report is to provide a review and analysis of the Land Rivers and Coastal (LRC) operations work outsourced to Fulton Hogan (FH) as part of the 3 yearly service delivery review.

SUMMARY

The LRC Team in the Community Lifelines Hub at Gisborne District Council (Council) had an in-house service delivery team (Operations Team) until 2019.

It was recognised in the 2018-2028 Long Term Plan (LTP) process that Council needed to update its Business Plan for the LRC team and as a result, a reorganisation of the 4 Waters team was proposed. A review done in 2019 concluded that the in-house operational service delivery model in LRC didn't meet with Council's ongoing requirements as described in the 2018-2028 LTP. This review also met Council's obligations to undertake regular service delivery reviews, as per Section 17a (s17a) of the Local Government Act. As a result of this review, the LRC operations work was fully outsourced to a contractor, FH after a Council decision in 2019. Three years has passed since this decision and the contract will continue until 2025.

This report discusses the productivity, effectiveness, and the achievement of key performance indicators of the FH Operations Contract over the past 3 financial years.

RECOMMENDATIONS

That the Finance & Performance Committee:

1. Notes the contents of this report

Authorised by:

David Wilson - Director Lifelines

Keywords: LRC, operational service delivery

BACKGROUND

1. Prior to 2019, LRC operations were done by an in-house operations team. Council had various Human Resources (HR) and Health & Safety (H&S) issues under the in-house operation delivery model. Distractions such as staff performance and H&S issues resulted in the LRC team not undertaking the strategic planning work needed to address the issues of future demands. It was also a risk to the Council in terms of meeting its obligations under s.35 of the Resource Management Act 1991 (i.e., consents support, gather information, keeping records) and s.126 (a) of the Soil Conservation and Rivers Control Act 1941 (i.e., minimise and prevent damage within the district by floods and erosion).
2. LRC operations were labour intensive using semi-skilled people in high-risk operating environments. They were using plant and equipment in remote hillsides, rivers, and drains. There were limited opportunities for staff to develop careers in other parts of Council. Physical works, health & safety and development of labour-based staff were not the core focus of Council. This led to Council outsourcing the operations work and retaining the core staff for other services.
3. The scale of operations required nine people and an annual operating cost (i.e., physical works only) in the order of \$1.2m. The LRC operation was not large enough to sustain an ongoing investment in best practice, health & safety, task and activity management, and to provide appropriate plant and machinery that may be required in the future.
4. Council had considered the ongoing capital investment and corporate management needed to sustainably manage LRC operations. The decision to outsource LRC operations was taken in 2019 and effective on 1 July 2019.
5. Since the delivery of operational services was changed from in-house to a contractor, it was expected that the operational work would be more efficient, the response time would be faster, customer satisfaction would increase, and the budget would be fully and economically spent.

DISCUSSION and OPTIONS

Analysis - Review of Advantages & Disadvantages

6. The review process in 2019 identified various advantages/disadvantages of having an in-house team, and advantages/disadvantages of outsourcing the LRC maintenance work. A review of insourcing versus outsourcing factors (advantages and disadvantages) provided a useful benchmark to assist Council in 2019 to make the decision to outsource the LRC operations.
7. The same list of advantages and disadvantages has been used to reassess the success/failure of outsourcing the LRC operations after 3 years. This was done through internal communication, to obtain a quantitative result. The Manager of the 4 Waters Operations team and all Team Leaders currently working with the contractor, recently reassessed the list of advantages and disadvantages of outsourcing. The team has given a rating for each item as per the definition below. If the achievement is above 70%, the scoring is High - Green, if it is between 40 -70% it is Moderate (Yellow) and if its below 40% it is Marginal - Red.

8. **Table 1** shows the list of advantages and disadvantages of outsourcing identified in 2019 and the scoring for the Reassessment of Advantages. **Table 2** shows the scoring for the Reassessment of Disadvantages.

