# AGENDA

GISBORNE DISTRICT COUNCIL

P O Box 747, Gisborne, Ph 06 867 2049 Fax 06 867 8076
Email service@gdc.govt.nz Web www.gdc.govt.nz

MEMBERSHIP: Bruce Robertson (Independent Chair), Her Worship the Mayor Rehette Stoltz, Colin Alder, Andy Cranston, Tony Robinson, Rob Telfer and Josh Wharehinga

## AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee

DATE: Wednesday 23 November 2022

TIME: 9:00AM

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

## AGENDA – OPEN SECTION

# Audit and Risk

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| **Reports to:** | Council |
| **Chairperson:** | Independent Chairperson |
| **Membership:** | Mayor Stoltz, Deputy Mayor Wharehinga, Chairs |
| **Quorum:** | Half of the members when the number is even and a majority when the membership is uneven. |
| **Meeting frequency:** | Quarterly (or as required) |

## Purpose

To assist the Council to exercise due care, diligence and skill in relation to the oversight of:

- the robustness of the internal control framework;
- the integrity and appropriateness of external reporting, and accountability arrangements within the organisation for these functions;
- the robustness of risk management systems, process and practices;
- internal and external audit;
- accounting practice and, where relevant, accounting policy;
- compliance with applicable laws, regulations, standards and best practice guidelines for public entities; and
- the establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.

The Audit and Risk Committee Chair is responsible for submitting an annual report to the Council covering the Committee's operations and activities during the preceding year.

## Terms of Reference

### Internal Control Framework

- Consider the adequacy and effectiveness of internal controls and the internal control framework including overseeing privacy and cyber security.
- Enquire as to the steps management has taken to embed a culture that is committed to probity and ethical behaviour.
- Review the processes or systems in place to capture and effectively investigate fraud or material litigation, should it be required.
- Seek confirmation annually, and as necessary, from internal and external auditors, attending Councillors, and management, regarding the completeness, quality and appropriateness of financial and operational information that is provided to the Council.

**Risk Management**

- Review and consider Management's risk management framework in line with Council's risk appetite – which includes policies and procedures to effectively identify, treat and monitor significant risks, and regular reporting to the Council.
- Assist the Council to determine its appetite for risk.
- Review the principal risks that are determined by Council and Management, and consider whether appropriate action is being taken by Management to treat Council's significant risks. Assess the effectiveness of, and monitor compliance with, the risk management framework. Consider emerging significant risks and report these to Council, where appropriate.

**Internal Audit**

- Review and recommend the annual internal audit plan; such plan to be based on the Council's risk framework.
- Monitor performance against the plan at each regular quarterly meeting.
- Monitor all internal audit reports and the adequacy of Management's response to internal audit recommendations.
- Monitor compliance with the Delegations Manual.

**External Audit**

- Annually review the independence and confirm the terms of the audit engagement with the external auditor appointed by the Office of the Auditor General. This includes the adequacy of the nature and scope of the audit, and the timetable and fees.
- Review all external audit reporting, discuss with the auditors and review action to be taken by management on significant issues and recommendations and report to Council as appropriate.

**Compliance with Legislation, Standards and Best Practice Guidelines**

- Review the effectiveness of the system for monitoring the Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and Best Practice Guidelines.

## Powers

The Audit and Risk Committee, within the scope of its role and responsibilities, is authorised to:

- obtain any information it needs from any employee and/or external party (subject to their legal obligation to protect information);
- discuss any matters with the external auditor, or other external parties (subject to confidentiality considerations);

The Audit and Risk Committee has no executive powers and is directly responsible to Council.

## 3.2. Action Sheet

| Meeting Date | Item No. | Item | Status | Action Required | Assignee/s | Action Taken | Due Date |
|---|---|---|---|---|---|---|---|
| 21/09/22 | 10.4 | 22-219 Insurance Renewal | Completed | Confirm what the liability of the forestry insurance is. | Andrew Haughey | **25/10/2022 Andrew Haughey**<br>Our Public Liability Cover applies to our forest assets, in the event when Council is legally liable from a fire(event) within GDC forests, we are covered up to $15 million.<br>An example is, a fire started due to a lightning strike, the Council would not be legally liable for the damage caused by the fire to neighbouring landowners.<br>For the Council to be legally liable, there generally has to be some negligence on the part of the Council such as a fire is accidentally started by a Council staff member. | 26/10/22 |

## 3.3. Governance Work Plan

| AUDIT AND RISK - STANDING COMMITTEE | | | | | | Meeting Dates | | |
|---|---|---|---|---|---|---|---|---|
| **Group Activity** | **Activity** | **Name of agenda item** | **Purpose** | **Report type** | **Owner** | **18-May** | **21-Sep** | **23-Nov** |
| Finance & Affordability | Financial Services | Insurance Strategy Update Report | Insurance Policy Update and ENL catch-up | Information | Andrew Haughey | | | |
| Finance & Affordability | Financial Services | Council's strategic risk management report | Update on status of Councils Strategic Risks | Information | Steve Breen | | | |
| Finance & Affordability | Financial Services | Strategic risk deep dive background report | | Public Exclusion(I) | Steve Breen | | | |
| Finance & Affordability | Financial Services | Ernst & Young Closing Report for the Year Ended 30 June 2022 | Provide to the committee the Ernst & Young Closing Report for the year ended 30 June | Information | Melanie Hartung | | | |
| Finance & Affordability | Financial Services | Internal Audit Update | | Information | Tina Swann | | | |
| Internal partnerships | Home Safe | Health and Safety Update Report | Update on wellbeing risks and mitigation | | Dave Wilkinson | | | |
| Internal partnerships | Legal | Litigation Risk and Legal Issues | Update Committee on current matters | Public Exclusion(I) | Di Fenn | | | |

## 10. Reports of the Chief Executive and Staff for INFORMATION

GISBORNE DISTRICT COUNCIL

**22-252**

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|---|---|
| **Title:** | **22-252 Council Strategic Risk Management Report** |
| **Section:** | Finance & Affordability - Performance |
| **Prepared by:** | Steve Breen - Risk and Performance Manager |
| **Meeting Date:** | Wednesday 23 November 2022 |

| | | |
|---|---|---|
| Legal: No | Financial: Yes | Significance: **Low** |

# Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

### PURPOSE - TE TAKE

The purpose of this report is to inform the Audit & Risk (A&R) Committee on the status of Council's strategic risks.

### SUMMARY - HE WHAKARĀPOPOTOTANGA

Management continues to review and monitor Council's strategic and organisational risks and apply the risk appetite framework to each area of risk to assess their inherent risk, the control environment to manage that risk and the resulting residual risk level.

This report provides updates for:

- Civil Defence and Emergency Management (CDEM)
- Health and Safety (H&S)
- People and Capability (P&C)
- Finance (F), and Fraud and Corruption (F&C)
- Legal Compliance (LG)
- Natural Environment (NE)
- Asset Management (AM) strategic risks

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 - NGĀ TŪTOHUNGA

**That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:**

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

*Authorised by:*

**Pauline Foreman - Chief Financial Officer**

**Keywords**: strategic risk, risk appetite

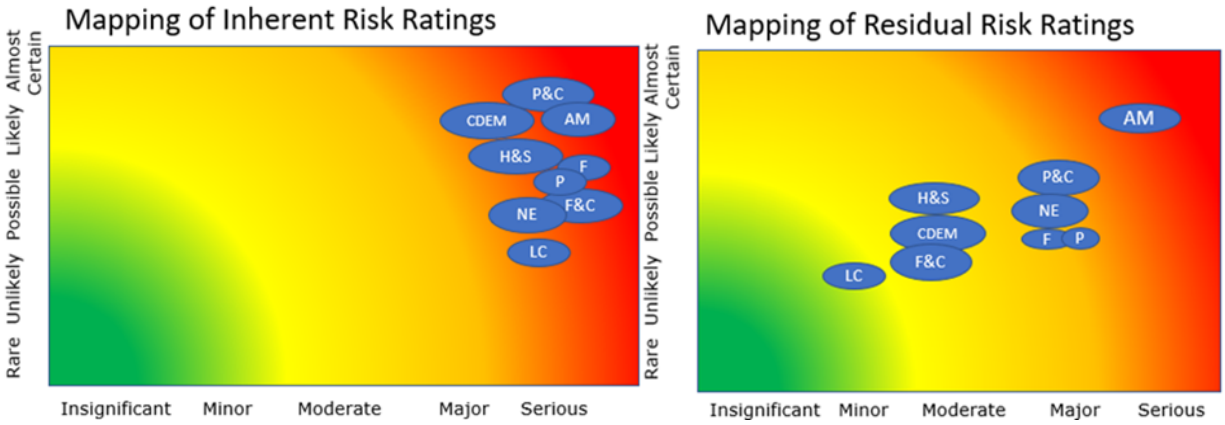
## BACKGROUND - HE WHAKAMĀRAMA

1. This report provides an update on Council's strategic risks and risk activities for the period ending November 2022.
2. Council is progressively applying its risk appetite framework to each of the Council's 13 identified strategic risks. Each strategic risk will be assessed in terms of its inherent risk, the control environment to manage that risk, and the resulting residual risk.
3. Work is being undertaken across all the strategic risks and the Strategic Risk Update Summary Table below shows the completed risk assessments to date and where the risk assessments and deep dives for each risk are proposed.

**Strategic Risk Update Summary Table**

| Strategic Risk | Inherent Risk | Residual Risk | Proposed Deep Dive | Risk Assessment completed by |
|---|---|---|---|---|
| **Health and Safety** | Serious | Moderate | tbc | **Completed** |
| **Civil Defence** | Serious | Moderate | **Completed** | **Completed** |
| **People and Capability (including projects/change management and service delivery)** | Serious | Major | **Completed** | **Completed** |
| **Impact of Externally Driven Change** | New risk: level to be determined following deep dive | New risk: level to be determined following deep dive | **Completed** | tbc |
| **Overall Council Strategy (including strategic relationships)** | To be reassessed following deep dive | To be reassessed following deep dive | tbc | tbc |
| **Treaty Commitments** | New risk: to be determined following deep dive | New risk: to be determined following deep dive | tbc | tbc |
| **Financial (including fraud and corruption)** | Serious (Major) | Major (Moderate) | **Completed** | **Completed** |
| **Capital Projects** | New risk: to be determined following deep dive | New risk: to be determined following deep dive | tbc | tbc |
| **Natural Environment (including ability to monitor and report)** | Major | Major | tbc | **Completed** |
| **Legal Compliance** | Minor | Minor | tbc | **Completed** |
| **Infrastructure Asset Management** | To be reassessed | Serious | tbc | **Completed** |
| **Procurement** | Serious | Major | **Completed** | **Completed** |
| **Business Continuity (including Information and Technology (IT))** | To be reassessed | Moderate | **Completed** (IT deep dive) | **Completed** |

4. A residual risk 'heat map' forms part of risk reporting and has been provided below for the risks assessed to date: 'Asset Management' (AM); 'Health and Safety' (H&S); 'Civil Defence Emergency Management' (CDEM), 'People and Capability' (P&C); 'Finance' (F), 'Fraud and Corruption'(F&C); 'Legal Compliance' (LG) and 'Natural Environment' (NE). More risks will be added to the heat maps as they are assessed.




## DISCUSSION and OPTIONS - WHAKAWHITINGA KŌRERO me ngā KŌWHIRINGA

### Civil Defence Emergency Management (CDEM) Strategic Risk

5. The Civil Defence Emergency Management (CDEM) strategic risk is defined as the risk that the CDEM Group 'is unable to provide appropriate response and recovery operations.'

6. The current residual risk level for CDEM is assessed as '**Major**', which is outside our overall Council risk appetite of 'Moderate'.

7. This 'Major' level of risk has been arrived at because of the CDEM function being situated in a building in the Tsunami Inundation Zone. Construction is about to start on an alternative new building outside the Tsunami Inundation Zone. While there is a heightened risk until the new building is available, there are contingencies in place for moving CDEM functions to an area outside of the Zone as temporary measures.

8. Operationally, Council can meet its CDEM commitments. However, the region has experienced 2 significant flood events and a heavy rain event in the last 9 months. Overall, the response and recovery systems employed have enabled Council to meet its CDEM obligations.

### Health and Safety (H&S) Strategic Risk

9. The Health and Safety (H&S) strategic risk is defined as 'the inability to adequately protect Council staff and the community, from hazards or events which compromise their physical and emotional wellbeing, while delivering Council services.'

10. The current residual risk level for Health and Safety is assessed as 'Moderate' which is within Council's overall risk appetite.

11. This assessment is based on the continued delivery of Treatment Options identified and managing the on-going risk of staff turnover and challenges with replacing key roles with suitably qualified persons. This creates pressures on mental wellbeing for teams with less resources and increased workloads (staff and leadership), with loss of experienced individuals/managers who were competent around H&S and risk management for their teams. This emerging risk is being managed through the actions being delivered under 'People and Capability' below.

**People and Capability (P&C) Strategic Risk**

12. The People and Capability (P&C) strategic risk is defined as 'the Council does not have the right people with the right skills and attitudes.'

13. The current residual risk level for People and Capability is assessed as 'Major,' based on our current turnover level of 24%, which is outside Council's overall risk appetite threshold of 15-17%. This level is like similar Councils elsewhere (Horowhenua 25%, Southland 24%, Environment Southland 23%, and Thames-Coromandel 20%) and is indicative of the wider labour market the Council is operating in.

14. Council's response to this risk is identified in **Report 22-24** which is continuing to have a stabilising effect on our attrition rate. The national shortage of talent is continuing to contribute to the difficulty in attracting talent to fill the roles available. Council will continue introducing additional actions to attract and retain talent while using contracted personnel and consultants where possible to maintain service delivery.

15. The following additional treatment has been completed:

    a. Secure Recruitment Specialist.

**Finance (F) Strategic Risk**

16. The Finance strategic risk is defined as 'failure to be financially sustainable.'

17. The current residual risk level for **Finance** remains at '**Major**' which is outside Council's overall risk appetite.

18. This 'Major' level of risk is as advised to the 18 May Audit & Risk Committee meeting and is a continuation of management taking a prudent approach to Finance given the current uncertainty in the financial operating environment. This approach seeks to minimise the impact of an economic or financial shock and whilst this is outside Council control and is not something we have experienced yet; the assessment is that this is probable. Therefore, a prudent approach is to treat this area of risk accordingly and introduce further actions to manage the impact if an event were to occur.

