

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 14 September 2022

TIME: 10:00AM

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 3 August 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 3 August 2022 at 9:00AM.

PRESENT:

Her Worship the Mayor Rehette Stoltz, Deputy Mayor Josh Wharehinga, 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.

IN ATTENDANCE:

Chief Executive Nedine Thatcher Swann, Director Lifelines David Wilson, Director Internal Partnerships James Baty, Director Liveable Communities Michele Frey, Director Environmental Services and Protection Helen Montgomery, Chief Financial Officer Pauline Foreman, Democracy & Support Services Manager Heather Kohn and Committee Secretary Penny Lilburn.

The meeting commenced with a karakia.

Secretarial Note: Director of Environmental Services and Protection Helen Montgomery attended via audio visual link.

1. Apologies

MOVED by Cr Stoltz, seconded by Cr Wharehinga

That the apology from Cr Seymour for lateness be sustained.

CARRIED

Secretarial Note: Cr Seymour arrived 9.05am.

2. Declarations of Interest

There were no interests declared.

3. Confirmation of non-confidential Minutes

3.1 Confirmation of non-confidential Minutes 1 June 2022

MOVED by Cr Burdett, seconded by Cr Sheldrake

That the Minutes of 1 June 2022 be accepted.

CARRIED

- On page eight regarding the Joint Management Agreement, the Governance Group is developing a plan for the Waipau Catchment and dolosses. A part of that is the identification of where and how to use the dolosses. There are a number of sites that the dolosses have been used on, including the bottom of the Kaianga Hill and staff are now looking at the top of the catchment. However, the Catchment Plan needs to be finalised before the rest of the dolosses can be implemented to make sure they are going to the appropriate places as per the Integrated Catchment Plan.

3. 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 INFORMATION Reports Finance

10.1.1 22-163 Treasury Report 30 June 2022

Discussion included:

- Interest rates have been increasing. In the Long-Term Plan interest rates were assumed to be at 3.4%, but in June it reached 3.74%. For 2021/22, it was an average of 3.2%.
- There is a period of uncertainty regarding the 3-Waters Reform. If we estimate more cover for interest rate via swaps, than what we need after 3 Waters, then we would have to buy them out and this could be more expensive. This idea is to make sure within the 'corridor style' approach that it covers and moves within place until the certainty comes back and staff can cover an appropriate level of debt.

- With regard to 3-Waters the expected debt is to be around \$60 million on 30 June 2024. What Council has in reserves would have to be paid back to central government based on the parameters that are known, which is looking at around \$40 million that could be repaid by central government to Council. Once there is more certainty (which is likely to be around October 2022), we will ask PwC to come back with a report on what the market is doing and how Council can mitigate the risk.
- The models that have been indicated are a generic approach to all Councils.
- The interest benchmark will always be below Council's interest rate because Council must pay for the higher cost of swaps. This is due to having entered into swaps 5 years ago when interest rates were higher – 5% or 6% for some swaps. It is only when the swaps rollover that Council could go to 1.98% which starts to reduce the overall cost. There will be a lag and part of the strategy is to minimise and alleviate the gap that fluctuates with it. Also, PwC reviews the market situation and provides updates and new strategies where appropriate.
- Other Central Government reforms may have possible issues on interest and levels of borrowing, but it is an unknown what that may be as the reforms have not been identified nor quantified in terms of impacts to Council.
- It is anticipated that little to nothing would change if there were a change in government and a change in the 3-Waters Reforms. Currently Council sits in the middle for the Interest Rate Risk Policy, and Council can hedge it both ways. If 3-Waters does not go ahead, the hedging position would be approaching the upper corridor limits and if it does go ahead Council would be around where it is now. But in both situations, we would be within the Corridor Policy upper and lower limits.
- PwC give a range of strategies and plans, and staff then use capital expenditure as the drive to work out strategies and policies for Council.

MOVED by Cr Burdett, seconded by Cr Robinson

That the Finance & Performance Committee:

1. Notes the contents of this report.

CARRIED

10.1.2 22-176 Financial Report - 31 May 2022

MOVED by Cr Dowsing, seconded by Cr Hughes

That the Finance & Performance Committee:

1. Notes the contents of this report.

CARRIED

10.2 INFORMATION Reports Performance

10.2.1 22-188 Review of Outsourcing Land Rivers Coastal Maintenance Work to Fulton Hogan

Discussions included:

- Fulton Hogan has the contract for the whole district but also has supply agreements with a number of sub-contractors across the district in some of the more remote areas.
- Teams will overnight in Hicks Bay for routine maintenance. If it is anything outside of routine, they have partnership agreements with other teams up there.
- In the very far north there is no stormwater or drainage, and so it sits with the roading maintenance.

MOVED by Cr Seymour, seconded by Cr Akuhata-Brown

That the Finance & Performance Committee:

1. Notes the contents of this report

CARRIED

11. Public Excluded Business

Secretarial Note: These Minutes include a public excluded section. They have been separated for receipt in Section 14 Public Excluded Business of Council.

12. READMITTANCE OF THE PUBLIC

MOVED by Mayor Stoltz, seconded by Cr Burdett

That the Council:

1. Readmits the public.

CARRIED

13. Close of Meeting

There being no further business, the meeting concluded at 10:19 am.

Rehette Stolz
MAYOR

3.2. Action Sheet

Meeting Date	Item No.	Item	Status	Action Required	Assignee/s	Action Taken	Due Date
03/08/22	10 1.1	22-163 Treasury Report 30 June 2022	In progress	A report to go to future council on how much of the swaps and interest rates are affected by the 3-water reforms and if there is the appropriate level of cover.	Pauline Foreman		29/09/22

3.3. 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 & Protection	Compliance and Enforcement	Public Financial Report on Income and Expenses Related to the Operation of the District Licensing Committee.		Information	Gary McKenzie						
Finance & Affordability	Financial Services	Rates and Sundry Invoice Debt Management Report	Update on Council debt trends.	Information	Angelee Brown						
Finance & Affordability	Financial Services	Fees and Charges Hearings Report		Decision	Ally Campbell						
Finance & Affordability	Financial Services	Financial Report		Information	Mary Davis						
Finance & 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 GHL.	Decision	Pauline Foreman						

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	
Finance & Affordability	Financial Services	Rates Remission Report	Review Rate Remission policy for LTP.	Information	Fiona Scragg						

10.1. INFORMATION Reports Finance



22-202

Title: 22-202 Rates and Sundry Invoice Debt Management Report to 30 June 2022

Section: Finance & Affordability

Prepared by: Angelee Brown - Senior Revenue Officer

Meeting Date: Wednesday 14 September 2022

Legal: Yes

Financial: Yes

Significance: **Low**

Report to FINANCE & PERFORMANCE Committee for information

PURPOSE

The purpose of this report is to inform the Finance & Performance Committee on all outstanding debt and debt trends as of 30 June 2022.

SUMMARY

This report covers:

- All Council debt, apart from debt for parking fines and dog infringements.
- The outstanding debt and trends for sundry aged debt and unsettled rates. All amounts include the GST content.
- All debt figures quoted are qualified as overdue. Current invoices not yet due for payment are excluded.

The main debt outstanding as of 30 June 2022 is:

- Rates debt for this period is \$7.9m consisting of \$5.7m in rates and \$2.2m in penalties. The total rates debt is in line with the previous year.
- Sundry debt (i.e. debt excluding rates) for this period is \$352k, this is a reduction of \$934k compared to the same period last year. Last year sundry debt included a one-off grant which has since been paid.