Table 1: Reassessment of Advantages identified in 2019

No	Advantages of Outsourcing Relevance to LRC	Percentage of Achievement by 2022	Highly Achieved >70%	Modera tely 40- 70%	Margin ally <40%	Chris
1	Reduced cost / economies of scale	50%				50% Similar costs overall.
2	Concentration on core business / strategic appreciation of service	100%				LRC and FH fully concentrate on core business
3	Right sized headcount / reduce space	80%				Less recruiting issues, staff manageable size
4	Improved productivity / reduce space	100%				Staff fully motivated
5	Increased flexibility / work load pattern	90%				FH will balance staff in other GDC areas and have more flexibility
6	No obsolescence / latest technology	80%				Retracting hose reel introduced.
7	Overcome skills shortage / specialist	70%				Recruitment difficulties - specialist laborist used.
8	Added value at no extra cost / quality / value for money	50%				Fore man is experienced with local knowledge adding value to us.
9	Reduced management burden, performance management	80%				Some LRC input required, however management issues reduced significantly
10	Career path development Staff	70%				Ability to transfer in FH
11	Implementation speed / response time	80%				Response fast in times of flooding.
12	Improve management control / performance levels targeted	80%				Fore man does well.
13	One stop shopping / one invoice / contractor acts as a screen	100%				Excellent performance of foreman
14	Improved accountability / performance levels monitored / user risk reduced	90%				High H&S practices and performance.
15	Optimal equipment configuration	100%				New vehicles, good plant, electric hose reels.
16	Assist user to obtain competitive advantage in market place	50%				No other work contracted out.
17	No operational headaches	100%				There are always operational headaches - have to push to get work done.
18	No capital outlay / latest technology for least capital outlay	100%				100% All on FH.

Table 2: Reassessment of Disadvantages identified in 2019

No	Disadvantages of outsourcing		Marginal <40%	40% - 70%	highly > 70%	
1	Claimed savings based on forecast hopes / not always cost effective	50%				Some years high, some years low
2	Personnel problem – shift from user to supplier / those leaving vs staying	10%				Handled by FH. Redundancies occurred. Most staff moved on.
3	Lack of control of suppliers	0%				0% Handled by FH. Contract manages performance of the work
4	Risk of selecting a poor supplier / supplier market being incompetent	20%				Some risk on GDC reputation
5	Personnel problem – loyalty to user	20%				All FH LRC work staff moved to other areas.
6	Confidentiality of data / security issues	10%				FH staff are highly trustworthy.
7	New (different) management problems	20%				Integrated management issues dealt with at operational management meetings.
8	Worse strategic focus / can't separate strategic from operational	20%				Good separation
9	Strategic risk / outsourcing critical segments may jeopardise users	20%				Very low as the foreman transferred and provided continuous support and continuity.
10	Lose in-house expertise or capability	80%				No original in-house LRC staff remain.
11	Long term fixed contracts	20%				7 year contract - stability of work with a competent trusted contractor.
12	Suppliers capacity	20%				FH to deal with any issues.
13	Contrary to culture of users own organization	20%				Cultures align well.
14	Ownership of new applications with suppliers	20%				Seamless under current foreman
15	Ignores in house solution	20%				Consultation between FH and LRC ensures this rarely occurs.
16	Suppliers commitment being questionable	10%				Reputable contractor
17	Suppliers availability not reliable	10%				Very responsive to all RFSS.
18	Suppliers continuity not assured	5%				FH is a big company with a long track record with offices all over NZ.
19	Hidden costs surface at critical stages	10%				Unlikely for LRC type of work
20	Decision time required when considering outsourcing	10%				Generally FH have secured sub-contractors
21	Lack of independent advice by supplier	10%				Foreman very knowledgeable and experienced.
22	Learning curve for supplier	20%				Staff movements generally occur, foreman generally available.
23	Slower response time to problems	20%				Risk due to staff resourcing.
24	Lack of flexibility	20%				Meets contract requirements
25	User tends to wrongly rationalise outsourcing decision as correct	10%				Seamless outsourcing

9. As per the reassessment in Table 1, it has been noted that the advantages identified in 2019 were mostly achieved. Out of 18 advantages identified, 15 were highly achieved and 3 were moderately achieved.
10. As per Table 2, the contract didn't go through all the expected disadvantages as predicted in 2019. Out of 25 disadvantages, 23 were not affected as predicted, one was moderately affected, and another one was marginally affected. Overall, it was a very positive outcome.