**Procurement (P) Strategic Risk**

19. The Procurement strategic risk is defined as 'failure to optimise the supply of cost-effective & quality goods and services over the long term.'

20. The current residual risk level for Procurement remains as 'Major' which is outside Council's overall risk appetite.

21. This 'Major' level of risk is a continuation of management taking a more prudent approach to procurement within Council's financial operating environment, given the on-going uncertainty in the wider business environment. This uncertainty impacts Procurement through increasing inflation; the disrupted supply chain causing scarcity of materials; and on-going competition for contractors and workers to carry out work. The approach is to introduce further actions to manage the impact if a procurement risk event were to occur.

22. The actions focus on three areas of activity:

    a. Review where 'design and build' procurement strategies maybe more appropriate for planned projects. **Ongoing business practice.**

    b. A review of resources including both supplies and contractors. This review maps the constraints against what we have planned to do within LTP (Long Term Plan) timeframes. **Ongoing business practice**.

    c. Rationalisation Plan formulated where constraints of supplies and contractors cannot be managed within the timelines of Annual Plan budgets. This may mean projects are pushed out to be later than expected but aiming still to be within the LTP framework. **Initiated if resources are deemed to be at critical level**.

**Fraud and Corruption (F&C) Strategic Risk**

23. The Fraud and Corruption strategic risk is defined as 'wrongful or criminal deception for personal gain.'

24. The current residual risk level for **Fraud and Corruption** remains assessed as '**Moderate**' which is within Council's overall risk appetite.

**Legal Compliance (LC) Strategic Risk**

25. The Legal Compliance risk is defined as 'legal and policy non-compliance'.

26. The current residual risk level for **Legal Compliance** is assessed as '**Minor**' which is within the Council's overall risk appetite.

27. The area where further improvements can be made primarily centres on more complete documentation of compliance and reporting processes. It is advised that a further assessment of more dedicated legal compliance systems be carried out that management can continue to better integrate risk management practices into Legal Compliance business-as-usual practices. An early example would be consideration of the approach taken by Otago Regional Council with their adoption of a legislative 'Warrant of Fitness' and Mandatory Documents Register. This would meet the purpose of the proposed compliance register identified in the table above. This assessment would also include consideration of dedicated systems such as ComplyWise and LexisNexis Regulatory Compliance and the resourcing required to continue improving Council's risk maturity in this area of operations.

| Existing Control | Additional Treatment | Status |
|---|---|---|
| Legal and compliance register/staff attestation, hire practices, expectations framework, training. | Establish compliance register. | Proposed |

28. Operationally, the Council is meeting its legal compliance commitments, with areas where further improvement can be made to deepen its risk maturity practices identified.

**Natural Environment (NE) Strategic Risk**

29. The Natural Environment strategic risk is defined as '**failure to sustainably manage our natural environment under our control.**'

30. The current residual risk level for Natural Environment is assessed as 'Major' which is outside the Council's overall risk appetite of 'Moderate.'

31. This assessment is based on current resourcing issues. There continues to be a nationwide shortage of people with the necessary skills and expertise required which has the potential to impact on Council's ability to maintain effective service levels.

32. Management is taking several steps to address this area of risk which is part of the wider approach being taken by Council to improve recruitment and retention levels. The expected result of these actions is to reduce the residual risk from 'Major' to 'Moderate,' which is within the Council's risk appetite. It is too early to confirm if these actions are being effective, hence the continuation of the current level of risk.

33. This assessment is further based on the risk of meeting higher standards and conditions because of changes from the Tairāwhiti Resource Management Plan (TRMP) and to obtain resource consents. There is a ripple effect of these changes increasing costs to Council (as the regulator) requiring legal advice that we are unable to on-charge for, through to the Asset Management risk as the controls used to manage this risk come out of the arms-length policies of the TRMP.

34. Management is further reviewing the existing Natural Environment risk bowtie for improvements to the risk causes and consequences and their associated preventative and mitigating controls. This is to better align actions and resources to the current operating environment and managing this area of risk within Council's risk appetite. A further report to this Committee will identify these proposed changes.

35. The following table summarises the additional actions (treatments) being taken or are proposed to bring this area of risk within Council's risk appetite and to further improve how this area of risk is managed:

| Additional Treatment | Status |
|---|---|
| Review of resourcing required to meet communications, monitoring, reporting and enforcement requirements across those controls requiring them. | In progress |

36. Operationally the Council is meeting its Natural Environment compliance commitments and this focus on updating the risk bowtie and the treatments identified is intended to return the residual risk level to within Council's risk appetite.

**Asset Management (AM) Strategic Risk**

37. The Asset Management risk is defined as 'Failure to provide fit for purpose, safe, affordable & sustainable assets that the community expects, over the long-term'.

38. The current residual risk level for Asset Management is assessed as 'Serious' which is outside Council's overall risk appetite.

39. This assessment is based on the impact of recent significant flooding events reducing the resilience of the Council roading network, and the additional costs being incurred by Council to restore and maintain an effective local roading network being beyond the Council's current budget provisions. The consequence is an unforeseen and/or unaffordable rate increase, with a negative impact on levels of service.

40. In response, management are taking additional action (treatment) to the existing control for managing this risk to bring it back within Council's risk appetite and minimise the consequences and impact as follows:

| Existing Control | Additional Treatment | Status |
|---|---|---|
| 1. Budgets for emergency works and resourcing do not accurately reflect the true cost to sustainably maintain our assets Council-wide | Waka Kotahi have approved $13M at a financial assistance rate of 87%. They have noted that Gisborne has asked for an enhanced rate of 100% which will be included in a combined Board paper along with similar requests from other Councils. | In progress |
| 2. Roading levels of service | Review roading network and levels of service to see if they are appropriate in terms of winter conditions or when there are extreme weather events | In progress |

41. Additional Waka Kotahi funding has been secured however the effects of inflation are reducing the quantum of roading work that this funding will provide. It is anticipated that it will take 9-12 years longer to return the roading network to the standard anticipated in the Roading Infrastructure Plan.

42. Regarding Council's water infrastructure, the residual risk level is assessed as 'Moderate,' which is within Council's overall risk appetite. While the 3 Waters Reform is generating a degree of uncertainty and increased demands on Council personnel to meet reform requirements, additional personnel have been engaged to assist with this work.

43. The existing controls in place mean that the likelihood of a risk event occurring is unlikely, with moderate consequences. These controls include having robust operational processes in place and a programme of work within a 30-year infrastructure plan that includes condition assessments that is on-going alongside the reform process.

44. Regarding the Council's community assets, the residual risk level is assessed as 'Moderate,' which is within Council's overall risk appetite. While a full facilities Condition Assessment is still to be completed, the community housing, which is a significant component of community assets, has a programme of ongoing renewal which means that the likelihood of a risk event occurring is unlikely, with moderate consequences.

45. Operationally the Council is meeting its asset management commitments subject to the outcome of the additional roading treatments.

**Capital Projects (CP) Strategic Risk**

46. The Council has several major projects underway that are reported to the Operations Committee. Two of these major projects involve significant external funds from central government. The Wastewater Treatment Plant upgrade (WWTP) $37.23m and the Kiwa Pools Aquatic Centre project (Kiwa Pools) $44.5m (including $40m of central government funding).

47. Our involvement from an internal audit and risk assurance perspective is to provide assurance to our project sponsors and funders that expenditure is being recorded and allocated correctly and that any funding claimed is correct and based on actual expenditure incurred.

48. It also extends to project forecasting and cash flows that help identify any issues or concerns around project timing, tracking against budget and project milestones to meet for funding requirements.

49. We do this in a few ways:

    a. Each project has a dedicated financial advisor that works closely with the project team in monitoring spend, forecasting, cash flow and funding.

    b. Internal Audit review and sign-off on the financial information before the information is released to our funders.

50. The costs to date for the Kiwa Pools are $33.94m and of this we are owed $8m for milestone 9 and milestone 10. This is due to be paid by the end of December 2022. Full costs for the project are in the first instance paid by Council, and then reimbursed by crown infrastructure partners. Until the end of the project in April, we are likely needing to fund for cashflow purposes up to a maximum of $12m for at most a 2–3-month period.

51. The costs for the WWTP are $25.2m, $7.5m of funding from crown infrastructure partners has been received.

52. The risk assessment of these two projects for the purpose of this report has considered their delivery against budget, scheduled completion date and scope of work. At this stage of delivery, both projects are assessed as being within Council's risk appetite as follows:

    a. The Wastewater Treatment Plant upgrade is being delivered within budget and to the scope of work intended. The completion date will be May 2023. This is mostly within original timeframes, but there have been some slight delays primarily due to COVID-19 restrictions, some supply chain delays and delays caused by significant weather events in April.

    b. The Kiwa Pools project is being delivered within budget and to the scope of work intended. The completion date is being revised due to delays in materials.

**General Risk Management**

53. Management has been working through the new strategic risks of 'Impact of External Change' and 'Treaty Commitments' to better define the nature of their risk to the Council and how they relate to, or impact on, the existing risks of 'Overall Council Strategy' and 'Strategic Relationships.'

54. The recent local government elections and the creation of five Māori wards further supported assessing these remaining risks with the participation of the newly elected council.

55. The 'Impact of External Change' consists primarily of changes resulting from central government reforms being introduced. These reforms include local government statutory planning, reporting and other requirements; Future for Local Government Review; Three Waters Delivery Reform; Resource Management Act Reforms; Emergency Management (CDEM); Waste Minimisation; Health and Disability reforms and Climate Change Reform; with other reforms and reviews impacting on local government.

56. In the meantime, Council has commenced the Tairāwhiti Climate Change Risk Assessment (TCCRA) which seeks to identify climate risks particular to us as an organisation and to our region at large. The outcome of TCCRA will form the necessary evidence base to inform our adaptation policy response as an organisation and as a region. Management is continuing to assess the risk of our response to climate change given its potential to contribute to significant and wide-ranging impacts within communities of the Tairāwhiti region, some of which are already observable.

57. It is intended that the 3-year internal audit programme will be developed over the coming 6 months as management complete the risk assessments and identify those areas of risk control to be included in the programme.

**Local Government Risks**

58. The Controller and Auditor-Generals 2021 publication on the key risks both central and local government are currently facing was tabled on 18 May Audit & Risk Committee. Following which, Council was able to benefit from its membership of BOPLASS to receive an assessment at no direct cost to ratepayers of our risk management maturity level from Aon, who have been contracted by BOPLASS to review BOPLASS councils' risk management practices.

59. Aon completed a desktop review of our risk management framework, documentation and reporting practices followed by interviews and a workshop with key personnel to produce their assessment on our behalf. This review was included and reported on at the previous Audit & Risk Committee meeting of 21 September 2022.

60. Council management will be incorporating this advice from Aon into the application and further development of its risk management framework.

## ASSESSMENT of SIGNIFICANCE - TE AROTAKENGA o NGĀ HIRANGA

Consideration of consistency with and impact on the Regional Land Transport Plan and its implementation
**Overall Process:** **Medium** Significance
**This Report:** **Low** Significance

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan
**Overall Process:** **Medium** Significance
**This Report:** **Low** Significance

Inconsistency with Council's current strategy and policy
**Overall Process:** **Medium** Significance
**This Report:** **Low** Significance

The effects on all or a large part of the Gisborne district
**Overall Process:** **Medium** 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:** **Low** Significance

61. 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.

62. This report is part of the Council risk management process and will inform future Council decision-making across Council functions and therefore the level of significance will be informed by the functions this process is applied to.

## TANGATA WHENUA/MĀORI ENGAGEMENT - TŪTAKITANGA TANGATA WHENUA

63. The level of engagement has primarily been internally facing to date as the areas of risk are identified. This will then inform the level of engagement required and process for engagement to be followed.

## COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

64. The outcomes of determining the Council's strategic risks and risk appetite for each will inform Council's decision-making and the allocation of resources to deliver the Long-Term Plan objectives supported by an appropriate risk management strategy and approach.

65. The level of community engagement will be determined by the areas of risk identified and the degree to which they directly affect the community.

## CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

66. The level of climate change impact and its implications will be determined by the areas of risk identified and the extent to which they affect climate change.

## CONSIDERATIONS - HEI WHAKAARO

### Financial/Budget

67. The financial impact will be determined by the resource allocation required to meet Council's risk appetite for the areas of risk identified.

### Legal

68. This report is part of Council's obligations to operate in a prudent manner by identifying and reducing relevant risks to the delivery of its services and activities.

## POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

69. This report is consistent with Council's Risk Management Framework.

## RISKS - NGĀ TŪRARU

70. This report is part of Council's wider organisational risk management process which seeks to minimise risk across the Council organisation. The process being undertaken as set out in this report will be applied to map the rest of the strategic risks.

## NEXT STEPS - NGĀ MAHI E WHAI AKE

| Date | Action/Milestone | Comments |
|---|---|---|
| November onwards | Determine if the Council is currently exposed to any risks beyond its risk appetite. | Complete in conjunction with Internal Audit for the Assurance Programme.<br>Reported within Audit & Risk Committee |
| November onwards | Develop the internal audit plan. | Complete in conjunction with the profiling of each strategic risk and subject to further consideration by Audit & Risk Committee |
| November onwards | Plan and conduct deep dive risk sessions with the Audit & Risk Committee. | Complete in conjunction with Internal Audit for the assurance programme.<br>Reported within Audit & Risk Committee |

GISBORNE DISTRICT COUNCIL

22-253

| | |
|---|---|
| **Title:** | **22-253 Gisborne Holdings Ltd - Ernst & Young Audit Close Report** |
| **Section:** | Finance & Affordability |
| **Prepared by:** | Ally Campbell - Executive Policy Advisor |
| **Meeting Date:** | Wednesday 23 November 2022 |

| | | |
|---|---|---|
| Legal: No | Financial: Yes | Significance: **Low** |

# Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

## PURPOSE - TE TAKE

The purpose of this report is to provide the Gisborne Holdings Limited (GHL) Ernst & Young (EY) Close Report and Annual Report for 2021/22 to the Committee.

## SUMMARY - HE WHAKARĀPOPOTOTANGA

GHL is required to report to the Audit & Risk Committee on their activities and present their Annual Report as part of their Statement of Intent. Normally, this report would have been presented prior to public notification and GHL's Annual General Meeting, however due to timing constraints and Council elections, this could not be achieved.

Attached is the EY Close Report (**Attachment 1**) and Annual Report (**Attachment 2**). GHL Chairman John Rae and Chief Financial Officer Sophie Ricard will be in attendance to present the EY close report.