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: Council debt, rates and sundry debt management report, unsettled rates, aged debt

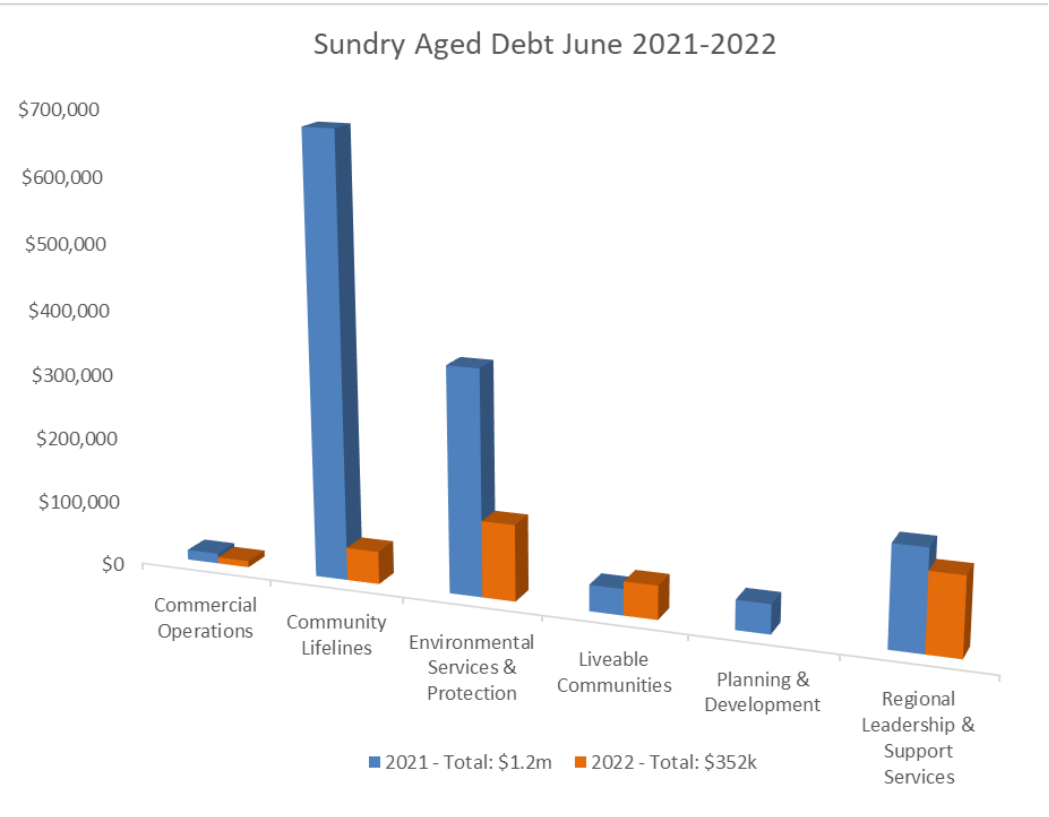
BACKGROUND

1. Council's Revenue Team takes several debt management initiatives, including sending reminder notices and making phone contact. Staff work with customers to find payment solutions taking into consideration their personal circumstances.
2. Due to the uncertain times arising from the COVID-19 pandemic, we understand that everyone's circumstances are unique. Our priority is to work together with our ratepayers to help find the best solution for them. Options available to ratepayers include:
 - Promoting the Government rates rebate to low-income earners which provides relief of up to \$700 for this current year. The Government rates rebate scheme is Central Government funded and is not a cost to Council.
 - Working with ratepayers on suitable payment arrangements to recover current and outstanding rates.
 - Offering rates remissions for rates and penalties (Council rates relief initiatives).

DISCUSSION and OPTIONS

Sundry Invoicing Debt as of 30 June 2022

3. Sundry invoicing debt stands at \$352k, a 60% reduction in debt from the same period last year. Last year sundry debt was higher as there was a one-off grant outstanding which has since been paid. All values are subject to rounding.



Rates Debt as of 30 June 2022

4. On 30 June 2022, the total rates debt owed to Council was \$7.9m, this is the same as the previous year. All values are subject to rounding.
5. We are seeing an increase in pressures that reflect the widespread and ongoing effects of COVID-19, inflated day-to-day costs, and the recent extreme natural events effecting both ratepayer property and household income. Our 'We Can Help' campaign has successfully encouraged our ratepayers who are struggling financially to make contact and come to a payment arrangement, where possible, or to apply for hardship via an approved budget advisor if, after the payment of rates, there are insufficient funds for normal day-to-day living expenses.
6. Currently there are 148 payment plans totalling \$707k.
7. Unpaid rates debt from the 2015/16 rating year, totalling \$637k, was written off under statute of limitation - a 15% reduction when compared to the previous year. Legislation under the Limitation Act 2010 prohibits us from commencing Court action later than six years from the due date for payment. Unpaid debt from this period is barred from the right to bring civil proceedings for collection under the above Acts.
8. A further 69 unused Māori freehold land blocks were made non-rateable and \$336k in rates removed under Schedule 1 – Part 1 – Section 14A of the Local Government (Rating) Act 2002.
9. The Act makes changes to the rating of Māori freehold land, looking to reduce the barriers for effective partnership between Local Government and Māori, encourage development and modernise the rating legislation.
10. The changes include:
 - Most unused Māori Freehold Land to be made non-rateable.
 - Separate Rating Areas can be created on Māori Freehold Land if the land includes a dwelling and is used separately.
 - Statutory rate remission for land under development.
 - Where a ratepayer is using two or more rating units of Māori Freehold Land derived from the same original block of Māori Freehold Land, they may apply for the rating units to be treated as one unit for setting the rates.

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: Medium Significance

This Report: Low Significance

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

Overall Process: Medium Significance

This Report: Medium Significance

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

Legal

12. The Local Government Act 2002 and the local Government (Rating) Act 2002 are the overarching legislation for Council's Rate Remission Policies, collection of rates and rate arrears.
13. Debt that is older than six years, is statute barred and Council is unable to recover it through the legal court collection system. There are two Acts which prevent the recovery of aged rates debt of more than six years:
- a. Local Government (Rating) Act 2002 – section 65.
 - b. Limitation Act 2010.
14. On 12 April 2021, the Local Government (Rating of Whenua Māori) Amendment Act was enacted. Report **21-187** to the Finance & Performance Committee 15 September 2021 gave details of the legislative changes and the impacts.

POLICY and PLANNING IMPLICATIONS

15. The Financial Strategy and Council's Rate Remission Policies are contained in the 2021-2031 Long Term Plan.

RISKS

16. There are no decision risks associated with this information report.

NEXT STEPS

Date	Action/Milestone	Comments
22 August 2022	Instalment 1 due	Instalment due dates for rating year 2022/23 (1 July 2022 to 30 June 2023)
21 November 2022	Instalment 2 due	
20 February 2023	Instalment 3 due	
22 May 2023	Instalment 4 due	
November 2023 onwards	Review of Remission policy preparation for LTP 2024-2034.	

ATTACHMENTS

1. Attachment 1 - Revenue Key Indicators as at 30 June 2022 - Council [**10.1.1.1** - 1 page]
2. Attachment 2 - Sundry Aged Debt as at 30 June 2022 - Council [**10.1.1.2** - 1 page]

REVENUE PERFORMANCE RESULTS

GENERAL LAND

General land is land, other than Maori Freehold land, that has been alienated from the Crown and is registered under the land transfer Act 1952 and the land titles are administered by LINZ

\$2.9m

Consists of \$2.5m rates and \$0.4m penalties

MAORI FREEHOLD LAND

Maori Freehold land (mostly in multiple ownership) is land whose beneficial ownership is determined by the Maori Land Court

\$5.0m

Consists of \$3.5m rates and \$1.5m penalties

TOTAL RATES DEBT

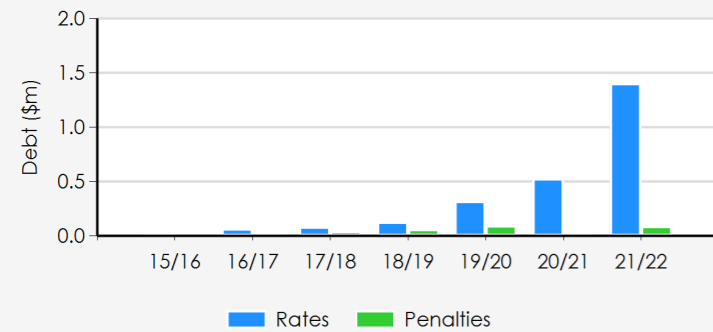
Total district wide rating debt as at June 2022

\$7.9m

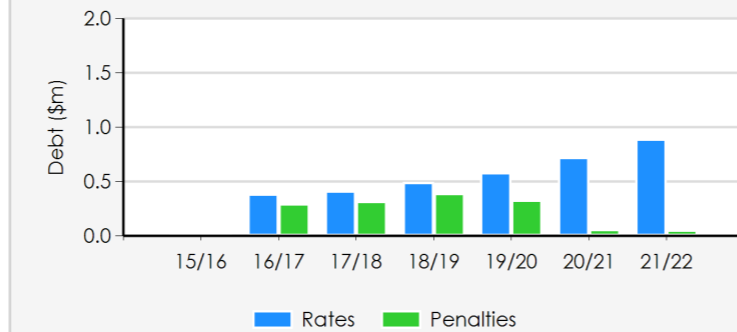
Consists of \$6.1m rates and \$1.8m penalties

Debt position as at June 2022.
Values include GST where applicable.
(Penalties are GST exempt).
All values are subject to rounding.