Key Outcomes - Accountability and Benefits

11. Below are some positive aspects of outsourcing the LRC Operations:
 - **Time targets** – the contractor is accountable for meeting time targets for planned work.
 - **An activity fee has been negotiated** – a rate per measurable unit (each/tonne/m³/visit) where the client takes the risk on quantity or frequency, and the contractor the risk on productivity and materials.
 - **Flexibility** – the client has the flexibility to change the inspection frequencies if required.
 - **Transparency** – the monthly invoices show all the work done. This will be monitored and assessed by both parties with clarity around payments.
 - **Monitoring** – at quarterly reporting over/under expenditure will be monitored and suitable adjustments will be made.
 - **Staff who left Council** – are better off as they joined FH with higher salaries and greater benefits. Long term knowledge remains within the contracted operations area, as senior staff who left LRC staff were transferred and continue to manage the LRC Operations.

Internal Impact Assessment (Manaaki Tangata)

12. Internal staff, including the HR team have benefited due to outsourcing LRC Operations. Health and safety risks have also significantly reduced.
13. It was unfortunate that prior to the transfer there was only one engineer managing LRC for the Council. Recruiting a new Team Leader proved difficult until a year ago and there has been limited staff continuity. Staff capacity has now improved, with a Team Leader one full time staff member and a part-time contractor providing assistance.
14. At times staff have been reliant on the Fulton Hogan Tiaki Wai Manager to ensure continuity. This has been observed in Service Requests and past work programmes and scheduling.
15. Staff have worked closely with Tiaki Wai to improve contract documentation, procedures, and operational management plans. Previously none of these were recorded.
16. Initially the impact on LRC staff was significant due to lack of knowledge, local experience and high work demands. With new staff and improved processes this has been changing around. It was fortunate that Community Lifelines obtained staff who were in Council when the LRC operations were in-house, and a staff member who left Council has also returned as a contractor which helps maintain some continuity. The internal impacts were not significant in the long term as new staff picked up knowledge from these staff members.

External Impact Assessment (Kaitiaki Tairāwhiti)

17. Main stakeholders are farmers, ratepayers, NZTA, Iwi groups, agricultural community, kiwi fruit growers, orchardists etc.
18. During the recent floods in June 2021 at Tokomaru Bay and the City floods in November 2021, external impacts were remarkable as these were successfully attended to by the contractor.
19. Fast action during floods. This had positive effects. FH handled both emergencies quickly despite the country being in a partial lockdown.
20. Negligence in some areas – negative feedback received on routine work in some areas, as these were neglected/postponed due to frequent floods in 2021. However, these were attended to later by the contractor.
21. Land slips were well attended in coordination with local Iwi groups, for example the recent Waingake land slip on Te Arai).
22. A summary of the Requests for Service attended by LRC and FH over the past 3 years is provided in **Table 3** below.

Table 3 - Request for Service Performance 2019/2020/2021

Year	RFS Received	RFS's Completed Within the Target	RFS's Completed	Completed SLA performance Indicator
2018/19	101	85	98	86.7%
2019/20	160	152	160	95.0%
2020/21	149	132	148	89.2%

Communications

23. Monthly meetings with FH, documentation of all work done, financial and physical monitoring by LRC staff and requests for service feedback are the main communication methods on the contract work.
 - Regular operational discussions take place either by phone or Microsoft Teams.
 - Financial progress is updated in FBI. Physical progress is communicated through Council's quarterly and annual reporting system.
 - During emergencies Council's CDEM Communications team handle media releases.