### Financial Results (as summarised by GHL)

Earnings before interest, tax, amortisation and revaluation (EBITDAR) was $4.6m down 11% on the year prior, despite the capital gain on sale of assets of $1.4m.

This was driven by negative contributions from Farming (-$0.9m) with fewer cattle sales, and the Holiday Park (-$0.7m). It should be noted that the prior year financial results were considered a "record" year, with the Holiday Park performed better than forecast.

Equity rose $31.4m (26%) to $154.4m. This was driven by the farm's highest and best use considered as Forestry, along with the increase in carbon credit values.

Total assets grew 17% to $174.4m, an increase of 85% over the past six years. Asset Revaluation Reserve grew by $27.6m (or 56%), and an increase of 142% over the past six years.

Cashflow for the year was positive, ending $2.5m up on the opening position. GHL's debt ratio reduced from 12% to 9% due to the positive cashflow and increase in equity.

**Distribution**

GHL will make a cash distribution to the Gisborne District Council of $2.7m for the year ending June 2022, this is an increase of 31% on the prior year.

Payment will be made in March 2023 as per the Distribution Policy.

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 - NGĀ TŪTOHUNGA

**That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:**

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

*Authorised by:*

**Pauline Foreman - Chief Financial Officer**

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**Keywords**: GHL, Annual report, EY Close report

## ATTACHMENTS - NGĀ TĀPIRITANGA

1. Attachment 1 - 2022 GHL EY Audit Close Report [**22-253.1** - 8 pages]
2. Attachment 2 - 2021-22 - GHL Annual Report 2022 [**22-253.2** - 35 pages]

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Ernst & Young
100 Willis Street
Wellington 6011 New Zealand
PO Box 490 Wellington 6140

Tel: +64 4 499 4888
ey.com/nz

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John Rae
Chairperson
Gisborne Holdings Limited
PO Box 694
Gisborne 4040

16 September 2022

Ref: 60434448

Dear John

## 2022 Audit of Gisborne Holdings Limited ('GHL')

In order to carry out our duties and responsibilities as auditors, Ernst & Young ("EY") is required by ISA (NZ) 260 "Communication with Those Charged With Governance" ("ISA (NZ) 260"), to communicate to you setting out the following matters in respect of the audit of the above named Company.

Our audit work is complete and we anticipate issuing an unmodified audit report.

**Qualitative aspects of accounting practices and financial reporting**

The following key audit and accounting issues have been discussed and agreed with Sophie Ricard on during the course of our audit.

We would be happy to arrange a time to discuss the findings of our audit in more detail with yourself and members of the Board.

In our professional judgement, the findings below need to be communicated in writing to you.

**Investment property**

- GHL recognise nine properties on balance sheet as investment properties in accordance with NZ IAS 40 *Investment Property*. GHL engaged Lewis Wright Valuations and Consultancy Limited ('Lewis Wright') to determine the fair value of the land and buildings with reference to achievable rents and market yields as at 30 June 2022.

- During the year GHL sold a portion of the vacant land at 466 Childers Road for $3.55m. This parcel of land has historically been valued as one site, and in order to calculate the gain on disposal of the title sold GHL have allocated the carrying value based on the land size divided between the title sold and the title retained by GHL. Following the appropriate allocation of cost to the land parcel sold, a gain on sale of $925k has been recognised for accounting purposes. As a consequence of the property being historically revalued, the gain for tax purposes is higher.

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- GHL also sold a portion of land at 25-27 Banks Street to Gisborne District Council (GDC) for $2.5m. The settlement with GDC occurred on 30 June 2022 and has been appropriately recorded as a sale in the FY22 year. Similar to Childers Road the land has historically been valued as one parcel and hence the carrying value has been apportioned based on the size of the title sold. This resulted in a gain on sale of $325k.

- We have reviewed the accounting treatment for these sales and raised adjustments to reflect the gain on sale being calculated, for accounting purposes, based on the carrying value of the land rather than the cost of the assets. The differences noted have been corrected by management in the financial statements. We are satisfied the transactions are recorded correctly.

- The remaining land parcels at Banks Street and Childers Road have been revalued at 30 June 2022 in line with the remaining portfolio of investment property.

- We have obtained and reviewed the valuation report prepared by Lewis Wright which values the investment properties at $45.4m (2021: $48.8m).

- We have liaised with Lewis Wright regarding the drivers of revaluation movements, focusing on properties where there were larger movements as a percentage of the property's value.

- We have obtained a reliance letter from Lewis Wright confirming their independence and acknowledging they are aware the results of the valuation will be used in GHL's financial statements and that the valuation is appropriate for this purpose.

- GHL hold other property that is owner utilised and not accounted for as investment property but as property, plant and equipment, such as the holiday park. Valuation uplifts for these properties are recorded in other comprehensive income rather than profit or loss. During the year GHL sold the Vehicle Testing Centre business for $150k but retained the property, which has now been transferred from owner-utilised to investment property.

**TFL Property valuation**

- GHL own Tauwhareparae Farms and revalue the land and improvements annually in line with the requirements of NZ IFRS 13 *Fair Value Measurement* and *NZ IAS 16 Property, Plant and Equipment*. GHL engaged Lewis Wright Valuations and Consultancy Limited ('Lewis Wright') to determine the fair value of the farm land and improvements with reference to recent market transactions.

- NZ IFRS 13 requires that assets be valued at their Highest and Best Use. Historically for GHL the Highest and Best use has been the market value based on the land and buildings being utilised or sold as pastoral (farming) land. Lewis Wright has determined that consistent with comparative market transactions a significant increase in value could be realised by selling the property as forestry land. This has given rise to a value reflecting the highest and best use of the property as at 30 June 2022 as forestry land of $85m. In 2021 the value of the farm as pastoral was determined to be $70m.

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- A significant component of this valuation uplift has arisen from the potential for any planted forest to sequester New Zealand Emission Units and the availability of the benefits to be generated from the underlying market fair value movement in New Zealand Emission Units.

- The farm land and improvements were initially recorded in the financial statements at their pastoral land value. However, the valuation for financial reporting purposes has been updated to reflect the market based potential value which might be achieved under an alternative use.

- The fair value uplift in the farm properties resulted in a revaluation uplift through other comprehensive income of $27.6m.

**Forest valuation and New Zealand Emission Units**

- As required by NZ IAS 41 *Agriculture* the forestry assets of the company have been revalued at balance date. The tree crop valuation was performed by PF Olsen Limited. Determining appropriate inputs is a judgemental process and has a significant impact on the resulting valuation. Forest assets were valued at $10.6m at 30 June 2022 (2021: $12.1m). This value is exclusive of any NZU's which are considered as a separate asset. The principal driver of the fall in the value of forests has been the impact of increased harvest and transport costs that have been observed in the local and national economy.

- We have reviewed the inputs to the forestry valuation model by comparing each input to the equivalent input used in 2021, recent market data in the case of log prices and the appropriateness of the discount rate applied as at 30 June 2022. We have also taken steps to obtain assurance that the forestry valuation excludes any valuable associated with New Zealand Emission Units or the underlying land.

- GHL have engaged PF Olsen to quantify the level of carbon credits / units that should be recorded by the Crown's registry in the name of GHL. The registration of the units is a critical process and we encourage management to continue to work with PF Olsen to complete this in a timely manner.

- Based on PF Olsen's judgement it has been determined what volume of units will be required to be surrendered to the Crown in the normal course of harvesting the current forestry blocks by a rational forest owner, ie at normal expected economic maturity. PF Olsen has assessed that this would be expected to be any units held over and above 225,000 units. ie Should GHL continue to harvest and re-plant trees in the normal operational cycle, and subject to any natural disaster or fire, these "Safe Credits" would not have to be surrendered to the Crown. As a part of the assessment PF Olsen have taken into consideration that GHL sold 100,000 units in previous periods and consequently it has been determined that 125,000 units are considered to be "Safe Credits", ie such units could be used to generate a cash flow over and above the fair value of the current forest harvest cycle. Given this assessment the fair value of those 125,000 units has been recognised on the balance sheet of GHL.

- It should be noted that additional units, are estimated to be held or are due to GHL, but that these will have to be surrendered as GHL harvests their current forest cycle. The fact that

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100,000 units have been sold historically presents a certain degree of risk, in that should all forests be harvested tomorrow, these additional units would have to be purchased on the open market. In addition, the NZU registry has not been fully updated for current estimates. We recommend that PF Olsen continue its work to assess the true volume of NZU's sequestered by the forest and that the registry be fully updated. We would recommend that no substantive decision be made in relation to the use or management of NZU's and the forest until this exercise is completed.

- The challenges related to the accounting for Units is being driven by the unit price. At balance date, if the estimates determined by PF Olsen, in terms of volume are correct, the fair market value of all the "safe" and "not safe" units would amount to approximately $26m. This value now significantly exceeds the value of the forest.

- We understand that GHL are evaluating the future plans for the forests during FY22 and that as of the date of writing no such plans have been confirmed. Management's assumption in the valuation, and for financial reporting purposes as at 30 June 2022 is that the forest will be harvested and create future revenue.

- We have obtained a reliance letter from PF Olsen confirming their independence and acknowledging they are aware the results of the valuation will be used in GHL's financial statements and the valuation is appropriate for this purpose.

**Taxation and deferred tax on investment property**

- GHL and the Gisborne District Council ('Council') have agreed a framework for determining the quantum of minimum distributions to be paid by GHL to Council. Such distributions usually take the form of a subvention payment or dividend. The amount that is treated as a subvention payment is determined with respect to the amount of losses available to GHL to offset tax obligations.

- Consistent with 2021, in calculating deferred tax on the investment property it has been assumed that the value of the property will be recovered through sale. This is not unreasonable given NZ IAS 12 *Income taxes* states there is a rebuttable presumption that the carrying amount of investment property will be recovered through sale and this approach is commonly used across the investment property sector.

- On the basis of this assumption, the sale of investment property at Childers Road and Banks Road was taxable on the capital gain on sale, being the difference between cost and the amount in which the assets were sold for. At the time of this report, we are working with management and their tax advisers engaged at PWC to finalise the reflection of this tax treatment in the financial statements.

**Revenue Recognition and Operational Trading**

- Whilst we place a significant focus on the recognition and measurement of assets and liabilities across the company, we are also very conscious that GHL is an operational trading

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business. The maintenance of processes to manage holiday park, investment property rental and farm trading require different underlying processes and controls.

- Across each major operational element of the business we have adopted approaches to obtain assurance in relation to revenue recognition and the incurrence of expenditure. Based on this work we are satisfied that the day to day trading of the company is being appropriately accounted for.

- In addition to core operational expenditure testing we have undertaken a review of a range of staff expenses to obtain confidence that the use of what is effectively public money is being applied in a manner consistent with company policies and that those policies are consistent with reasonable expectations. No matters requiring the attention of the Board have arisen from this work.

**Going Concern**

The financial statements are prepared on a going concern basis on the assumption that GHL will operate for the foreseeable future. Such an assumption requires that GHL will be able to satisfy their obligations as they fall due.

GHL's term loan expires in February 2023 and hence is recorded as a current liability on balance sheet. We understand there is a review of GHL's strategy ongoing and hence management deemed it most appropriate during FY22 to extend their facilities a further 8 months rather than enter into a longer term loan arrangement.

As a result, GHL is in a negative working capital position of ($12.6m). we have confirmed that directors are satisfied that the current loan facility can be extended at any point in time using the assets on balance sheet as security.

Sufficient disclosures explaining the appropriateness of the going concern assumption have been included in the financial statements.

**Internal financial controls**

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control which have come to our attention during the course of our normal audit work.

While we haven't identified any significant deficiencies in internal control, we have identified a number of opportunities to improve processes and controls. We will communicate these to management in our Report of Control Findings.

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## Independence

We are not aware of any other relationships between the Firm and the Company that, in our professional judgment, may reasonably be thought to bear on independence.

We confirm that in our professional judgment, the engagement team and the Firm have complied with relevant ethical requirements regarding independence including OAG independence requirements.

ISA (NZ) 260 requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest.

Listed in Appendix A are EY's key firm-wide policies and processes to maintain independence and objectivity.

## Audit adjustments

There have been no unadjusted audit differences in the current year.

The following audit adjustments have been corrected in the current year:

- To record the valuation of TFL Farm land and improvements at highest and best use giving rise to a circa $15m uplift in property valuation.
- To correct the gain on disposal of land sold to reflect the gain based on carrying value rather than historical cost, giving rise to a $1.6m adjustment.
- To correct the valuation of investment property in line with the Lewis Wright valuation - $1.9m

## Other matters

The Auditor's responsibilities section of our audit report refers to the XRB website (https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities) to give a further description of our responsibilities for the audit of the financial statements. This description forms part of our auditor's report.

This letter has been prepared for the sole use of the Board of Directors, management and others within the Company. It must not be disclosed to a third party or quoted to or referred to without our written consent. No responsibility is assumed by EY to any other person.

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Finally, we would like to take this opportunity to thank your staff, particularly Sophie Ricard, for the co-operation we have received throughout our audit. If there are any further matters which you wish to discuss concerning our audit, please do not hesitate to call me on 027 489 9378 or contact me at stuart.mutch@nz.ey.com.

Yours faithfully
Ernst & Young

Stuart Mutch
Partner
Ernst & Young

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## Appendix A

EY has policies and procedures that instil professional values as part of Firm culture and ensure the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within EY New Zealand for maintaining objectivity and independence:

| | |
|---|---|
| **Financial Interests** | Our Partners are prohibited from investing in any audit client in the world. All professional staff are prohibited from holding a financial interest in any audit client of EY where they form part of the audit engagement team. Further, EY executives (managers and above) are prohibited from holding a financial interest in any EY audit client where they provide 10 or more hours of non-audit services to the client in a fiscal year.<br><br>Our partners and staff are required to confirm their compliance each year with our Firm's independence policies. We track this compliance through a worldwide investment tracking system. |
| **Training** | Our partners and staff are required to undergo regular mandatory training on our independence and ethical policies and processes. |
| **Partner rotation** | The Firm has detailed policies on the rotation of the audit engagement partner and, in the case of issuer clients: key audit partners and independent partners. |
| **Consultation** | The Firm requires that the audit team consult with a panel of experienced partners on complex accounting and auditing matters. |
| **Non-audit Services** | Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to:<br>► ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statements;<br>► identify and assess any related threats to our objectivity; and<br>► assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level.<br><br>Where no satisfactory safeguards exist we do not carry out the non-audit service. |
| **Ethics** | Our global code of conduct provides an ethical framework on which we base our decisions and our actions—as individuals and as members of our global organisation. We have also established the EY/Ethics hotline which will allow any person, inside or outside of EY, to report confidentially and anonymously any activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with our established policies or code of conduct. |

# A blank canvas

GHL Annual Report 2022

# GHL has been working hard for the people of Tairāwhiti since 2016, but faced with new challenges, it's time to be bold and think differently. So we're starting over, wiping the slate clean, and resetting our priorities. Right now, GHL is a blank canvas.