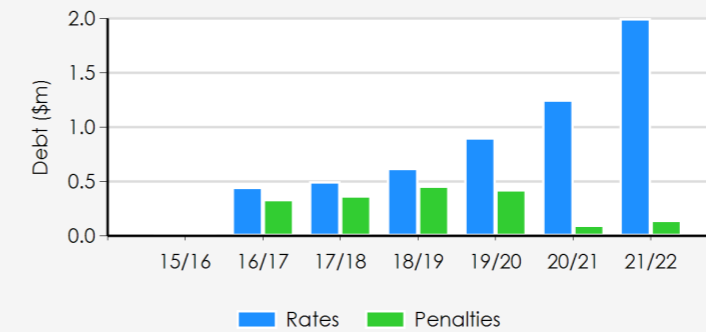
General land aged rates debt as at June 2022



Maori freehold land aged rates debt as at June 2022

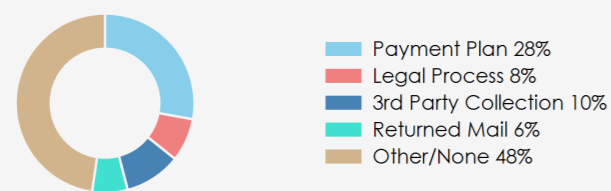


Total aged rates debt as at June 2022

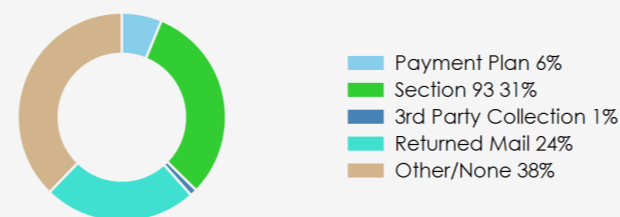


Shows the rates debt as at June 2022, broken down (aged) into respective financial years. The debt is also shown as whether it is rates or penalties. Rates debt includes GST. Penalty debt is GST exempt.

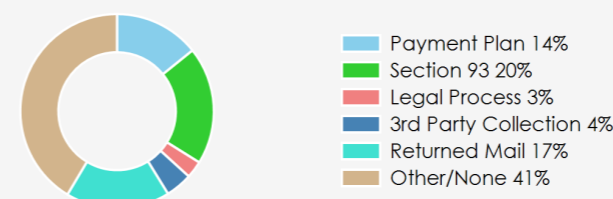
General land rates debt - collection method as at June 2022



Maori freehold land rates debt - collection method as at June 2022

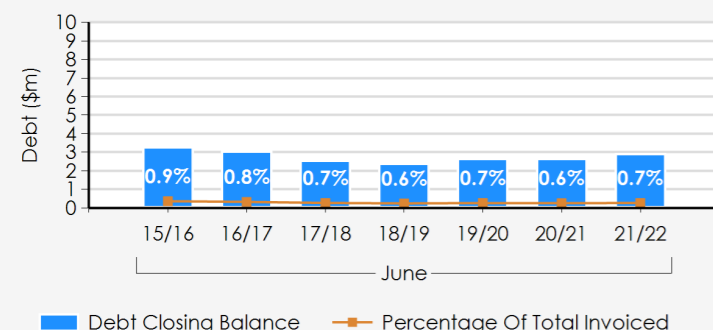


Total rates debt - collection method as at June 2022

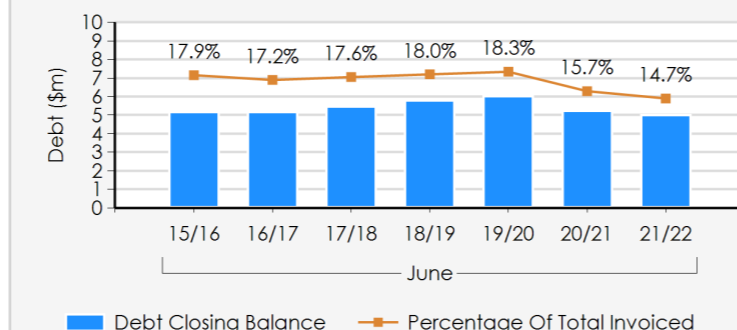


Debt collection practices.
Payment Plan – managed plan is in place.
Section 93 – The Local Government (Rating) Act 2002 states that where Maori Freehold Land is vested in Trustees, the Trustees are liable for rates only to the extent of money derived from the land and received by the Trustees.
Mortgagee Process – proceedings taken against the mortgage.
Legal Process – properties without a mortgage where legal proceedings can be taken.
3rd Party Collection – the debt has been referred to an external collection agency for settlement.
Returned Mail – Invalid postal address and unable to contact owners.
Other – actively working to recover debt.

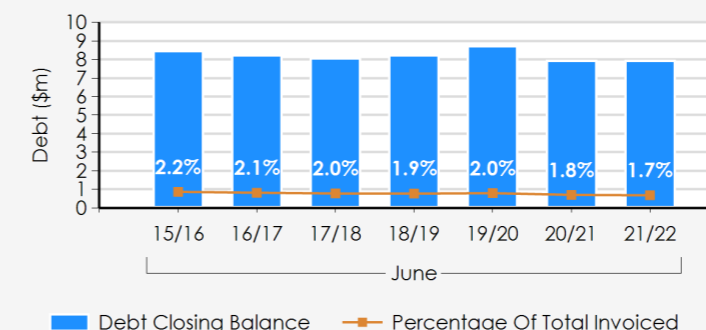
General land rates debt as at June each year



Maori freehold land rates debt as at June each year



Total rates debt as at June each year



Each bar shows the rates debt outstanding as at June of that financial year. It includes amounts outstanding from July to June of that financial year plus the amounts outstanding from the six full financial years before that.

The trend line shows the rates debt outstanding as a percentage of the total rates invoiced for the same period.

SUNDRY DEBTOR AGED DEBT

June 2022 vs June 2021

Activity	Overdue 30 Days	Overdue 60 Days	Overdue 90 Days	Jun 2022 Total Debt
Commercial Operations				9,850
Commercial Operations	719	1,673	7,459	9,850
Community Lifelines				50,755
Land, Rivers & Coastal	0	0	3,868	3,868
Roads & Footpaths	1,300	3,094	12,721	17,115
Solid Waste	0	0	0	0
Wastewater	542	1,899	1,400	3,841
Water Supply	771	8,549	16,612	25,931
Environmental Services & Protection				117,885
Environmental Services & Protection	9,016	12,292	96,577	117,885
Liveable Communities				52,223
Liveable Communities	4,682	13,792	33,749	52,223
Regional Leadership & Support Services				121,768
Regional Leadership & Support Services	4,455	74,753	42,560	121,768
Sundry Debt Total	21,485	116,051	214,945	352,481

Title: 22-220 DRAFT Financial Report - 30 June 2022
Section: Financial Accounting
Prepared by: Melanie Hartung - Finance Manager
Meeting Date: Wednesday 14 September 2022

Legal: No

Financial: Yes

Significance: **Low**

Report to FINANCE & PERFORMANCE Committee for information

PURPOSE

The purpose of this report is to give a high-level overview of Council's financial results for the year ended 30 June 2022. These are draft results and they are subject to final audit, asset valuations and accounting adjustments.