Conclusion

24. Based on the analysis of advantages and disadvantages, it can be concluded that the outsourcing of LRC operations has achieved substantial benefits after 3 years. The disadvantages previously identified have reduced/adjusted over time.

ASSESSMENT of SIGNIFICANCE

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation

Overall Process: Low Significance

This Report: Low Significance

Impacts on Council's delivery of its Financial Strategy and Long Term Plan

Overall Process: Medium Significance

This Report: Medium Significance

Inconsistency with Council's current strategy and policy

Overall Process: Medium Significance

This Report: Medium Significance

The effects on all or a large part of the Gisborne district

Overall Process: High Significance

This Report: High Significance

The effects on individuals or specific communities

Overall Process: Low Significance

This Report: Low Significance

The level or history of public interest in the matter or issue

Overall Process: High Significance

This Report: High Significance

25. This report is part of a process to arrive at a decision that will/may be of **Medium** level in accordance with the Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

26. No consultation required.

COMMUNITY ENGAGEMENT

27. No community engagement required.

CLIMATE CHANGE – Impacts / Implications

28. There are no climate change impacts or implications.

CONSIDERATIONS

Financial/Budget

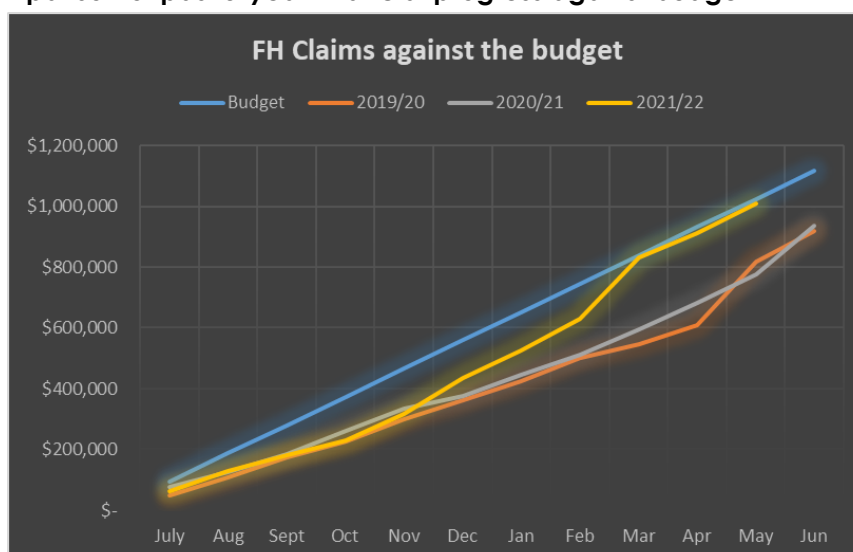
29. LRC had an annual total budget of \$1.9 - 2.2 million from 2019-2021. The maintenance contract with Fulton Hogan is \$1.117 million per year.
30. **Table 4** shows Fulton Hogan's monthly claimed amounts from July 2019 to date.

TABLE 4:

FH Monthly Financial Progress - Cumulative				
	Budget	2019/20	2020/21	2021/22
July	\$ 93,100	\$ 47,418.50	\$ 75,704.25	\$ 62,570.57
Aug	\$ 186,200	\$ 107,366.21	\$ 125,139.91	\$ 127,560.96
Sept	\$ 279,300	\$ 172,366.21	\$ 185,420.49	\$ 180,544.48
Oct	\$ 372,400	\$ 227,366.21	\$ 259,268.70	\$ 228,051.61
Nov	\$ 465,500	\$ 299,488.10	\$ 334,615.60	\$ 317,387.94
Dec	\$ 558,600	\$ 360,288.10	\$ 374,198.48	\$ 435,338.05
Jan	\$ 651,700	\$ 425,288.10	\$ 444,624.54	\$ 524,020.77
Feb	\$ 744,800	\$ 499,793.57	\$ 512,438.62	\$ 628,664.38
Mar	\$ 837,900	\$ 545,429.24	\$ 595,987.60	\$ 832,644.68
Apr	\$ 931,000	\$ 609,469.00	\$ 680,260.68	\$ 910,927.68
May	\$ 1,024,100	\$ 816,182.98	\$ 776,319.19	\$ 1,010,069.68
Jun	\$ 1,117,200	\$ 917,161.24	\$ 934,995.50	
Percentage		82.11%	83.71%	90.43%