**Over the coming year, we're going to be asking some big questions as we build a new future.**

Questions about:

_Our Responsibilities

_Our Assets

_Our Partnerships

# Our Responsibilities

# We'll be reviewing our responsibilities as an organisation, and figuring out what the community needs most from us.

**Who holds GHL accountable?**

GHL reports directly to its Councillors, but from a wider aspect, it is the Tairāwhiti community who will publicly ensure GHL are operating in an appropriate manner.

**What is the quadruple bottom line and how does this affect GHL?**

GHL is not just a purely commercial entity. We are focused on increasing returns to GDC, by understanding the impacts this will have from a social, cultural, environmental and economic aspect for the region.

**What sort of things does the community want us to be doing?**

Alignment with Gisborne District Council's Long Term Strategic Direction is critical to answering this question.

# Our Assets

# We'll be re-evaluating the assets we own and manage, to ensure they are adding value and delivering sustainable returns for our region.

**Why are we testing our asset portfolio?**

To be assured this is the right investment: socially, environmentally and ethically with a sustainable return and intergenerational benefits.

**How have GHL's community assets performed since 2016?**

The asset values have increased YoY since taking ownership in 2016. GHL operates under the belief that we are here to maintain and grow revenue for not just this generation, but future generations to ensure Tairāwhiti is a thriving region.

**Is it the right mix of assets to provide the best returns for the community and GDC?**

We understand that access to capital is limited within this region and are reviewing GHL's assets to look for opportunities to help this region to continue to grow and develop. This may mean our asset base will change.

# Our Partnerships

# We'll be analysing our strategic partnerships to see where the biggest opportunities lie.

**Who should GHL partner with to provide the best investment decisions?**

We believe that genuine collaboration will create the best outcome for future generations. We are committed to establishing strong working relationships with partners including local Iwi and public businesses, Matai and Eastland Group.

**How do we create sustainable returns?**

This involves a lot of strategic planning. By having the opportunity to align with key regional agents on a strategic regional plan, we will be best placed to deliver sustainable returns for our people.

**Do service agreements between GDC and GHL benefit both organisations? Or are they causes for disagreements and conflict?**

This is yet to be seen.

# Chairman's Report

# We are the investment partner for regional economic success.



**Chair and Chief Executive Report 2022**

Despite the undoubted improvements communicated in last year's Annual Report, 2022 has flushed out some systemic challenges within the structure and composition of the Group that have become clearer with the Council-commissioned Independent Review of GHL by PwC which was undertaken earlier this year.

Pleasingly, the issues raised by both new directors and PwC are structural in nature and are not issues relating to the performance of the Company or it's Directors. In fact, the PwC report is complimentary of the performance of GHL within the constraints described above.

I will talk more about the structural issues shortly, but in relation to our performance during 2021/22 the following are the highlights:

**Financial Results**

Earnings before interest, tax, amortisation and revaluation (EBITDAR) was $4.6m, down 11% on the prior year despite the capital gain on sale of assets of $1.4m, driven by negative contributions from Farming - $0.9m (fewer cattle sales) and Holiday Park - $0.7m (COVID-19 impact).

Equity rose $31.4m or 26% to $154.4m driven by increases in the Farm valuation which in turn has been driven by its "highest and best use", and considered to be forestry.

Total assets grew 17% to $174.4m, an increase of 85% over the past six years.

Cashflow for the year was positive, ending $2.5m up on the opening position however this was entirely due to the sale of Childers Rd, without which our operating cashflow would have been negative $1.6m. GH's debt ratio reduced from 12% to 9% due to the positive cashflow and increase in equity.

**Distribution**

GHL will make a cash distribution to the Gisborne District Council of $2.7m for the year ending June 2022, this is an increase of 31% on the prior year.

Payment will be made in March 2023 as per our distribution policy.

**Health and Safety**

Protecting our people at work is a top priority, and we continue to work with Safe-on-Site to ensure we implement 'best practice' systems and practices and continue to lift the health and safety bar.

Health and Safety across GHL sits with all of us and we are pleased with our track record this year, with only one lost time injury across the Group for staff and contractors this year.

**Our People**

We have an amazing team of passionate staff who have continued to work hard for the Tairāwhiti community despite the challenges of Covid-19 and the disruptive anxiety that often comes from external strategic reviews. During the year we had some of our leaders leave the company, including Tracey Johnstone our CEO and Rob Budd our GM Commercial Property. Both Tracey and Rob worked hard for the GHL cause and we thank them for their service.

Our Board also changed quite significantly during the year with Jacqueline Blake departing and Josh Wharehinga and myself being appointed to the Board. Rob Telfer will also be departing the Board shortly after a successful nine-year tenure which has seen the Group significantly improve it's performance.

My personal thanks go out to my fellow Board members who are passionate about thebusiness and the region, their candour and diversity provides for robust debate around our potential role in the future.

Finally, to the amazing leadership team of Sophie Ricard and Jeremy Raymond – a huge thanks for stepping up to fill the not insignificant shoes that Tracey and Rob left on their departure. It has been a challenging but exciting time, and the Board is excited to be working with you as we look to reposition GHL to make an even more positive contribution to Tairāwhiti.

**Successes 2021/22**

The first stage of the PwC Strategic review has been completed and we have engaged in three workshops with GDC Councillors to look at options and opportunities to make GHL a more positive contributor to the regional economy. This review and engagement provides us with a great platform to take this engagement to the community and we look forward to doing this over the coming months.

The world has changed significantly for both GHL and the region and there are some big decisions for us to make to adapt to the future that's ahead of us.

The GHL leadership team has been much more active in building relationships and exploring potential collaborations with other capital providers in the region. This engagement will continue as GHL rebuilds its critical role as a key player in Tairāwhiti Inc.

We have demonstrated our new approach to regional collaboration on a "best for region" basis in the restructured deal with Matai on the sale of 466 Childers Rd back in June. When we reviewed the transaction through this new collaborative lens we were able to help Matai focus their capital on developing their campus which is an amazing opportunity for the region, while being able to leave GHL to co-develop some accommodation on the site at the same time. We believe this will provide a win/win/win for Matai/GHL/and the region.

While apparently controversial, the sale of GVT was successfully achieved during the year and an operator that is better equipped than us to invest and develop the operation is in place. GHL believes that this strategy of developing assets and then finding a better owner than us to own and operate it, is the right answer for a region that needs to see capital recycled into new projects. GHL remains the owner of the land and we generate a low-risk return on that asset that is able to be either reinvested or paid to GDC as a dividend.

The same applies to the Wash'n Go. This operation has been established for good reason. Not because GHL wants to own a car wash, but because we had a piece of land that wasn't generating a return, and so activating a business on that small site now gives us a potential opportunity to find an operator that wants to own the business – and we can remain the landlord. In this way we have generated a return on a piece of land where there wasn't a return for the community previously.

The Holiday Park has performed solidly through the year – despite Covid-19, and while returns were obviously affected by lockdowns, it has recovered strongly, and we are now playing a helpful role in supporting worker accommodation options for businesses in the region during our off season. This presents additional opportunities for GHL to potentially provide worker accommodation using our booking systems and expertise and we are presently engaging with many of the regions employers to see if there is an extended role that we might be able to play. The logic here is that we would rather see our businesses invest their capital into their core businesses rather than into adjacencies such as accommodation.

We have also collaborated with GDC to help it deliver the new water treatment plant on land previously owned by GHL.

Finally, we have provided distributions of $2.7 million to our shareholder this financial year when our SOI commitment was $1.9m.

Unfortunately, when we look at the operating cashflow above together with the reasons that are articulated below, we do not believe that distributions at this level are sustainable without some substantial changes in our portfolio mix.

**Strategic outlook**

**This is where things get interesting...**

The expectation from Gisborne District Council is that GHL will produce increasing dollar returns to allow the Council to either ameliorate the rates impost for ratepayers, or itself reinvest those returns into projects of its choosing.

Over the past several years GHL has largely met this increased expectation as follows:

| | |
|---|---|
| **2017** | **$2,548,000** |
| **2018** | **$1,700,000** |
| **2019** | **$1,800,000** |
| **2020** | **$2,000,000** |
| **2021** | **$2,059,000** |
| **2022** | **$2,700,000** |

However, this has come at a significant cost to the balance sheet of GHL as it has either had to sell assets or defer capex/opex in order to fund these distributions. This is simply more evidence that the portfolio that GHL has been asked to manage is simply not one that allows for such a level of distribution.

**Here is the high level explanation:**

**Farming:**
c56% of portfolio; steady revaluation increases but very low cash returns (c1-2%),

**Forestry:**
c12% of portfolio; consistent returns but generally zero cash flow for term of investment, excepting potential sale of carbon,

**Holiday Park:**
c3% of portfolio; volatile depending on tourism patronage, not much price flexibility and small % of portfolio,

**Property:**
c29% of portfolio; mostly leased to our shareholder which causes tension (and a zero-sum game) over rental increases. Steady low single-digit rental returns.

In addition, the property portfolio is not an efficient investment – especially for GDC, because GHL pays tax on the rental income that it receives from GDC – before returning the residual profit amount (net of tax) to GDC by way of dividend. This simply does not make sense from a "best for region" perspective and needs to be fixed.

So, while GHL faces some stark and difficult choices ahead, it is equally important that the region focuses on the potential opportunities that are likely to open up once these decisions are made. Some very early examples of these changes that we are already doing are outlined at the beginning of this report.

**Let me take you through this...**

- Looking at the current portfolio of assets, if the purpose of GHL is to generate cash dividends for Gisborne District Council, then we just do not have the correct portfolio to do that given that a substantial majority of our assets are farm assets where most of our upside is in the form of capital appreciation.
- If the purpose of GHL is to simply "do the best" with the assets that we were settled, then we still don't actually have the correct portfolio for that job either. This is highlighted by the following example; that simply trying to keep the farm operating at an "appropriate" standard is a big challenge and will require significant investment (at least $10m as advised by our advisors) and as a result we will require access to substantially more capital than we have available or are able to access.
- If we want to actually do the job we think that we should be doing, which is to be the active investment partner of the Gisborne District Council in the region, then to be frank – we have zero chance.

But on the flip side, nor does GHL have sufficient borrowing capacity (or debt servicing capability) to debt fund our way into a better place.

So, the Board is clear that doing what we have been doing for the past several years and expecting the results to be different – is no longer an option.

Unfortunately, we simply have no choice but to consider this question:

**"How does GHL restructure its assets in a way that allows it to meet the expectation of both our shareholder and our stakeholders in the region?"**

We look forward to engaging with the community over coming months to work out what that might look like.

Ngā mihi nui

**John Rae**
Chairman

# Financial Statements

For the year ended 30 June 2022

## Directors' Report 2022
## for the year ended 30 June 2022

The Board of Directors present their consolidated financial statements for Gisborne Holdings Limited for the year ended 30 June 2022 and the auditor's report thereon.

For and behalf of the Board of Directors:

J. Rae

D. Mullooly

20 September 2022





EY

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### INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF GISBORNE HOLDINGS LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2022

The Auditor-General is the auditor of Gisborne Holdings Limited (the company). The Auditor-General has appointed me, Stuart Mutch, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and performance information of the company on his behalf.

**Opinion**

We have audited:

- the financial statements of the company on pages 33 to 59, that comprise the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 59 and 60.

In our opinion:

- the financial statements of the company on pages 33 to 59:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2022; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on page 59 and 60 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2022.

Our audit was completed on 21 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

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**Basis for our opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of the Board of Directors for the financial statements and the performance information**

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

**Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.



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As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**Other Information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 25 and 61 to 66, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independence**

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.

Stuart Mutch
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand
21 September 2022

## Statement of comprehensive income for the year ended 30 June 2022

| | Notes | Actual 2022 $000 | Budget unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|---|
| **Revenue from contracts with customers** | | | | |
| Tauwhareparae Farms | | **6,506** | 5,614 | 7,419 |
| Property Holdings | | **204** | 199 | 222 |
| Car Wash & Gisborne Vehicle Testing Station | | **615** | 1,171 | 727 |
| Waikanae Holiday Park | | **2,252** | 1,833 | 3,068 |
| Developments (Childers) | | **-** | 370 | - |
| **Total Revenue from contracts with customers** | 5.1 | **9,577** | **9,187** | **11,436** |
| **Revenue other** | | | | |
| Rental Income | | **2,372** | 2,260 | 2,258 |
| Capital gain on disposal of assets | | **1,422** | - | - |
| Change in Valuation of Investment Property, Livestock, Forestry and Carbon Credits | | **756** | - | 14,083 |
| **Total Revenue other** | | **4,550** | **2,260** | **16,341** |
| **Total Revenue** | | **14,127** | **11,447** | **27,777** |
| **Cost of sales** | | | | |
| Tauwhareparae Farms | | **2,596** | 2,451 | 2,573 |
| Property Holdings | | **609** | 495 | 441 |
| Car Wash & Gisborne Vehicle Testing Station | | **130** | 167 | 108 |
| Waikanae Holiday Park | | **425** | 299 | 483 |
| **Total Cost of Sales** | | **3,760** | 3,412 | 3,605 |
| **Gross Profit** | | **10,367** | 8,035 | 24,172 |
| **Total Income** | | **10,367** | 8,035 | 24,172 |
| **Expenditure from continuing operations** | | | | |
| Salaries and Wages | | **3,285** | 3,637 | 3,643 |
| Administrative Expenditure | | **1,584** | 975 | 1,048 |
| Depreciation | | **886** | 874 | 731 |
| Loss on sale of assets | | **51** | - | 129 |
| Financing Expenditure | | **513** | 615 | 367 |
| **Total Expenditure** | | **6,319** | 6,101 | 5,918 |
| **Net Operating Profit/(Loss) before taxation** | 5.2 | **4,048** | 1,934 | 18,254 |
| Subvention Payment – Gisborne District Council | | **(200)** | (400) | (400) |
| Taxation (expense)/credit | 8 | **(1,292)** | (538) | (946) |
| **Net Profit/(Loss) for the period** | | **2,556** | 996 | 16,908 |