SUMMARY

The draft full year summary financial report covers Council's financial performance for the year ended 30 June 2022 and includes commentary against the Annual Plan. While the final Annual Report will be presented to Council on 29 September 2022, this draft report is presented to give a report in the same format that has been given to Committee throughout the 2021/22 financial year. This includes details of capital expenditure.

Council has a draft net surplus of \$38.8 million, \$11.6m lower than the Annual Plan due mainly to timing of capital grant funding. The receiving of capital grants is dependent on when projects will be completed. Initially several projects were planned to be completed by 30 June 2022, but they will now be completed in the beginning of 2022/23. These projects include the Roding Provincial Growth Fund (PGF) capital works, Kiwa Pools and the 1000-year bridge. As a result, the grants and the expenditure will transfer to next year, with no adverse financial impacts to Council.

The Roding (PGF) capital works relates to the East Cape work programme project. The project is expected to be completed in 2022/23 after there were delays caused by the adverse weather events in March and April 2022. However, the programme of work is still on track with the overall 3-5 years PGF approved programme.

A summary of the main financial indicators for June 2022 are:

- **Revenue is \$163m**, \$2.9m above the Annual Plan. The higher than expected revenue is due mostly to Waka Kotahi grants for roading emergency works (\$13.8m) and also due to accounting gain for fair value swaps (\$3.6m).

The higher revenue from operational grants and the accounting gain, offsets the lower than expected capital grants (\$12.3m). As noted above capital grants are usually received as we complete capital works.

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 the Kiwa Pools, PGF roading resilience projects and the 1000-year bridge will still occur. However, the timing of receiving the grants will fall outside this financial year and into 2022/23 as the projects are completed.

- **Total expenditure is \$124.7m**, \$14.1m above the Annual Plan. Expenditure on operating activities is \$16.7m above the Annual Plan, mostly due to roading emergency works and 100% funded PGF operational projects. Finance costs are lower than expected due to lower interest rates than forecast and to the timing of capital works programme.
- **Capital expenditure is \$79m** (76%) against the Annual Plan of \$103.5m. Most of the variances relates to PGF roading resilience works, Kiwa Pools and the Wastewater Treatment Plant.

In addition, the capital variance includes the Enterprise Solutions Project (Annual Plan \$2.4m) where the project is now recorded as an operational project due to the changes in accounting standards "recognition of intangible assets" applied to software enhancements. The accounting standards changes 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 2022/23 financial year.

Last year's (2020/21) capital expenditure was \$78.6m.

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: long term plan, annual plan capital variance, accounting standards, capital expenditure, financial report

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: Medium Significance

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

ATTACHMENTS

1. Attachment 1 - 12 June DRAFT Cover Summary Financials [**10.1.2.1** - 10 pages]



**Council
Summary Financial Report**

DRAFT JUNE 2022

Index	Page
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**Draft Statement of Comprehensive Revenue and Expenses
For the Period Ended June 2022 DRAFT**

	Note	Jun-22 Actual \$000s	Full Year Budget \$000s	Variance \$000s
REVENUE FROM NON-EXCHANGE TRANSACTIONS				
Grants and Subsidies - Operational	1	28,459	14,699	13,760
Grants, Donations, Subsidies and Contributions - Capital	2	49,046	61,396	(12,349)
Other Non Exchange Revenue	3	867	2,138	(1,272)
General Rates And Uniform Annual General Charge		22,865	22,493	373
Targeted Rates		43,288	43,288	0
REVENUE FROM EXCHANGE TRANSACTIONS				
Development and Financial Contributions		914	1,587	(673)
Other Revenue	4	10,323	10,429	(107)
Targeted Water Rates		3,233	3,366	(133)
Dividends		1,662	1,500	162
Interest Received		144	0	144
Other Gains/(Losses)	5	2,473	(474)	2,947
Total Revenue		163,275	160,422	2,853
EXPENSES				
Employee Benefit Expenses	6	26,221	26,570	349
Expenditure on Operating Activities	7	73,182	56,477	(16,704)
Depreciation and Amortisation	8	23,226	23,733	507
Financing Costs	9	2,050	3,813	1,764
Total Expenses		124,679	110,593	(14,085)
Net Surplus/(Deficit) Before Taxation		38,596	49,829	(11,232)
Subvention payment		200	600	(400)
Net Surplus/(Deficit)		38,796	50,429	(11,632)
Gains/(Losses) on Property Revaluation		335,384	35,747	(299,637)
TOTAL COMPREHENSIVE REVENUE AND EXPENSES		374,180	86,176	(311,269)
CAPITAL EXPENDITURE	10	79,010	103,467	(24,456)

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 \$13.7m over the full year budget due to roading subsidies related to emergency roading flood events, PGF projects (that were approved after the adoption of the LTP) and \$402k of additional grants have been received from Central Government for programs that include Freshwater Improvement 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 \$12.3m 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 annual plan by \$16.7m, mainly due to PGF operational costs and higher than expected roading emergency works. Emergency works completed June YTD is \$19.6m, against budget of \$4m. 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 after valuation, or audit adjustments 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 Gains/(Losses) on Property Revaluation

Full year gains relate to revaluations on property assets. All assets were revalued either as part of the triannual cycle (Property and buildings, airport assets, four waters) or the annual cycle (roading). The majority of the \$336m revaluation relates to Roding (53% or total of \$178m) and Property assets (35% or \$167m).

11 Capital Expenditure

Overall, the capital expenditure is \$79m against a \$103.4 m full year budget.

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 what we had planned are: the Enterprise Solution project has full year capital budget of \$2.4m but actual costs have been moved to operational; \$2.7m of Roding PGF works were completed under operational costs (Tree removal); the Wastewater Treatment Plant is \$3.1m behind Annual Plan due to ongoing delays relating to COVID (Levels 3 and 4 - Quarter 1), the Kiwa Pools is \$5.3m under Annual Plan; and Journey's PGF projects are under \$4.2m of the Annual Plan.

Carryover of budgets for projects that will be completed in the first half of 2022/23 were assessed at \$16.5m **[report 22-130]**.

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

Draft Statement of Capital Expenditure for the period ended June 2022

Activity	Notes	Jun-22 Actuals YTD \$000s	Jun-22 Full Year APB \$000s	% Spent YTD Actuals of YTD Budget %
Including Major Projects				
Community Lifelines		50,865	62,936	81%
Roading	1	21,469	26,776	80%
Wastewater	2	19,758	22,495	88%
Stormwater	3	1,089	2,018	54%
Water Supply	4	3,531	5,871	60%
Solid Waste	5	22	281	8%
Land, Rivers & Coastal	6	4,996	5,495	91%
Liveable Communities	7	24,608	32,939	75%
Land & Soil Resources		1,141	1,438	79%
Theatres		66	25	265%
Conveniences		380	831	46%
Reserves		918	1,693	54%
Cemeteries		47	23	204%
Community Property Mgmt		21,408	26,670	80%
Arts & Public Places		348	1,900	18%
Pool Operations		58	67	86%
District Library Operations		242	293	83%
Regional Leadership & Support Services	8	2,898	7,075	41%
Information Services		1,363	4,128	33%
Customer Service & Townships		285	958	30%
Civic		1	-	
Parks & Community Pty Mgmt		1	-	
Water and Coastal Resources		664	477	139%
Civil Defence		137	1,000	14%
Environmental Monitoring		93	105	89%
Facilities & Plant Management		354	407	87%
Environmental Services & Protection	9	388	250	155%
Environmental Health & Risk		29	-	
Parking		359	250	144%
Commerical Operations	10	252	267	94%
Community Housing		252	267	94%
Grand Total (Including Major Projects)		79,010	103,467	76%

Notes to the DRAFT Statement of Capital Expenditure 30 June 2022**1. Roothing**

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

Full year actual capital expenditure is tracking \$5.3m under Annual Plan. This variance is mainly due to the 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 within the 3-5 years PGF approved programme. Also included within the \$5.3m variance is a provision for Forestry Pavement Maintenance (\$500k). The provision was provided within the 2021-2031LTP in case there were there were specific work on forestry roads, where the forestry sector would fund the local share costs (leveraging off Waka Kotahi's 68% share).