31. The overall financial performance on operations in 2019/2020 was 82% after FH took over the maintenance work in 2019, and this was during the transition period. In 2020/2021 it increased to 84%, however the budget was not fully spent. The financial progress in past financial year was low due to regular interruptions from the COVID pandemic and lockdowns.
32. This year the financial progress for the last 11 months is above 90%. FH is on target for 100% expenditure by the end of the financial year. Graph 1 shows the financial progress this year for 11 months and it is relatively higher than the past two years, despite lockdowns. The pandemic has had an effect on expenditure in the early months of this year, but it is on track now.
33. **Attachment 1 Table 1** shows the breakdowns of the expenditure on each Drainage District against the budget allocation.
34. **Attachment 1 Table 2** shows the breakdowns of the expenditure at Manutuke Drainage District for the past 11 months as an example.

Graph 1: Comparison of past 3-year financial progress against budget



Legal

35. No legal considerations.

POLICY and PLANNING IMPLICATIONS

36. No policy and planning implications.

RISKS

37. Below are the key issues and risks identified by outsourcing LRC operations to FH's Tiaki Wai Unit (Protection of Waters).

- Staff issues - loss of institutional knowledge.
- Loss of maintenance staff's experience, information and knowledge of the region.
- Monitoring issues as ratepayers and the Council become disconnected.
- Field experience for new staff joining the Council would be minimal.
- Emergency response participation experience during emergencies for Council staff becomes limited.

NEXT STEPS

Date	Action/Milestone	Comments
4/08/22	Operations Committee note contents of report	

ATTACHMENTS

1. Attachment 1 - Fulton Hogan Expenditure [10.2.1.1 - 2 pages]



Appendix -1:

Table 1: Fulton Hogan Expenditure in 2021/22 till end of May (11 months)

2021/2022		19/08D		TOTAL todate	GDC Budget	Balance
	GDC -COST CODE	Drainage District		\$	\$	\$
1	66 03 00 3000	Management Fee		190,977	79,334	-111,643
2	64 01 00 3000	Overheads		123,170	35,904	-87,266
3	66 01 00 2366	Waikohu River Inspections		10,433	9,000	-1,433
4	66 01 00 2367	Waihora River		4,992	5,300	308
5	66 01 00 2368	Waimata River		4,552	18,200	13,648
6	66 01 00 2369	Hikuwai River		4,538	16,000	11,462
7	66 01 00 2370	Mangaheia River		689	7,800	7,111
8	66 01 00 2371	Waipaoa Middle Reaches		24,609	23,000	-1,609
9	66 01 00 2395	Waikura -		13,474	2,600	-10,874
10	66 01 00 2432	Waiomoko River -		5,076	4,000	-1,076
11	66 03 00 2372	Area 1 Ormond -		24,878	31,500	6,622
12	66 03 00 2373	Area 2 E Taruheru -		88,196	98,800	10,604
13	66 03 00 2375	Area 4 Willows -		16,672	37,000	20,328
14	66 03 00 2376	Area 5 Waikanae -		10,548	16,700	6,152
15	66 03 00 2377	Area 6 City/Wainui -		73,149	78,900	5,751
16	66 03 00 2378	Area 7 Taruheru -		7,394	33,200	25,806
17	66 03 00 2379	Eastern Hills -		4,895	7,000	2,105
18	66 03 00 2380	Area A Waipaoa -		13,264	14,967	1,703
20	66 03 00 2381	Area B Patutahi -		27,578	52,644	25,067
21	66 03 00 2382	Area C Ngatapa -		8,227	26,256	18,029
22	66 03 00 2383	Area D Manutuke -		64,649	100,500	35,851
24	66 03 00 2384	Area E Muriwai -		13,370	38,669	25,299
28	66 03 00 2385	Western Hills -		11,782	5,835	-5,947
29	66 02 00 2386	Wharekaka -		714	1,800	1,086
30	66 02 00 2392	Waikohu General -		2,156	6,500	4,344
31	66 02 00 2393	Cook General -		18,871	15,000	-3,871
33	66 02 00 2394	Waiapu General -		13,537	26,000	12,463
34	65 00 00 3001	Wainui Erosion Scheme Maintenance		9,522	18,243	8,721
35	64 02 00 2147	Operating Cost		3,096	20,360	17,264
36	64 01 00 3001	Te Karaka/Waipaoa		168,845	238,821	69,976
37		Day works		22,504	33,133	10,629
		Subtotal exc GST		1,009,999	1,117,966	107,967