## Statement of comprehensive income for the year ended 30 June 2022 (continued)

| | Notes | Actual 2022 $000 | Budget unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|---|
| **Other comprehensive income** | | | | |
| Revaluation gain on property, plant and equipment | 15 | **26,271** | - | 8,519 |
| Deferred tax on building revaluations | | **1,339** | - | (1,399) |
| Revaluation gain/(loss) on carbon credits | 18 | **4,074** | - | 1,469 |
| Deferred tax on carbon credits revaluation | | **(1,141)** | - | (574) |
| **Other comprehensive income for the year attributable to owners of the company** | | **30,543** | - | 8,015 |
| Net profit/(loss) for the year | | **2,556** | 996 | 16,908 |
| **Total comprehensive income for the year attributable to owners of the company** | | **33,099** | 996 | 24,923 |

## Statement of changes in equity for the year ended 30 June 2022

| | Ordinary Shares $000 | Asset Revaluation Reserve $000 | Carbon Credit Revaluation Reserve $000 | Fair Value Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| **At July 2021** | 33,478 | 48,868 | 1,127 | (5) | 39,542 | 123,010 |
| Net profit/(loss) for the year | - | - | - | - | 2,556 | 2,556 |
| Other comprehensive income | - | 27,610 | 2,933 | - | - | 30,453 |
| Realised gains on sale | - | - | - | - | - | - |
| **Total comprehensive income for the year** | - | 27,610 | 2,933 | - | 2,556 | 33,099 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Shares Issued | - | - | - | - | - | - |
| Dividend | - | - | - | - | (1,659) | (1,659) |
| **At 30 June 2022** | 33,478 | 76,478 | 4,060 | (5) | 40,439 | 154,450 |

## Statement of changes in equity for the year ended 30 June 2021

| | Ordinary Shares $000 | Asset Revaluation Reserve $000 | Carbon Credit Revaluation Reserve $000 | Fair Value Reserve $000 | Retained Earnings $000 | Total $000 |
|---|---|---|---|---|---|---|
| **At July 2020** | 33,478 | 41,748 | 232 | (5) | 23,884 | 99,337 |
| Net profit/(loss) for the year | - | - | - | - | 16,908 | 16,908 |
| Other comprehensive income | - | 7,120 | 895 | - | - | 8,015 |
| Realised gains on sale | - | - | - | - | - | - |
| Total comprehensive income for the year | - | 7,120 | 895 | - | 16,908 | 24,923 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Shares Issued | - | - | - | - | - | - |
| Dividend | - | - | - | - | (1,250) | (1,250) |
| **At 30 June 2021** | 33,478 | 48,868 | 1,127 | (5) | 39,542 | 123,010 |

## Statement of financial position as at 30 June 2022

| | Notes | Actual 2022 $000 | Budget unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|---|
| Contributed Equity | 6 | **33,478** | 33,478 | 33,478 |
| Retained Earnings | 7 | **40,439** | 22,638 | 39,542 |
| Reserves | 7 | **80,533** | 44,426 | 49,990 |
| **Total Equity** | | **154,450** | 100,542 | 123,010 |
| Represented by: | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | **2,451** | - | 2 |
| Trade and other receivables | 10 | **2,403** | 412 | 264 |
| Inventories | 11 | **221** | 211 | 196 |
| **Total Current Assets** | | **5,075** | 623 | 462 |
| **Current Liabilities** | | | | |
| Bank | 12 | **-** | 2,381 | 102 |
| Payables and Accruals | 13 | **1,377** | 1,751 | 1,475 |
| Gisborne District Council - Current Account | | **206** | 550 | 408 |
| Taxation | | **662** | 272 | 332 |
| Term loan facility | 12.1 | **15,005** | - | - |
| Lease liability | 15.2 | **115** | 116 | 57 |
| **Total Current Liabilities** | | **17,365** | 5,070 | 2,374 |
| **Net Working Capital** | | **(12,290)** | (4,447) | (1,912) |
| **Non-current Assets** | | | | |
| Investment property | 14 | **45,465** | 35,779 | 48,751 |
| Property, plant & equipment | 15.1 | **95,080** | 62,330 | 70,552 |
| Right of use assets | 15.2 | **1,367** | 1,448 | 1,447 |
| Biological assets | 16 | **22,500** | 19,673 | 22,162 |
| Equity Instruments at fair value through other comprehensive income | 17 | **497** | 497 | 497 |
| Investments in shares | 17 | **2** | 2 | 2 |
| Investments in subsidiaries | | | | |
| Intangible assets - NZ Emission Units | 18 | **9,512** | 6,531 | 5,437 |
| **Total Non-current Assets** | | **174,423** | 126,260 | 148,848 |
| **Non-current Liabilities** | | | | |
| Financial liabilities - term loan | 12.1 | **-** | 15,380 | 15,900 |
| Deferred tax | 8 | **6,354** | 4,512 | 6,582 |
| Lease liability | 15.2 | **1,329** | 1,379 | 1,444 |
| **Total non-current Liabilities** | | **7,683** | 21,271 | 23,926 |
| **Net Assets** | | **154,450** | 100,542 | 123,010 |

**For and on behalf of the Board, who authorise the issue of these financial statements on 20 September 2022.**

**J. Rae** **D. Mullooly**

## Statement of cash flows for the year ended 30 June 2022

| | Actual 2022 $000 | Budget unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash was provided from: | | | |
| Receipts from customers | **11,944** | 11,448 | 14,297 |
| | **11,944** | 11,448 | 14,297 |
| Cash was applied to: | | | |
| Payments to suppliers & employees | **8,915** | 8,027 | 8,729 |
| Income tax refunds payments / (refunds) | **996** | 538 | 897 |
| | **9,910** | 8,565 | 9,626 |
| **Net cash inflow/ (outflow) from operating activities** | **2,033** | 2,883 | 4,671 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of fixed assets | **4,184** | - | 22 |
| | **4,184** | - | 22 |
| Cash was applied to: | | | |
| Purchase of fixed assets | **367** | 2,600 | 2,193 |
| | **367** | 2,600 | 2,193 |
| **Net cash inflow/(outflow) from Net cash investing activities** | **3,817** | (2,600) | (2,171) |
| **Cash flows from financing activities** | | | |
| Cash was provided from: | | | |
| Term loan | **-** | 2,000 | - |
| | **-** | 2,000 | - |
| Cash was applied to: | | | |
| Dividends & subvention payment paid | **1,659** | 1,350 | 1,250 |
| Gisborne District Council - Current Account | **400** | 400 | 550 |
| Interest paid | **347** | 614 | 230 |
| Term Loan repayment | **894** | 620 | - |
| | **3,300** | 2,984 | 2,030 |
| **Net cash inflow/ (outflow) from financing activities** | **(3,300)** | (984) | (2,030) |
| Net increase/(decrease) in cash held | **2,551** | (701) | 469 |
| Opening cash brought forward | **(100)** | (1,680) | (569) |
| **Ending cash carried forward** | **2,451** | (2,381) | (100) |
| Cash at year end: | | | |
| Cash and cash equivalents | 2,451 | - | 2 |
| Bank wholesale advances | - | (2,381) | (102) |
| **Ending cash carried forward** | **2,451** | (2,381) | (100) |

## Notes to the financial statements

### 1. Corporate Information

Gisborne Holdings Limited is a company incorporated and domiciled in New Zealand and is a Council-Controlled Trading Organisation as defined in section 6 of the Local Government Act 2002. The Company is wholly owned by Gisborne District Council and is registered under the Companies Act 1993.

The Financial Statements for Gisborne Holdings Limited are for the year ended 30 June 2022. The Financial Statements were authorised on 20 September 2022.

**The principal activities during the year were:**

- The production and supply of livestock
- The planting, growing and tending of forestry
- The maintenance and reversion of native forestry areas
- The provision of accommodation for council employees and council services
- Project Management of Property Development
- Operation of Waikanae Holiday Park
- Operation of Gisborne Vehicle Testing Station
- Commercial Property leasing and management.

There have been no significant changes in the nature of these activities during the year.

### 2. Summary of significant accounting policies

**(a) Basis of Preparation**
The financial statements of the Company have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993. The financial statements have also been prepared on a historical cost basis except where accounting policies state assets or liabilities are carried at fair value.

The financial report is presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

The financial statements are prepared on a going concern basis. Although net working capital is a liability. The Directors are satisfied that the current loan facility can be extended at any point in time utilising the assets maintained on the balance sheet as security. Therefore the going concern assumption has been applied.

Comparative information in relation to the recognition of available NZ Emissions Units has been reclassified to align with the current year classification and/or disclosures.

**(b) Statement of Compliance**
The financial statements of Gisborne Holdings Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). Gisborne Holdings Limited is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS RDR'), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR.

The company is eligible and has elected to report in accordance with Tier 2 For-profit Accounting Standards (NZ IFRS RDR) on the basis that the group has no public accountability and is not a large for-profit public sector entity.

**(c) Cash and Cash Equivalents**
Cash and cash equivalents in the Statement of Financial Position compromise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

**(d) Trade Receivables**
Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measure at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of financial assets are reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

The amount of the impairment loss is the receivable carrying amount compared to the present value of the estimated future cash flow, discounted at the original effective interest rate. Present value is calculated under IFRS 9 expected credit loss model, where FV of receivables is calculated based on the future values of these balances in 1 year, using the companies incremental borrowing rate.

**(e) Inventories**
In accordance with NZ IAS 41 – Agriculture wool on hand is valued at fair value less estimated point of sale costs at time of harvest. Consumable stocks are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value. This valuation includes allowances for slow moving and obsolete inventories.

In accordance with NZ IAS 2 – Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realisable value.

**(f) Livestock**
Livestock is valued at fair value less point of sale costs. These values are not the same as those used for calculating taxation. Changes in the value of existing productive livestock and the numbers and/or composition of the livestock are treated as revenue items.

**(g) Forestry Assets**
Forestry assets are valued on the basis of fair value less estimated point of sale costs.
Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate. Forestry assets are revalued annually by an independent valuer. Valuation movements pass through the Statement of Comprehensive Income. The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

**(h) Investments and Other Financial Assets**
IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. These include:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses on profit or loss on derecognition
- Financial assets FVPL

## Notes to the financial statements (continued)

**Financial assets at amortised cost (debt instruments)**
Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

**Debt instruments at FVOCI**
The Company applies the categories under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

**Equity instruments at FVOCI**
Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis. Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

**(i) Property, plant and equipment**
Plant and equipment is stated as historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance and revaluation costs are recognised in the Statement of Comprehensive Income as incurred.

Land and buildings are measured at fair value, based on annual valuations by external independent valuers who apply the International Valuations Standard Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Land – not depreciated
Land improvements – 10 years
Buildings – 40 years
Plant and equipment – 10 years
Office equipment – 10 years
Motor vehicles – 5 years
IT equipment – 4 years
Leasehold improvements – 2 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate annually.

Capital work in progress is not depreciated. The total cost of a project is transferred to freehold buildings and/or plant and equipment on its completion and then depreciated.

**Revaluations of land and buildings**
Any revaluation increment is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Comprehensive Income.

Under disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

**Derecognition**
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

**(j) Investment Property**
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the Property Institute of New Zealand.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**(k) Emissions Trading Scheme**
Gisborne Holdings Limited has voluntarily entered the New Zealand Emissions Trading Scheme ("ETS") in respect of 1,224 hectares of forest land located in the Tauwhareparae area. This entitles Gisborne Holdings Limited to receive emission units ("units") for carbon stored in the specified area, from 1 January 2008 baseline.

Units that have been estimated to have been sequestered and / or registered that are forecast to be in excess of those that are required to be returned in the normal course of harvest are recognised at fair value at the date that they are estimated to be controlled. Measurement at subsequent year ends is at fair value referenced to market prices with movements being recorded in other comprehensive income.

At the point of time where trees are harvested, an obligation to surrender units occur. At that point in time a liability for the fair value of the units expected to be surrendered are recognised. An asset relating to units previously held, but not recognised (as they are deemed to to be available for trading as they are expected to be surrendered in the normal course of the management of the forest), is also recognised at that point in time at fair value.

## Notes to the financial statements (continued)

**(l) Impairment of non-financial assets other than goodwill and indefinite life intangibles**
Non-financial assets are tested for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable.

The Company conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

**(m) Trade and Other Payables**
Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(n) Interest-bearing Loans and Borrowings**
All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of load facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**Borrowing Costs**
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use of sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**(o) Provisions and Employee Benefits**
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it's probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the State of Comprehensive Income net of any reimbursement.

**Employee leave benefits, wages, salaries, annual leave**
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**(p) Leases**
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

**Company as a lessee**
The Company leases offices and land (holiday park). The contracts are made for fixed periods with right of renewal options included.

The Company allocates the consideration in the contract to the lease based on the stand-alone price in the contract.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the future fixed lease payments (taking into account any rent reviews).

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Where it is determined it is no reasonably certain the extension option will be exercised, the lease liability will be measured up until the point of the initial lease period.

The lease payments are discounted using either the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the Statement of Comprehensive Income over the lease period.

Right of use assets are measured at cost comprising the amount of the initial measurement of the lease liability.

Right of use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low value assets are recognised on a straight-line basis as an expense in the Statement of Comprehensive Income, and are exempt from NZ IFRS 16 recognition. Short term leases are those with a term of less than 12 months. Low value assets comprise office equipment, for example photocopiers.

Where a right of use asset is subleased, the full amount of the lease obligation to the Company is recognised in accordance with the above, with the income received from the subleased recognised as revenue in the Statement of Comprehensive Income.

The Right of use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follow:
Buildings – 40 years

The Right of use assets are depreciated over the following years based on current agreements:
GDC Ground lease for Holiday Park - 324 months
Worxs Buildings Lease - 120 months

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

## Notes to the financial statements (continued)

**Company as a lessor**
Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**(q) Contributed Equity**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares of options are shown in equity as a deduction, net of tax, from the proceeds.

**(r) Revenue from Contracts with Customers**
Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

**(s) Income Tax and Other Taxes**
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary reasons.

Deferred income tax assets are recognised for all deductible and temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probably that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing the financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

**(t) Government Grants**
The Group receives government grants from the Ministry of Primary Industries which subsidises the cost of forestry establishment, silviculture and thinning. The subsidies are recognised as revenue upon entitlement as conditions pertaining to eligible expenditure have been fulfilled. This is in accordance with NZ IAS 20: Government Grants.