Renewals June YTD finished on par with the Annual Plan (103%).

2. Wastewater

This budget consists mainly of the Wastewater Treatment Plant (WWTP) (\$18.8m) and renewals (\$3m). Actuals are \$19.8m against full year budget \$22.5m. The purchase of the Banks Street land (for the new WWTP upgrade) was included within the overall capital expenditure.

The WWTP upgrade actual spend YTD is \$15.7m, \$3.1m under YTD budget. The project is on track for completion April 2023, but Covid has caused delays in terms of deliveries of equipment and construction (i.e. level 3 and level 4 early part of 2021/22).

Wastewater total renewals are \$1.5m of the \$3m Annual Plan. Wastewater pipelines is the main renewal project and has a full year budget of \$1.8m. Actual costs completed was \$916k (or 51%). The pipeline renewals were forecast to be completed by 30 June however, weather conditions meant that it will now be completed within first quarter of 2022/23. The renewals budget also includes provision of \$424k for plant replacement as and when required. For 2021/22 only \$156k was needed.

The Tolaga Bay Septage Site (Budget of \$423k) was carried over to 2022/23 for completion, as land agreements were being worked through.

3. Stormwater

Stormwater projects are mainly renewals and Drainwise programme. Capital Expenditure is \$1.1m, against YTD budget of \$2m.

Renewals are \$619k against the Annual Plan budget of \$954k. Regular pipeline replacement was \$319k (or 85% complete), Graham/Delatour Road \$203k (or 81% complete). The Annual Plan includes a provision of \$270k for renewals as and when required, only \$78k was needed.

One further renewal/growth project is piping of existing open water drains along Parkinson Street in Tolaga Bay. By 30 June 2022, actual spend was \$79k against a total Annual Plan Budget of \$268k. The work not completed by 30 June will be carried over to complete work in 2022/23. The project completion has been delayed due mainly to weather events.

Drainwise (public drains on private property) was \$302k of actual spend against the Annual Plan provision of \$705k. This project has also been slowed due covid-related delays, access difficulties due to drains on private property as well as severe weather events. The unspent budget has been carried over to continue the ongoing work.

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.

Water Supply actual spend is \$3.5m against the Annual Plan \$5.8m. The variance of \$2.3m is mostly due to the Muriwai Pipeline & Reticulation and Ruatoria Bulk Supply Point Projects. Both projects are 100% grant funded. These projects will now be completed by 31 December 2022.

Renewals are on par (or 100%) complete against the Annual Plan.

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. \$105k has been carried over for work related to the Paokahu Closed Landfill, with planning well underway for 2023.

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 \$5m (or 91%) against the Annual Plan budget of \$5.5m. The Waipaoa River Flood Control Scheme actual was \$4.4m (or 93%) against the Annual Plan (\$4.7m). The project is on track, but the lower expenditure than plan (under by \$326k) was mainly due to adverse weather events that slowed construction.

The Taruheru & Tarananui revetment project actuals were \$284m (under budget \$126k). There have been delays in delivery/supply of materials. The project has been reforecast to complete in the first half of the 2023 financial year.

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 is \$24.6m against \$32.9m 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 \$5.6m, due to combination of phasing of the budgets over two financial years, building restrictions from COVID lockdowns and also some structural steel supply issues. However, it is still expected to be completed by March 2023, aligning to the project completion dates when they were first planned.

The 1000 year bridge is under \$1m, due to planning delays related to the artistic elements of the bridge. Construction has been pushed to begin in the later half of 2023. This budget has been carried over.

There are underspends in Conveniences \$354k (Peel street), Reserves \$775k (mainly Community & Strategy Implementation which has been carried over (\$400k)) and Hawaiki Turanga (\$493k, pending further funding). Other Reserve variances are 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 \$2.9m against the YTD budget of \$7.1m. Information Services capital projects are under budget \$2.5m, this is because the actual costs for Enterprise Solutions (ERP) have been reclassified to operational cost, this accounts for \$2.4m of the overall variance.

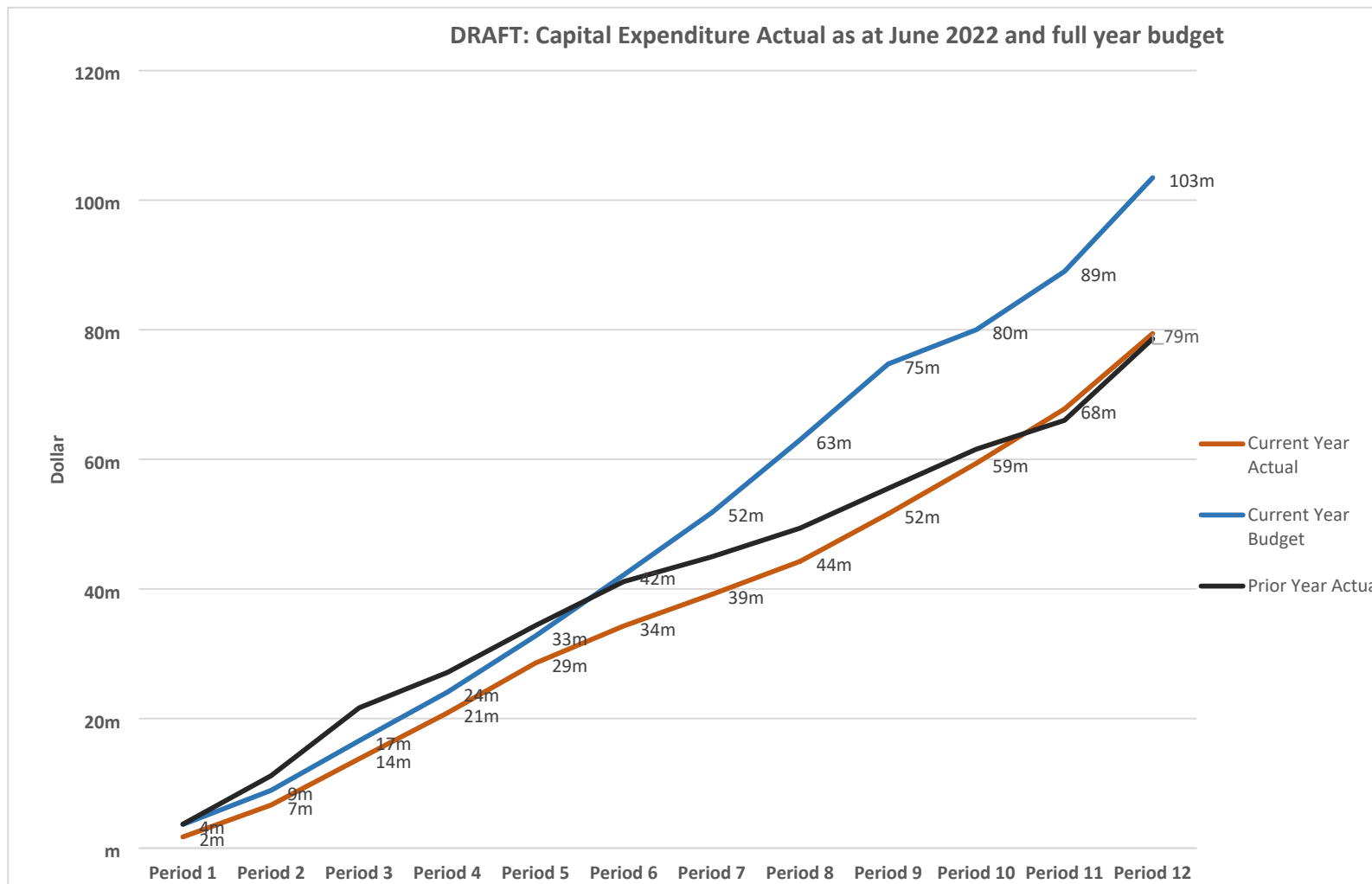
The new Emergency Co-Ordination Centre is under budget \$870k YTD and will be completed in the next financial year. The resource consent will be submitted early July and site work is expected to begin mid-late September.

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.