Table 2: Fulton Hogan Expenditure in 2021/22 till end of May (11 months)

Breakdowns of Expenditure at Manutuke during 2021 July/2022 May (11 Months)				
GDC Job Code	Description of work			
		Scheduled Items -Total	Variations - Total	TOTAL
66 03 00 2383	Area D Manutuke - D0400 Culvert Jetting	\$11.00		\$11.00
66 03 00 2383	Area D Manutuke - D0400 Regrades	\$11.00	\$2,205.70	\$2,216.70
66 03 00 2383	Area D Manutuke - D0400 Inspections	\$2,409.80		\$2,409.80
66 03 00 2383	Area D Manutuke - D0400 Invert Spraying	\$4.84	\$654.64	\$659.48
66 03 00 2383	Area D Manutuke - D0400 Pump Station Inspections: Electrical Assessment	\$4,290.00	\$863.53	\$5,153.53
66 03 00 2383	Area D Manutuke - D0400 Pump Station Inspections: Pump Assessment	\$2,453.00	\$86.35	\$2,539.35
66 03 00 2383	Area D Manutuke - D0400 Pump Station Inspections: Routine Inspection	\$2,156.00		\$2,156.00
66 03 00 2383	Area D Manutuke - D0400 Pump Station Inspections: Screen Clearance	\$6,517.72	\$302.05	\$6,819.77
66 03 00 2383	Area D Manutuke - D0400 RFS	\$11.00	\$2,052.44	\$2,063.44
66 03 00 2383	Area D Manutuke - D0400 Tree Removal	\$365.20	\$12,936.35	\$13,301.55
	Pump Station Repairs		\$27,318.22	\$27,318.22
				\$64,648.84

11. Public Excluded Business

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, LOCAL GOVERNMENT OFFICIAL INFORMATION and MEETINGS ACT 1987

That:

1. The public be excluded from the following part of the proceedings of this meeting, namely:

PUBLIC EXCLUDED BUSINESS

Item 11.1 **22-165** Gisborne Holdings Limited Update

Item 11.2 **22-177** Waignake Pamoā Revenue Update

2. This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information & Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole of the relevant part of the proceedings of the meeting in public are as follows:

	7(2)(h)	Enable any Council holding the information to carry out, without prejudice or disadvantage, commercial activities.
Item 11.1	7(2)(i)	Enable any Council holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).
	7(2)(j)	Prevent the disclosure or use of official information for improper gain or improper advantage.
Item 11.2	7(2)(h)	Enable any Council holding the information to carry out, without prejudice or disadvantage, commercial activities
	7(2)(i)	Enable any Council holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).