### 3. Financial risk management objectives and policies

The Company's principle financial instruments comprise receivables, payables, bank loans and overdrafts, available-for-sale investments, cash and short-term deposits.

**Risk exposures and responses**
The Company manages its exposure to key financial risks, including interest rate risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets while protecting future financial security.

The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the financial controller under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified, including interest rate risk, credit allowances, and future cash flow forecast projections.

### 4. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumption and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and considerations may be found in the relevant notes to the financial statements.

**(i) Significant accounting judgements**
**Impairment of non-financial assets other than goodwill and indefinite life intangibles.**
The Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product expectation. If an impairment trigger exists, the recoverable amount of the asset is determined.

## Notes to the financial statements (continued)

**Taxation**
The Company accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

**Leases**
The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

**(ii) Significant accounting estimates and assumptions**
**Valuation of livestock**
The Company has included livestock at fair value and movements in fair value are recognised in comprehensive income. The fair value of livestock has been determined by independent livestock valuers after deduction of the estimate costs to market the livestock.

**Valuation of land, buildings and investment property.**
The Company has included land, buildings and investment property at fair value and movements in fair value are recognised in comprehensive income. The fair value of land, buildings and investment property have been determined by independent property valuers.

**Valuation of forestry**
The Company has included forestry at fair value and movements in fair value are recognised in comprehensive income. The fair value of forestry has been determined by independent forestry valuers.

**Estimation of useful lives of assets**
The estimation of the useful lives of assets has been based on historical experience as well as manufacturer's warranties (for plant and equipment), and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustment to useful lives is made when considered necessary.

**Leases**
The estimation of the lease term are based on substance of the contract with renewal options available.

**NZ Emission Units**
Units estimated to be available to the Company over and above those estimated to be required to be surrendered in the normal course of harvesting have been recognised at fair value as an asset on the balance sheet. Units estimated to be required to be surrendered in the normal course of forestry management and harvesting are not recognised as an asset, as an equal and offsetting liability would also be expected to be recognised at the point of harvest as an obligation to surrender those units would occur at that time.

### 5.1 Revenue from contracts with customers

**2022**

| | Tauwhareparae Farms Actual 2022 $000 | Property Holdings Actual 2022 $000 | Gisborne Vehicle Testing Station Actual 2022 $000 | Waikanae Holiday Park Actual 2022 $000 | TOTAL Actual 2022 $000 |
|---|---|---|---|---|---|
| **Major Goods** | | | | | |
| LiveStock | 6,046 | - | - | - | 6,046 |
| Wool | 264 | - | - | - | 264 |
| Forestry | - | - | - | - | - |
| Other | 193 | - | - | 15 | 208 |
| **Total Goods** | 6,503 | - | - | 15 | 6,519 |
| Major Services | | | | | |
| Accommodations | - | - | - | 2,168 | 2,168 |
| Other | 3 | 204 | 615 | 69 | 891 |
| **Total Services** | 3 | 204 | 615 | 2,237 | 3,059 |
| **Total** | 6,506 | 204 | 615 | 2,252 | 9,577 |

**2021**

| | Tauwhareparae Farms Actual 2021 $000 | Property Holdings Actual 2021 $000 | Gisborne Vehicle Testing Station Actual 2021 $000 | Waikanae Holiday Park Actual 2021 $000 | TOTAL Actual 2021 $000 |
|---|---|---|---|---|---|
| **Major Goods** | | | | | |
| LiveStock | 6,924 | - | - | - | 6,924 |
| Wool | 212 | - | - | - | 212 |
| Forestry | 21 | - | - | - | 21 |
| Other | 216 | - | - | 19 | 234 |
| **Total Goods** | 7,373 | - | - | 19 | 7,392 |
| Major Services | | | | | |
| Accommodations | - | - | - | 2,956 | 2,956 |
| Other | 46 | 222 | 727 | 93 | 1,088 |
| **Total Services** | 46 | 222 | 727 | 3,049 | 4,044 |
| **Total** | 7,419 | 222 | 727 | 3,068 | 11,436 |

## Notes to the financial statements (continued)

### 5.2 Net operating profit/(loss) before taxation includes

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| **After charging:** | | | |
| Audit fees | **60** | 62 | 60 |
| Directors' fees | **237** | 200 | 197 |
| Employee benefit expenditure | **3,048** | 3,637 | 3,643 |
| **Depreciation:** | | | |
| - Buildings & Improvements | **556** | | 415 |
| - Plant and equipment | **213** | - | 180 |
| - Motor Vehicles | **117** | - | 135 |
| **Financing Expenditure :** | | | |
| - Short term Advance Facility | **344** | 615 | 197 |
| - Overdraft | **35** | - | 34 |
| - Lease Depreciation | **80** | - | 81 |
| - Lease Interests | **54** | - | 56 |

### 6. Contributed Equity

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| **Issued and paid up** | | | |
| Balance at 1 July | **33,478** | 33,478 | 33,478 |
| **Balance at 30 June** | **33,478** | 33,478 | 33,478 |

### 7. Retained Earnings and Reserves

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| **Retained Earnings** | | | |
| Balance at 1 July | **39,542** | 21,643 | 23,884 |
| Net Profit attributable to equity holders | **2,556** | 995 | 16,908 |
| Dividend | **(1,659)** | (1,350) | (1,250) |
| **Balance at 30 June** | **40,439** | 21,288 | 39,542 |
| **Asset Revaluation Reserve** | | | |
| Balance at 1 July | **48,868** | 44,431 | 41,748 |
| Revaluation of Land | **32,216** | - | 3,523 |
| Revaluation of Buildings | **(5,945)** | - | 4,996 |
| Deferred tax on Buildings revaluation | **1,339** | - | (1,399) |
| **Balance at 30 June** | **76,478** | 44,431 | 48,868 |
| **Fair Value Reserve** | | | |
| Balance 1 July | **(5)** | | (5) |
| **Balance at 30 June** | **(5)** | - | (5) |
| **Carbon Credit Revaluation Reserve** | | | |
| Balance at 1 July | **1,127** | - | 232 |
| Revaluation of Carbon Credits | **4,074** | - | 1,469 |
| Deferred tax on Carbon Credits revaluation | **(1,141)** | - | (574) |
| **Balance at 30 June** | **4,060** | - | 1,127 |
| **Total Closing Balance Revaluation Reserves** | **80,533** | 44,431 | 49,990 |

**Nature and Purpose of Reserves**

**Asset Revaluation Reserve**
The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extents that they offset one another.

**Revaluation Reserve**
The revaluation reserve arises on revaluation of investments which are recognised as assets.

**Interest rate risk**
The Company's financial assets and liabilities which are exposed to interest rate risk include cash and deposits and secured bank loans. The Company adopts a policy of reducing the exposure to changes in interest rates by utilising interest rate swaps to limit future interest costs, when necessary.

**Carbon Credit Revaluation Reserve**
The carbon credit revaluation reserve records movements in the fair value of carbon credits.

## Notes to the financial statements (continued)

### 8. Income Tax

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| **(a) Income Tax** | | | |
| The major components of income tax expenses are: | | | |
| **Income Statement** | | | |
| *Current income tax* | | | |
| Current period income tax charge | **1,273** | 538 | 851 |
| Prior period adjustment | **78** | - | - |
| *Deferred income tax* | | | |
| of temporary differences | **4** | (3,423) | 99 |
| Prior period adjustment | **(63)** | (74) | (4) |
| Income tax expense/(credit) reported in the income statement | **1,292** | (2,885) | 946 |
| **(b) Amounts charged or credited directly to other comprehensive income** | | | |
| Relating to revaluation of Carbon Credits | 1,141 | - | 574 |
| Relating to revaluation of buildings | (1,665) | - | - |
| Relating to revaluation of buildings - PPA | 326 | - | - |
| **Income tax expense reported in other** comprehensive income | (198) | - | 574 |
| **(c) Numerical reconciliation between aggregate tax expense recognise in the statement of comprehensive income and tax expense calculated per statutory income tax rate** | | | |
| **Total accounting profit/(loss) before income tax** | **3,848** | 1,533 | 17,854 |
| At the Company's statutory income tax rate of 28% (2021: 28%) | **1,077** | 429 | 4,999 |
| Herd livestock adjustment | **(429)** | (429) | (212) |
| Prior period adjustment | **15** | 15 | (4) |
| Non-deductible income and expenses | **628** | 1,248 | (3,674) |
| Change in tax depreciation on buildings | **-** | - | - |
| IFRS 16 | **-** | - | - |
| Aggregate income tax expense/(credit) | **1,292** | 1,263 | 1,109 |
| **Aggregate income tax expense/(credit) is attributable to:** | | | |
| Continuing operations | **1,292** | 1,263 | 1,109 |
| | **1,292** | 1,263 | 1,109 |
| Effective tax rate | **33.08%** | 35.09% | 84.00% |
| Imputation credit balance | **3,405** | 3,405 | 2,900 |
| **(d) Recognised deferred tax assets and liabilites** | | | |
| Deferred income tax at 30 June relates to the following | | | |
| *(i) Deferred tax liabilites* | | | |
| Biological assets | **3,559** | 2,905 | 3,584 |
| Building revaluations | **60** | - | 1,399 |
| Accelerated depreciation: buildings, plant & equipment, motor vehicles | **203** | 137 | 165 |
| IFRS 16 | **(21)** | (8) | (15) |
| Other | **(111)** | (72) | (74) |
| NZ Emission Units | **2,664** | 1,550 | 1,523 |
| Gross deferred tax liabilities | **6,354** | 4,512 | 6,582 |
| Set-off of deferred tax assets | **-** | - | - |
| **Net deferred tax liabilities** | **6,354** | 4,512 | 6,582 |

### 9. Subvention Payments Paid

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| Paid during the year | | | |
| Subvention payment 2021 | **-** | - | 400 |
| Subvention payment 2022 | **200** | 400 | - |
| | **200** | 400 | 400 |

### 10. Financial assets at fair value through profit or loss

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| Trade receivables | **16** | 412 | 78 |
| Related party receivable Gisborne District Council | **2,387** | - | 186 |
| **Balance at 30 June** | **2,403** | 412 | 264 |

The fair value of debtors has been assessed under the IFRS 9 expected credit loss model, there are no impaired trade and other receivables to disclose.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

### 11. Inventories

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $00 0 |
|---|---|---|---|
| Farm supplies on hand | **137** | 200 | 117 |
| Wool on hand | **70** | - | 67 |
| Goods for sale | **14** | 11 | 12 |
| **Balance at 30 June** | **221** | 211 | 196 |

No inventories are pledged as security for liabilities nor are any inventories subject to retention of title clauses.

### 12. Bank

Working Capital facility with a limit of $3.5 million is in place with ANZ Bank New Zealand Limited. The facilities are secured by way of a general security agreement.

### 12.1 Financial Liabilities – term loan

Term Facilities of $15m are in place with ANZ Bank New Zealand Limited, which is fully drawn as at 30 June 2022. The facilities are secured by way of mortgage and general security agreement and terminate on 28 February 2023.

## Notes to the financial statements (continued)

### 13. Payables and Accruals

| | Actual 2022 $000 | Budget Unaudited 2022 $000 | Actual 2021 $000 |
|---|---|---|---|
| Trade creditors and accruals | **1,049** | 1,451 | 1,129 |
| Accrued staff entitlements | **328** | 300 | 346 |
| | **1,377** | 1,751 | 1,475 |
| Related party payable Gisborne District Council | **206** | 550 | 408 |
| **Balance at 30 June** | **1,583** | 2,301 | 1,883 |

**Fair Value**
Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Related party payable to Gisborne District Council comprises of trade payables at normal terms of trade. Dividend and subvention payable balances are on terms in accordance with Statement of Intent.

### 14. Investment Property

**For the year ended 30 June 2022**

| | Land $000 | Buildings $000 | Total $000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 30 June 2020 | 16,293 | 19,000 | **35,293** |
| Additions at cost | - | 14 | **14** |
| Disposals at net book value | - | - | **-** |
| Revaluation adjustment | 8,658 | 4,786 | **13,444** |
| **At 30 June 2021** | **24,951** | **23,800** | **48,751** |
| Additions at cost | 613 | 409 | **1,022** |
| Disposals at net book value | (4,726) | - | **(4,726)** |
| Revaluation adjustment | 248 | 170 | **418** |
| **At 30 June 2022** | **21,086** | **24,379** | **45,465** |

The Company's investment properties consist of nine properties (2021: seven properties). Management determined that the investment properties consist of three classes – commercial, residential and cropping – based on the nature, characteristics and risks of each property.

As at 30 June 2022, the fair values of the properties are based on valuations performed by Kay Maw of Lewis Wright Valuation & Consultancy Ltd, an accredited independent valuer. The valuation method used was the market comparison approach. Rental income derived from investment properties was $2.346m (2021: $2.157m). Direct operating expenses generating rental income were $0.294m (2021: $0.294m).

### 15.1 Property plant and equipment

| | Freehold Land & $000 | Buildings $000 | Construction in Progress $000 | Leasehold Improvements $000 | Plant & Equipment $000 | Motor Vehicles $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2021** | | | | | | | |
| **At 1 July net of accumulated depreciation and impairment** | **49,997** | **9,386** | **107** | **4** | **904** | **326** | **60,724** |
| Additions at cost | - | 1,361 | 94 | - | 663 | 103 | **2,221** |
| Disposals and transfers | - | (64) | (92) | - | (4) | (21) | **(181)** |
| Revaluation adjustment | 3,523 | 4,996 | - | - | - | - | **8,519** |
| Depreciation charged for the year | (181) | (234) | - | (1) | (180) | (135) | **(731)** |
| **At 30 June net of accumulated depreciation and impairment** | **53,339** | **15,445** | **109** | **3** | **1,383** | **273** | **70,552** |
| **Year ended 30 June 2022** | | | | | | | |
| **At 1 July net of accumulated depreciation and impairment** | **53,339** | **15,445** | **109** | **3** | **1,383** | **273** | **70,552** |
| Additions at cost | - | 63 | - | - | 144 | 145 | **352** |
| Disposals and transfers | (613) | (394) | (109) | - | (18) | (75) | **(1,209)** |
| Revaluation adjustment | 32,216 | (5,945) | - | - | - | - | **26,271** |
| Depreciation charged for the year | (181) | (375) | - | - | (213) | (117) | **(886)** |
| **At 30 June net of accumulated depreciation and impairment** | **84,761** | **8,794** | **-** | **3** | **1,296** | **226** | **95,080** |

The fair value of freehold land (including forestry land) and improvements (including buildings) are determined by independent valuation. The independent valuation was performed by Bruce Cowper and Kay Maw of Lewis Wright Valuation & Consultancy Ltd, independent accredited valuers. The fair value as per the valuation at 30 June 2022 was $93.55m (2021: $68.78m).