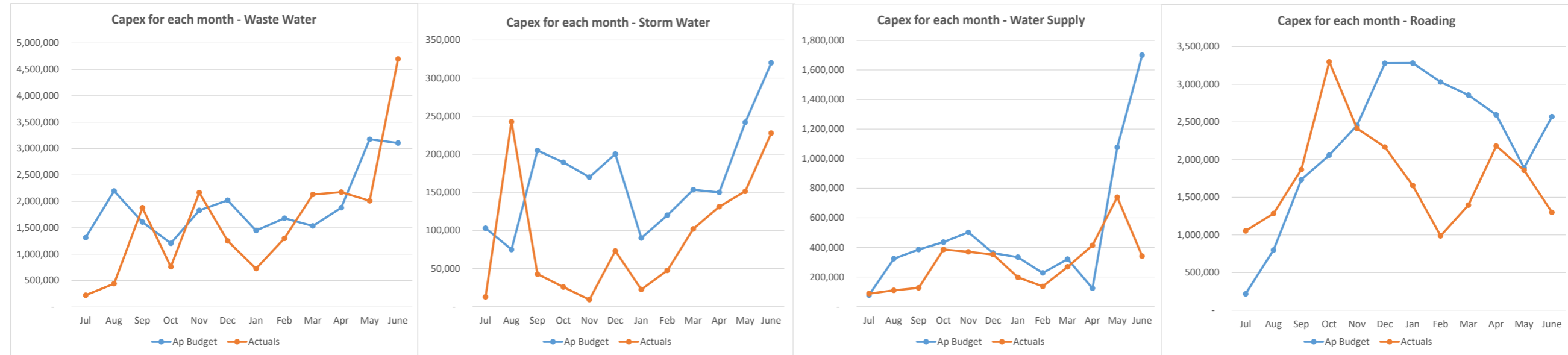
10. Commercial Operations

This budget is for Staff and Community Housing upgrades. GHL manages this work. Expenditure is on par with the Annual Plan.

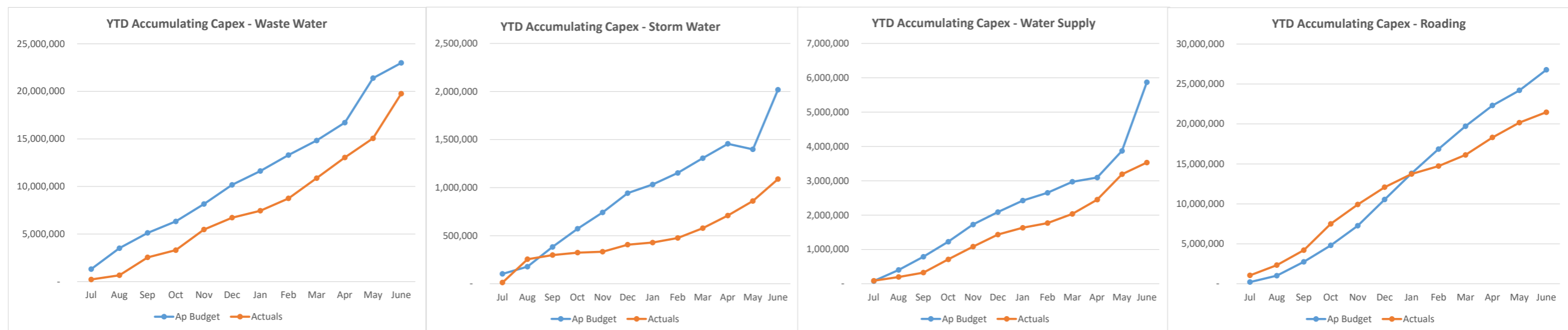


Gisborne District Council

DRAFT: Periodical CAPEX charts for the period ended June 2022



YTD Accumulating CAPEX Charts



10.2. INFORMATION Reports Performance



22-215

Title: 22-215 Waingake Pamoā Revenue Update
Section: Finance & Affordability
Prepared by: Ally Campbell - Executive Policy Advisor
Meeting Date: Wednesday 14 September 2022

Legal: No

Financial: Yes

Significance: **Low**

Report to FINANCE & PERFORMANCE Committee for information

PURPOSE

The purpose of this report is to provide an update on Waingake (Pamoā) Forest revenue and to also outline the Emissions Trading Scheme (ETS) obligations and liabilities associated with harvested areas.

SUMMARY

Council's ownership of the Waingake forestry block guarantees the long-term control of land use around the Gisborne waterworks.

Waingake was planted over 5-years between 1989 and 1994. The forest planting was used as a land management tool to stabilise and protect the 'waterworks' that supplies Gisborne City. Forestry land management was considered to be secondary to the primary use to that of water supply. Harvesting commenced in 2018 and in the past four years 61% of the area (680 ha) has been harvested.

The 2021-2031 Long Term Plan estimates harvesting proceeds will be \$6 million (as at 2019) when harvesting ends. Council's revenue to date is \$4.1 million. It is expected that the replanting costs over the life of the 2021-2031 Long Term Plan to be \$17.9m.

The current Emissions Trading Scheme (ETS) means that Council as landowner is responsible for the liabilities and obligations in respect to carbon credits, whenever an area of the forest is harvested. These liabilities and obligations are discussed in depth in the report below, the main obligations being on pre-1990 land which must remain forest land following harvest.

Council has two options associated with much of the Waingake area, either to replant or "pay" the ETS liability. As the **primary purpose** of the area is to provide **protection for our water supply and infrastructure**, Council has chosen to replant.

The Waingake transformation programme addresses and alleviates any potential ETS liabilities by replanting the harvested areas, with a focus on pre-1990 land which has higher liability costs. All liability costs will be avoided through replanting and additionally, vulnerable erosion prone land will be strengthened as a result.

Council has chosen to return 71% of the harvested areas to native forest cover. Regarding the remaining 29% land area (herein referred to as the Puninga Block), a decision was made by Council to make this available for a commercial partner to replant. Council is seeking to secure a partner for the reforestation of the Puninga block.

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: Waingake, Pamoā, JNL, Emissions Trading Scheme, Revenue

BACKGROUND

1. Waingake lies within the area known to mana whenua as Maraetaha and forms part of the rohe of Ngāi Tāmanuhiri. Council purchased the stations of Pamoā and Fairview, which comprise the area now known as Waingake, in 1991 following Cyclone Bola.
2. The primary purpose of land utilisation at Waingake is to protect the water supply and infrastructure which connects to 14.5k properties and supplies water to 28,000+ people in the Gisborne region.
3. Following Cyclone Bola, comprehensive land management was developed, and the decision was made to plant up the area to ensure the long-term stability of the land, making it less vulnerable to erosion and slips.
4. Specifically, it was noted in the Forestry Management Plan that Council purchase the stations of Pamoā and Fairview,
"to guarantee long term control of land use around the Gisborne Waterworks dams and pipeline which supplies Gisborne with its domestic water. After Cyclone Bola and the damage to the pipeline, a corridor was planted to afford land term stability to the upper sections of the pipeline. This left a small area of Fairview and a large area of Pamoā, unplanted."
5. Utilising the area for forestry is considered an appropriate secondary use, and in 1993 Council entered into the Pamoā Forest Joint Venture to manage the land around the pipeline and put it into forestry. This Forestry Right entitles Council to a percentage of net stumpage in Waingake Forest at the time of harvest.
6. The total land area of Waingake is 1613.2 ha. The area that has been planted with exotic pine is 1,110 ha. This is what we consider to be the net stocked area. The remaining 503 ha not planted in pine consists of roads, the water pipeline corridor and native bush.
7. In 2019, Council resolved to return 71% of the land at Waingake to native forest following harvest, and to seek to enter a second rotation of commercial pine forestry on the remaining 29% land area (Puninga Block).
8. In 2021, our Joint Venture party declined to enter into a second rotation on the Puninga Block. Following this, Council is now seeking to secure a partner for the reforestation of the Puninga block in order to meet ETS obligations.

DISCUSSION and OPTIONS

9. The discussion that follows outlines the Emissions Trading Scheme (ETS) obligations for both pre-1990 land and post-1989 land, harvest revenue received to date, and expected accumulative revenue when harvesting has been completed.

Emissions Trading Scheme (ETS) Obligations

10. The ETS is a market-based approach for reducing emissions of greenhouse gases.
11. As Council are the landowners and are registered within the ETS, some revenue is received at harvest, however a liability is also automatically created.

12. In a recent paper to the Sustainable Tairāwhiti Committee in April 2022 (**Report 22-37 Waingake Transformation Programme 29% Reforestation Report**) the potential ETS liabilities of not planting the Puninga block were discussed. This report noted that planting must occur by 2023 to avoid an ETS liability cost of \$4.3 million being borne by Council.
13. Under the ETS, there are differing rules for pre-1990 and post-1989 land at Waingake. The majority (78%) of the Waingake forest is **pre-1990** forest due to either the planting date or the previous vegetation cover on site as at 1990. Pre-1990 and post-1989 lands are subject to differing rules and therefore have different obligations under the ETS.

Pre-1990 land

14. Pre-1990 land must remain forest land following harvest i.e., there can be no land-use change without significant penalty. If the land is deforested then a liability will be incurred, with the landowner having to pay for the loss of accumulated carbon stored in the forest at the time of harvest. Harvesting and replanting or harvesting and converting to native regeneration is not classed as deforestation.
15. Nevertheless, the landowner must meet set replant or regeneration obligations on all harvested pre-1990 land at years 4, 10 and 20 to avoid a future carbon liability. The obligations are:
 - Four years after clearing the land must have either:
 - at least 500 stems a hectare of exotic forest species growing
 - been replanted with at least 100 stems a hectare of willow or poplar species (used to manage soil erosion), or
 - predominantly regenerated indigenous forest species, growing at a rate that suggests the land is likely to be forest within 10 years.
 - Ten years after clearing the land must have:
 - predominantly exotic species growing, with a tree cover of at least 30% from trees with the potential to reach at least 5 meters high, or
 - predominantly indigenous forest species and be forest land.
 - Twenty years after clearing the land must have predominantly indigenous forest species growing and at least 30% of trees 5 meters high.
16. A liability can be met through a surrender of the NZ Units (NZUs) already held by the landowner. If the landowner does not hold enough NZUs they will need to acquire NZUs to meet the liability. Council does not hold enough NZU's to cover the surrender obligations on our pre-1990 forest land, therefore ensuring replant or regeneration success is imperative.
17. The Waingake Transformation Programme is being staged to ensure that ETS liabilities are minimised and priority areas for erosion control are planted. The majority of planting that is being done within the 71% is therefore predominantly on pre-1990 land.
18. Pre-1990 land within the Puninga Block must also be prioritised for planting prior to the year four obligations falling due.

Post-1989 land

19. Council's post-1989 forest land is also registered in the ETS and has been accruing NZUs. As the trees age they store more carbon and the number of associated NZUs increases over time. These NZUs have not been traded and currently sit in a holding account.
20. Key ETS rules state that owners of post-1989 land must:
 - Account for changes in carbon stock in the forest.
 - File an emission's return once for every mandatory emissions return period to account for changes in your forest's carbon stock.
 - Tell the government if some or all the land is transferred to another person or entity.
21. Under the current ETS rules the NZUs from post-1989 registered areas will require surrender following harvest, however landowners with post-1989 land will never have to surrender more NZUs than they have earned. Because Council has not traded any NZUs to date, we will be able to surrender the units currently held with no further liabilities for post-1989 land.
22. Council's next mandatory emissions return is in 2023, at which time NZUs for harvested post-1989 land will be surrendered.
23. It should be noted that the obligations and carbon milestones as set out in 14 above, is also applicable to "post-1989 land", but with one major difference. With post-1989 land, the Emissions Trading Scheme is voluntary for post-1989 participants, as such it is possible to remove some or all registered land. In removing areas from the ETS, the post-1989 land related unit balances would be surrendered.

Summary of key points of pre-1990 land and post-1989 land

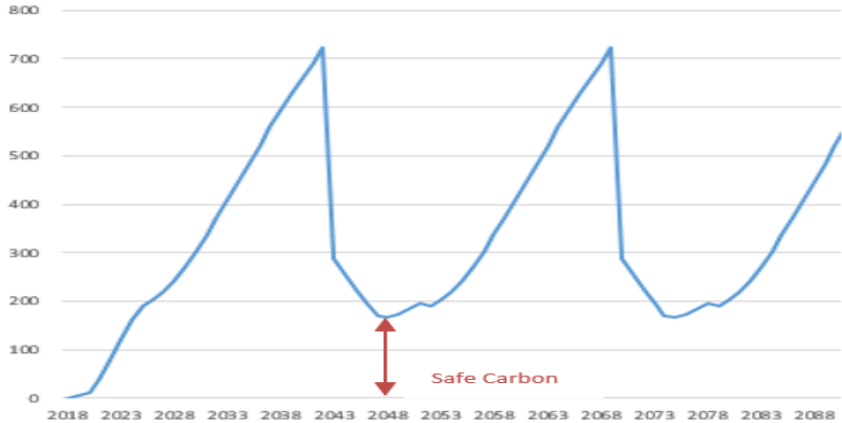
- **Pre-1990 Land – 668.9 Hectares**
 - Mandatory participation in the ETS scheme.
 - Compensation credits as a one-off allocation of NZU's and were given for the land captured under pre-1990 land.
 - Only options for change of land use (i.e. away from forestry) is to either "Pay" (the liability) or "Replant".
 - For areas already harvested there is no ability to offset any resulting liability to other blocks of land.
- **Post -1989 Land – 402.6 hectares**
 - Voluntary participation in the ETS scheme.
 - Growth credits i.e. NZU's are generated through the growth of the forest.
 - Options for change of land use (i.e. away from forestry) is to deregister (surrender credits) or "Replant".

Safe Carbon

24. Safe carbon is a term used to describe those carbon credits earned through forest growth that would not be required for surrender upon harvest. Safe carbon is effectively the minimum carbon unit balance expected. The difference between the minimum carbon and zero is the area which becomes "feasible units available to sell".

25. Safe carbon tends to only exist at a safe level if the forest was registered into the ETS at an early age (i.e. less than 8 years old). See figure 1 below.

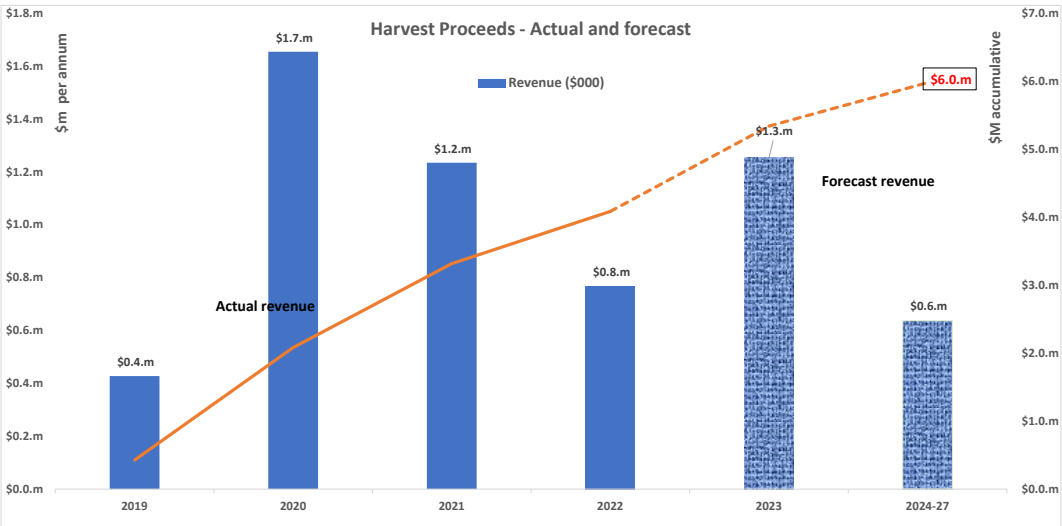
Figure 1: Safe Carbon - Register at establishment



26. Waingake forest was planted between 1991 and 1994. As the trees were already 14-17 years old when they entered the Emissions Trading Scheme, there will be no level of carbon retained after harvest, all units claimed for growth will be surrendered for harvest and decay emissions.