Fair value is the amount for which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable to those held by the Company.

## Notes to the financial statements (continued)

### 15.2 Right of use assets and lease liabilities

This note provides information for leases where the group is a lessee.
For leases where the groups is a lessor, see note 22.

**Amounts recognised in the statement of position**
Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

**For the year ended 30 June 2022**

| | Buildings $000 | Land $000 | Total $000 |
|---|---|---|---|
| **At 30 June 2020** | **508** | **1,015** | **1,523** |
| Additions (Note 15.1) | **3** | - | **3** |
| Disposals (Note 15.1) | **-** | - | **-** |
| Depreciation expense | (44) | (35) | **(79)** |
| **At 30 June 2021** | **467** | **980** | **1,447** |
| Additions (Note 15.1) | - | - | **-** |
| Disposals (Note 15.1) | - | - | **-** |
| Depreciation expense | (45) | (35) | **(80)** |
| **At 30 June 2022** | **422** | **945** | **1,367** |

Set out below are the carrying amounts of lease liabilities (included under financial expenditure) and the movements during the period:

**For the year ended 30 June 2022**

| | 2022 $000 | 2021 $000 |
|---|---|---|
| **As at 1 July** | **1,501** | 1,552 |
| Additions | **-** | - |
| Accretion of interest | **54** | 56 |
| Payments | **(111)** | (111) |
| **At 30 June** | **1,444** | 1,497 |
| Current | **115** | 57 |
| Non-current | **1,329** | 1,444 |
| **At 30 June 2022** | **1,444** | 1,501 |

### 16. Biological Assets (Consumable)

Biological Assets consist of sheep and cattle (Livestock) and plantation trees (Forestry).
The group farms livestock for the sale of sheep, lambs, cattle and calves.

**(a) Reconciliation of opening balance to closing balance**

**For the year ended 30 June 2022**

| | Sheep | | Cattle | | Forestry | | Total |
|---|---|---|---|---|---|---|---|
| | Quantity | $000 | Quantity | $000 | Hectares | $000 | $000 |
| **Open balance** | | | | | | | |
| As at 1 July | **31,116** | **6,262** | **4,651** | **3,841** | **1,534** | **12,059** | **22,162** |
| Natural Increase | **32,328** | **4,043** | **2,047** | **1,706** | **-** | **-** | **5,749** |
| Purchases | **77** | **79** | **31** | **158** | **-** | **-** | **237** |
| Change in Fair Value | **-** | **1,015** | **-** | **1,647** | **-** | **(1,493)** | **1,169** |
| Sales | **(27,846)** | **(4,045)** | **(1,896)** | **(1,974)** | **-** | **-** | **(6,019)** |
| Death, Kills & Recovery | **(3,122)** | **(602)** | **(157)** | **(196)** | **-** | **-** | **(798)** |
| **Closing Balance as at 30 June** | **32,553** | **6,752** | **4,676** | **5,182** | **1,534** | **10,565** | **22,500** |

**(b) The fair value of biological assets as year end was:**

**Consumable Biological Assets Group**
**Livestock**

| | 2022 Quantity | $000 | 2021 Quantity | $000 |
|---|---|---|---|---|
| **SHEEP** | | | | |
| Mature Sheep | **25,648** | **5,710** | 24,948 | 5,173 |
| Immature Sheep | **6,905** | **1,042** | 6,168 | 1,089 |
| **Total Sheep** | **32,553** | **6,752** | 31,116 | 6,262 |

| | 2022 Quantity | $000 | 2021 Quantity | $000 |
|---|---|---|---|---|
| **CATTLE** | | | | |
| Mature Cattle | **2,735** | **3,632** | 2,646 | 2,700 |
| Immature Cattle | **1,941** | **1,550** | 2,005 | 1,141 |
| **Total Cattle** | **4,676** | **5,182** | 4,651 | 3,841 |

| | 2022 Hectares | $000 | 2021 Hectares | $000 |
|---|---|---|---|---|
| **FORESTRY** | | | | |
| **Forest Tree Crop** | | | | |
| **Total Forestry** | **1,534** | **10,565** | 1,534 | 12,059 |
| **Total Biological Assets as at 30 June** | | **22,500** | | 22,162 |

The fair value of livestock is determined by independent valuation as at 30 June 2022.
The independent livestock valuation was performed by Gisborne East Coast Farmers Ltd, independent livestock agents, in accordance with the Company's accounting policy detailed in Note 2.

The independent valuation used the quoted price in an active market as the appropriate basis for determining fair value. Where there is more than one active market that the Company has access to, the most relevant market has been used.

## Notes to the financial statements (continued)

The gain on initial recognition of livestock sold is recognised in the Statement of Comprehensive Income in the year of sale. At time of sale, wool is recorded as inventory.

The fair value of the forest tree crop is determined by an independent valuation. Independent forestry valuation as at 30 June 2022 was performed by PF Olsen and Company Limited, independent providers of professional forestry services. The fair value is assessed as follows:

- The maturity value of the existing tree crop and the future cost of realising that revenue are determined.
- Future costs and revenue are discounted from the year in which they occur to the date of the valuation by applying an appropriate discount rate.

The appropriate discount rate is determined by considering the recent sales of forests and the relative sensitivity of the value of the forest to future log prices.

The fair value of the forest tree crop excludes the value of the underlying land which is recorded separately in the financial statements. It also excludes the value of New Zealand Emissions Units.

Significant assumptions applied in this determination of fair value are:

| | **2022** | 2021 |
|---|---|---|
| Appropriate discount rate (pre-tax) | **6.0%** | 6.0% |
| Rate of inflation | **1%** | 1% |
| Rate of tax | **28%** | 28% |

### 17. Equity Instruments

| | **Actual 2022 $000** | **Budget Unaudited 2022 $000** | **Actual 2021 $000** |
|---|---|---|---|
| **At fair value** | | | |
| Shares - unlisted | **497** | 464 | 497 |
| Shares - listed | **2** | 2 | 2 |
| | **499** | **466** | 499 |

Investments are in ordinary shares, and therefore have no fixed maturity date or coupon rate.

**Value assumptions**

**(a) Listed shares**

Their fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

**(b) Unlisted shares**

The fair value of the unlisted investments has been estimated using valuation techniques based on assumptions, which are supported by observable inputs. Management believes the estimated fair value resulting from the valuation techniques and recorded in the Statement of Financial Position and the related changes in fair value recorded in equity are reasonable and the most appropriate at the Statement of Financial Position date.

### 18. Intangible Assets

Intangible assets consist of NZ Emissions Units.

**Reconciliation of opening balance to closing balance**

**For the year ended 30 June 2022**

| | **NZ Emission Units Post 1989** | |
|---|---|---|
| | **Quantity** | **$000** |
| **Opening Balance as at 1 July** | **125,000** | **5,437** |
| Valuation Increase/(Decrease) | **-** | **4,075** |
| **Closing Balance at 30 June** | **125,000** | **9,512** |

For the year ended 30 June 2021

| | **NZ Emission Units Post 1989** | |
|---|---|---|
| | **Quantity** | **$000** |
| **Opening Balance as at 1 July** | 125,000 | 3,969 |
| Valuation Increase/(Decrease) | - | 1,468 |
| **Closing Balance at 30 June** | 125,000 | 5,437 |

### 19. Contingencies

The Company has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trade Scheme. Should the Company deforest all of its pre-1990 forests, it would have a liability under the ETS to surrender New Zealand emissions units of approximately $12m determined at 30 June 2022 (2021: $6.9m). Should the Company experience a decrease in total carbon stocks for all of its post-1989 forests, whether due to events such as harvest or forest fire, it would have a liability under the ETS to surrender New Zealand emissions units of approximately $20.9m determined at 30 June 2022 (2021: $11.9m). The amount and timing of any liability is uncertain and is dependent on the occurrence of the circumstances described above and the price of emissions units at the time of deforestation.

### 20. Capital Commitments

The Company has no Capital commitments at 30 June 2022 (2021: $.073m).

## Notes to the financial statements (continued)

### 21. Transactions with Related Parties

During the year the Company paid various expenses to the Gisborne District Council and made sales to the Gisborne District Council, who is the ultimate sole shareholder of the Company. The amounts charged by and to the Gisborne District Council were based on normal terms and condition of trade. These are outlined below.

| | Sales to related parties | | Purchases from related parties | | Other transactions with related parties | |
|---|---|---|---|---|---|---|
| **Related Party Consolidated** | **2022 $000** | 2021 $000 | **2022 $000** | 2021 $000 | **2022 $000** | 2021 $000 |
| **Shareholder: Gisborne District Council** | | | | | | |
| Rates materials and dog registrations paid | **-** | - | **270** | 266 | **-** | - |
| Subvention payment and Dividends | **-** | - | **-** | - | **2,059** | 1,650 |
| Management Fee | **132** | 132 | **-** | - | **-** | - |
| Rental | **1,873** | 1,882 | **49** | 49 | **-** | - |
| Property Maintenance | **64** | 55 | **-** | - | **-** | - |
| Fleet Maintenance | **14** | 53 | **-** | - | **-** | - |
| Others | **2,424** | - | **54** | - | **-** | - |

No related party debts have been written off or forgiven during the year.

Details relating to key management personnel, including remuneration paid are included below. Key management personnel include all directors.

| **Compensation of key management personnel** | **2022 $000** | 2021 $000 |
|---|---|---|
| Short-term employee benefits | **237** | 197 |

| **Employees paid over $100,000 per year** | **2022** | 2021 |
|---|---|---|
| - $100,000 - $109,999 | **0** | 1 |
| - $110,000 - $119,999 | **0** | 0 |
| - $120,000 - $129,999 | **1** | 0 |
| - $130,000 - $139,999 | **1** | 2 |
| - $140,000 - $149,999 | **1** | 0 |
| - $150,000 - $159,999 | **2** | 2 |
| - $160,000 - $169,999 | **0** | 0 |
| - $170,000 - $179,999 | **0** | 0 |
| - $180,000 - $189,999 | **0** | 0 |
| - $190,000 - $199,999 | **0** | 0 |
| - $200,000 - $209,999 | **1** | 1 |

### 22. Operating Leases

The company has various commercial property leases. The leases run for various terms and are reviewed as per individual lease agreements.

| | **2022 $000** | **2021 $000** |
|---|---|---|
| Contracted Future Minimum Rental Income | | |
| Within one year | **2,237** | 2,154 |
| After one year but no more than five years | **10,429** | 8,236 |
| After more than five years | **35,793** | 30,367 |

### 23. Subsequent Events

The Directors resolved on 20 September 2022 to recommend a final dividend of the year ended 30 June 2022 of $2.5m.

### 24. Risk Identification and Management

The Company has in place policies and procedures to identify areas of significant business risk, and implement procedures to effectively manage those risks. Where appropriate the Board obtains advice directly from external advisors. Once a significant business risk is identified, the Board is advised and corrective action is taken promptly to mitigate and monitor the risk.

### 25. Capital Management

The Company's capital is its equity which comprises retained earnings. Equity is represented by net assets. The Group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, and general financial dealings to ensure the Company effectively achieves its objectives and purpose, whilst still remaining a going concern.

### 26. Financial targets

| | | **Actual 2022 $000** | Actual 2021 $000 |
|---|---|---|---|
| A return on shareholder' funds ratio of at least 3% (1) | **Achieved** | **3%** | 17% |
| A bank debt to bank debt plus equity ratio of no more than 25% (2) | **Achieved** | **9%** | 12% |
| A minimum five year rolling average GDC return on investment of 5% (3) | **Achieved** | **6%** | 6% |
| An interest coverage ratio of at least times 4.0 (4) | **Achieved** | **7** | 12 |
| A shareholder funds to total assets ratio of no less than 75% | **Achieved** | **86%** | 82% |
| GHL Meets the minimum level of distribution outlined in the SOI | **Achieved** | **$1.9m** | $1.8m |

(1) EBIT/Average Shareholder's funds
(2) Bank/Bank + Equity
(3) Distribution/Contribution to Equity Averaged over 5 years
(4) EBIT&Reval/Financing expenditure

## Notes to the financial statements (continued)

### 27. Non-Financial targets

| GOAL | OBJECTIVE | MEASURE | ACHIEVED |
|---|---|---|---|
| **Ensure GHL are effectively managing Community Housing on behalf of GDC.** | Residents are satisfied with the GHL's management of Community Housing.<br>Operate within parameters set by GDC. | Annual satisfaction survey of 95% or better.<br>Budgets are adhered to. | **Achieved** |
| **Ensure the Waikanae Beach Top 10 Holiday Park is positively contributing to Tairawhiti's tourism sector.** | Customers are satisfied with the service provided by the park staff and facilities provided. | GRI Index score of 85% or better. | **Not Achieved -80%** |
| **Ensure land is managed sustainably and to be a leader in land stewardship.** | Land and waterways are managed in line with best practice. | Environmental plans are in place for each of the three stations and budgets incorporate annual spend on measures to implement improvements required.<br>30m riparian strips are enforced to better protect watercourses from the effects of forestry. | **Achieved** |
| **To make safety our priority and provide a safe environment.** | Maximise safety across all divisions.<br>A Health and Safety Calendar and Annual Improvement Plan are in place. | Minimum of 10 Health and Safety Committee meetings held each year.<br>Health and Safety Calendar is reviewed annually and adhered to.<br>The Annual Improvement Plan is agreed in January each year in consultation with an independent Health and Safety provider. | **Achieved** |
| **To maximise returns to GDC.** | All assets are fully utilised. | Maintain 100% occupancy across the Property portfolio. | **Achieved** |
| **To be a good employer.** | To be a company people want to work. | Training opportunities provided.<br>Annual review of salaries to progress towards our goal of all permanent staff being paid the living wage. | **Achieved** |
| **Ensure assets are managed prudently.** | Assets are maintained/ upgraded in a timely cost-effective manner. | A ten-year Asset Management plan is in place.<br>A three-year rolling Maintenance plan is in place.<br>Management and Maintenance plans are reviewed annually to ensure maintenance work is being undertaken and priorities reassessed as required.<br>Annual budgets reflect maintenance plans. | **Achieved** |



## Statutory information

**Directors holding office during the year**

| | |
|---|---|
| John Rae | (Chairman) |
| David Mullooly | (Deputy Chairman) |
| Andrew Allan | |
| Robert Telfer | |
| Hayden Swann | |
| Joshua Wharehinga | |

**Entries in the interests' register**

**General notice of interests declared during the year (Section 140(2) of the Companies Act 1993)**

No general notices of interest were notified by directors during the year.