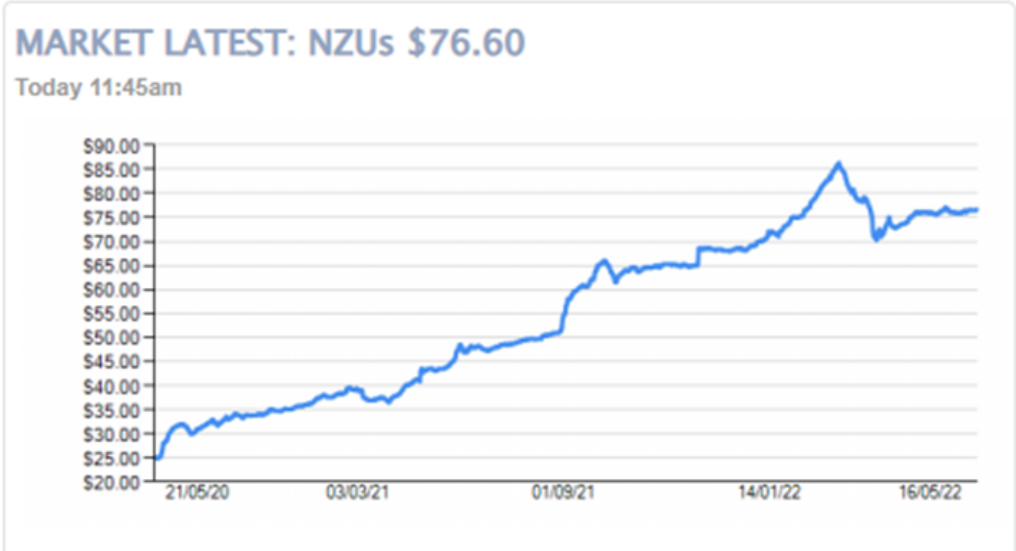
Harvest Revenue

27. As at 30 June 2022 680 ha (61%) of the 1,100 ha pine forest has been harvested.



28. A further **285 ha** is planned to be harvested during the 2022/23 financial year.

29. The remaining area is expected to be harvested within the next three years. **Attachment 1** is a detailed map of harvest areas by year and Council's latest map (currently being updated).



30. **Attachment 2** shows a map of the Puninga block (29%) at Waingake. The boundary of the Puninga Block is outlined in yellow. As the land in this area is mainly pre-1990 pine forest, Council must therefore replant, offset, or pay equivalent NZ Units which with higher carbon price is now more meaningful (See Markets latest price change below).

31. With the carbon price currently trading at \$76.60 NZU's, Council's potential ETS liability obligations are extremely high. Prices have moved from being \$25 NZU's two years ago which has created harder decisions for forest owners and re-planting pre-1990 land is imperative today.

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

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

TANGATA WHENUA/MĀORI ENGAGEMENT

33. Ongoing engagement with Maraetaha Incorporation is undertaken through the Joint Steering Group forum established under the Memorandum of Understanding on Waingake and Pamoā.
34. Maraetaha have also been engaged throughout the process of choosing a potential partner for the reforestation of the Puningā Block, from development of the Registration of Interest through to evaluation and development of a draft Heads of Agreement.

COMMUNITY ENGAGEMENT

35. The Waingake Transformation Programme is included in the Long-Term Plan 2021-2031. No additional community engagement is required for this report.

CLIMATE CHANGE – Impacts / Implications

36. The climate change implications for the Waingake Transformation Programme have previously been reported to Council (see **Report 21-98** Waingake Transformation Programme Update). Climate change risks associated with plantation forests were noted, particularly an increase in wind-related damage, an increase in fire risk and a surge in biosecurity risks from new organisms.
37. There is no proposed change in land-use at Waingake arising from this report.

CONSIDERATIONS

Financial/Budget

38. Council is expected to receive \$1.9 million in revenue, sufficient to meet the current budgeted revenue of \$6 million as reported in the 2021-2031 Long Term Plan.
39. Council holds 186,082 NZU's, comprising 46,264 NZU's from pre-1990 forest land and 139,818 NZU's from post-1989 forest land. The Council's post-1989 forest lands have been assessed as having no safe carbon level and all credits will be required to be surrendered on harvest.

40. Given the majority (78%) of the Waingake forest is pre-1990 pine forest and no land-use change could occur without significant penalty, the potential liability cost at today's carbon prices is \$49 million if no replanting occurred. The estimate liability could be more (or less) depending on the market unit prices. However, as the market unit prices have been trending up, it is more likely that the liability could be more than what is calculated. See **Table 3** below.

Table 3 Emissions Trading Scheme (ETS) Estimated financial liabilities for Pre 1990 land - Part a)

ETS	Hectares	Total Liability (\$)	Market rates (\$)	Estimated liability (NZUs/ha)*	Allocated offset (NZUs/ha)	Type
Pre- 1990 land ha	863	49,322,176	76	812	60	"Replant or Pay"
Post 1989 land ha	430					Growth
sub total	1293					
Other reserve, roads and native	320					
total land area	1613					

Part b) Net costs to Council

Liability (Pay): (ie if Council decided to change land use)	
Total liability based on all the pre 1990 land	
Income	6,000,000
Liability costs	49,322,176
Net cost to Council	43,322,176
Replant (Current council's Strategy):	
Income	6,000,000
Less expenditure (replant costs) 2020-2031	19,109,318
Net loss	13,109,318

41. Under the replant option, in the 2021-2031 LTP plans for sourcing around \$5.7 million in grants to also help fund the project. To date \$5.73 million in grant funding has been confirmed.
42. **Table 4** as shown below, separates the total ETS liability as shown above, by isolating only the liability associated with the Pungina Block (29%) and the area that has been recently harvested within this block. As there are 4-year milestones, this 75 ha as shown below would incur a liability of around \$4.3m if the re-planting was not started in 2022.

Table 4 ETS for Pungina, Replanting costs and harvested areas

Partial Blocks	Ha	Liability
Pungina Block (29%)	247	\$14,116,544
Pre-1990 (due now harvested 2019)	75	\$4,286,400

43. The Waingake Transformation Programme aims to replant harvested areas to avoid potential liability costs and strengthen erosion prone land. Due to the higher liability costs associated with pre-1990 land, the programme has targeted pre-1990 land for planting and last year 100 ha was planted. A further 120 ha will be planted this year in the pre-1990 blocks.

Legal

44. There is an encumbrance over the entirety of the Pamoia Station land purchased by Council. Should Council wish to sell, lease, or otherwise dispose of the land, they must first offer it to Maraetaha Inc.

POLICY and PLANNING IMPLICATIONS

45. The matters arising from this report relate to the following Council reports and decisions:
- 13 December 2018 **Report 18-457** with Public Excluded “Preferred Direction on Long Term Future of Pamoia Forest”.
 - 19 December 2019 Report **19-404** Long Term Future of Pamoia Forest” Presented to the Council for information. Particularly to provide further financial information requested at the January 2019 meeting.
 - The Long-Term Plan (LTP) provides for the transition of 71% of Waingake to native forest following harvest. There are no provisions within the LTP regarding the 29%.
 - 28 April 2022, Report **22-37** Waingake Transformation Programme 29% Reforestation Report.

RISKS

46. Rising fuel costs means stumpage shares may be affected adversely from higher shipping transport and harvesting costs.
47. The Chinese timber market prices could drop to record lows, meaning stumpage shares would be affected adversely.
48. Forest fires cause the forest to burn, and trees become unsaleable.
49. ETS obligations and liability from 2023 onwards must meet year four requirements for forest establishment, otherwise significant financial liability could be incurred. Focusing planting pre-1990 land within the required timeframes will not impact on the overall management of the area or land stabilisation in other areas.

NEXT STEPS

	Action/Milestone	Comments
Annually	Report annually, on overall revenue and ETS liability.	
Quarterly updates	Updates included within the quarterly performance reports under Activity summary updates.	

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:

Confirmation of Confidential Minutes

4.1 Confirmation of Confidential Minutes 3 August 2022

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 4.1	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.