**Share dealings (Section 148 of the Companies Act 1993)**

No director has had any relevant interest in any shares issued by the Company.

**Use of company information (Section 145 of the Companies Act 1993)**

During the year the Board received no notices from any director requesting to use Company information received in their capacity as a director which would not otherwise have been available to them.

**Directors' insurance (Section 162(7) of the Companies Act 1993)**

The Company has insured, and provided indemnities to all its directors against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as directors.

The insurance/indemnity does not cover liabilities arising from criminal convictions

**Directors' remuneration (Section 161(2) of the Companies Act 1993)**

Directors' remuneration in respect of the year ended 30 June 2022 was as follows:

| | |
|---|---|
| J Rae | $40,000 |
| D Mullooly | $59,251 |
| A Allan | $37,344 |
| R Telfer | $35,138 |
| J Blake | $11,111 |
| H Swann | $35,138 |
| J Wharehinga | $18,473 |

In addition to directors' fees the following amount for vehicle and expense reimbursement was paid $6,640 (2021: $1,656)

No other benefits have been provided by the Company to a director for services as a director or in any other capacity. No loans have been made by the Company to a director nor has the Company guaranteed any debts incurred by a director.

# Directory

**Directors**

| | |
|---|---|
| John Rae | (Chairperson) |
| David Mullooly | (Deputy Chairperson) |
| Andrew Allan | |
| Robert Telfer | |
| Jacqueline Blake | (Retired) |
| Hayden Swann | |
| Joshua Wharehinga | |

**Registered Office**

The Works Building
41 The Esplanade
Gisborne 4040

**Postal Address**

PO Box 694
Gisborne 4040
Telephone 020-4183 4481

**Senior management**

Chief Executive – John Rae – acting

**Auditor**

Ernst & Young on behalf of the Office of the Auditor General – Stuart Mutch

**Tax Agent**

Pricewaterhouse Coopers
PO Box 645
Napier 4140

**Bankers**

ANZ - Gisborne Branch
PO Box 1246
Gisborne 4040

**Solicitors**

Grey Street Legal – Gisborne Holdings Limited
PO Box 146
Gisborne 4040

# Where to from here?

# What does the future look like for GHL?

**The future is capital growth and sustainable returns for Tairāwhiti.**

How we get there is still a blank canvas...


GHL
GISBORNE
HOLDINGS LTD
Investment for local return


TFL
TAUWHAREPARAE
FARMS & LIVESTOCK


TOP
10
Waikanae Beach


PROPERTY
HOLDINGS


Wash'n'Go
Gisborne Auto Wash

GISBORNE DISTRICT COUNCIL

22-263

| | |
|---|---|
| **Title:** | **22-263 Health & Safety** |
| **Section:** | Health & Safety |
| **Prepared by:** | David Wilkinson - Health & Safety Manager |
| **Meeting Date:** | Wednesday 23 November 2022 |

| | | |
|---|---|---|
| Legal: No | Financial: No | Significance: **Low** |

# Report to AUDIT & RISK/ĀRAI TŪRARU ME TE TĀTARI KAUTE Committee for information

## PURPOSE - TE TAKE

The purpose of this report is to update the Audit & Risk Committee with specific information on critical health, safety and wellbeing risks, and controls to mitigate these risks at all Gisborne District Council workplaces.

## SUMMARY - HE WHAKARĀPOPOTOTANGA

The Gisborne District Council has duties under the Health & Safety at Work Act 2015 (HSWA) and associated Regulations. These include:

- Applying due diligence to ensure Council, through its Chief Executive, provides resources and support to meet legal health and safety obligations.
- Ensuring that significant health and safety risks have been identified and that robust controls are implemented to mitigate these risks, and that they are reviewed regularly.
- Assurance that all workers are confident that Council is providing a safe workplace for its workers and other persons.
- Confirming that Council is compliant with health and safety legislation and striving to continuously improve health and safety systems and culture.
- Ensuring all workers are valued and that their health, safety, and wellbeing is essential to the overall success of Gisborne District Council.
- Ensuring senior management and councillors are aware of their duties under s.44 "Due Diligence" and understand Council risks and resources available to mitigate.
- Providing key information relating to these matters at a governance level.
- Review of COVID-19 situation, working collaboratively with the Risk Manager to ensure lessons learnt are incorporated into plans, controls, and resources available.

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 - NGĀ TŪTOHUNGA

**That the Audit & Risk/Ārai Tūraru me te Tātari Kaute Committee:**

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

*Authorised by:*

**James Baty - Director Internal Partnerships**

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**Keywords**: Health and Safety, risk, wellbeing, legal, obligations, COVID-19

## BACKGROUND - HE WHAKAMĀRAMA

1. The Health & Safety at Work Act (HSWA) provides regular opportunities to review case law and related precedents together with frequent Regulator media reports.

2. Our focus continues to be on critical risks, staff wellbeing, and building a culture where all our workers feel supported, understand the risks associated with their work, and the controls needed to mitigate these. Accordingly, this report provides updates.

3. One of the key requirements of health and safety legislation is that it is mandatory to have active worker participation. We formally apply this in two ways:

   a) By having nominated Health and Safety Representatives, who cover a specific work group across Council. Currently each representative operates in this role for a period of two years. Health and Safety Representatives are consulted on worker health and safety matters, involved in investigations, meet quarterly and are given a variety of training opportunities during their term.

   b) All workers are encouraged to report accidents, incidents and near misses through the VAULT (recently renamed Damstra Safety) system (our health and safety management platform). A mobile VAULT/Damstra app is available, which staff are encouraged to use, and uptake continues to be encouraging.

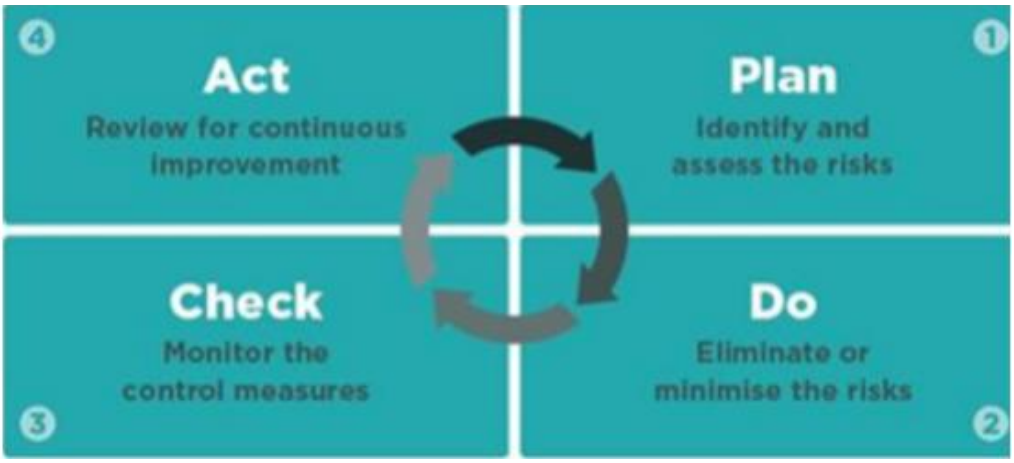
4. Gisborne District Council recognises that a well-functioning health and safety system relies on participation, leadership, and accountability. HSWA sets out the principles, duties, and rights in relation to workplace health and safety. A guiding principle of HSWA is that workers and others need to be given the highest level of protection from workplace health and safety risks, as is reasonable.

5. A review of Council's strategic risks included Health & Safety, resulting in several options to ensure ongoing continuous improvement.

### Identified Health and Safety Operational Risks

6. Healthy and safe work starts with identifying and understanding what our work-related health and safety risks are. It then involves implementing what is reasonable and practicable to eliminate those risks. Where the risk cannot be eliminated, it must be minimised so far as is reasonably practicable.

7. We follow the "Plan-Do-Check-Act" four steps model to help manage our work health and safety risks:




8. We prioritise critical risks first before managing less serious risks. Teams are required to review work activities on an ongoing basis and to identify any new risks that need to be managed. We work with other businesses where we have shared work risks (e.g., share a workplace or in a contracting chain). In addition, we ask workers for input on not only identifying health and safety risks but also when choosing solutions. We believe people are more likely to take responsibility and make good choices if they have been involved in the conversation, remembering that workers are the eyes and ears of our business. They could suggest practical, cost-effective solutions and often do.

9. Teams have identified their operational risks and together with controls, are reviewed on an annual basis, or post any incident/accident. We have introduced a business partnership model with teams assigned their health and safety support where the HomeSafe team collaborate and review team risks developing minimum risk guidelines for staff and contractors to follow.

10. Much of Council's medium to high-risk work is undertaken by contractors. Before becoming a Council approved contractor, a health and safety assessment is undertaken with contractors who are required to pass a pre-qualification check of their health and safety systems using our pre-qualification system SHE. 'SHE' helps us make smarter health and safety decisions, all backed by data and supported by rigorous process. Changes to the pre-approval process (cross-accreditation with Tōtika) have been ratified and training for staff across Council under way. Council staff who engage medium or high-risk contractors then undertake a check of any qualifications, licensing, safety plans and associated documentation before work commences. Monthly monitoring of contractors undertaking physical work is required by the person responsible for engaging or a suitable project consultant/team. Examples are the floodwater and roading network maintenance projects which have dedicated health and safety roles to verify and assure performance that is overseen by the HomeSafe team.

11. There are staff capacity and capability issues with Health and Safety personnel pursuing other opportunities within council and time taken to bring replacements up to speed.

12. Our top ten identified operational risks are:
    - Conflict, violence, and aggression
    - Falls from heights
    - Driving and vehicle safety
    - Working in the road corridor
    - Contractor management
    - Confined spaces and access
    - Isolated, remote, lone working
    - Hazardous substances, including asbestos
    - Mental health and wellbeing
    - Staff turnover and retention.

13. The HomeSafe, and Risk teams remain vigilant in relation to the COVID-19 situation across Tairāwhiti and New Zealand. At the time of writing case numbers in Tairāwhiti had seen a slight increase, however, significantly lower than our previous reporting period. Council maintains significant 'precautionary' stocks of P2 masks and RAT test kits. All remaining Government workforce vaccine mandates ended on 11:59pm 26 September 2022. All vaccination and testing requirements for travellers arriving by air or sea in New Zealand have also ended. Information is available to all staff via Naumai (staff intranet) and other communication channels, ensuring we are well prepared – particularly in terms of resources, business continuity plans, and PPE should the current situation change.

## Compliance

14. Workplace health and safety is not just about compliance with every letter of the law. It is about making sure our basic proposition about workplace health and safety is cemented in our organisation's culture. To this end, several compliance initiatives are under way or completed, with health and wellbeing a key focus.

15. Gisborne District Council plays a key role in the local Te Tairāwhiti Asbestos Liaison Protocols where Council, Hauora Tairāwhiti, Fire & Emergency New Zealand and WorkSafe jointly support the reduction of occupational and public health risks associated with the exposure to asbestos.

16. Gisborne's branch of NZISM (New Zealand Institute of Safety Management) continues to promote safety in Tairāwhiti.

17. To ensure all elected members fulfil due diligence in their capacity as an officer, health and safety reports to the Audit & Risk Committee will also be included in the subsequent Council agenda. The updates to the Governance Structure and Terms of Reference (**Report 20-219**) will mean that such information in the future will be accompanied by any recommendations from the Audit & Risk Committee.

18. Part of the role of an Officer of a PCBU[1] is to ensure that there is a safe workplace, and that Council has required resources available. We achieve this in several ways:

    (a) COR (Central Organising Rōpū) led by the Chief Executive, meet weekly and discuss health and safety. Regular reviews of health and safety risks are undertaken – including general data, trends, accident data, critical risks and changes to guidance, standard operating procedures and health and safety Information.

    (b) The Chief Executive and COR ensure sufficient finance is made available as and when required.

    (c) Directors attend Health and Safety Committee meetings.

## Contractor Management

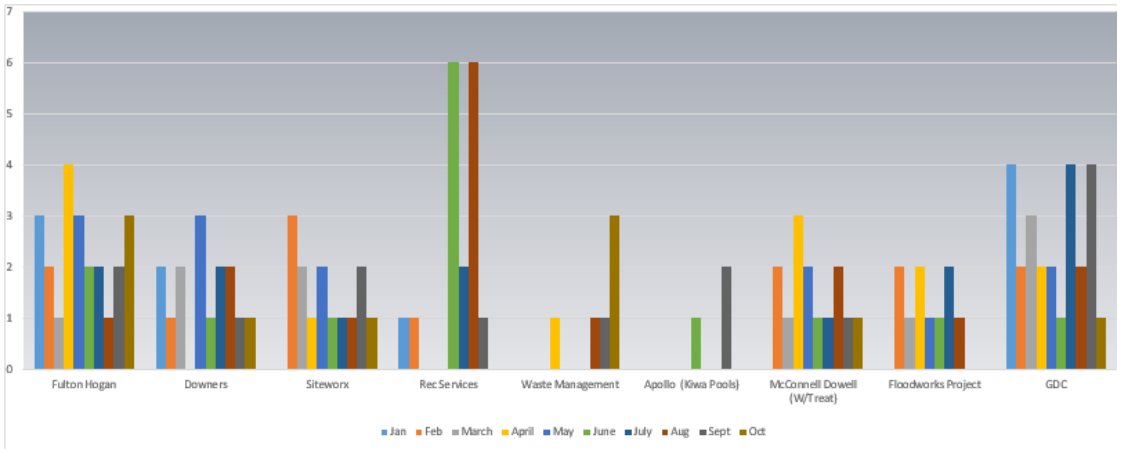
19. With significant numbers of contractors engaged in Council work, many on short duration works, obtaining accurate and timely data can be challenging. Main "Tier1" contractors have regular meetings with their Council counterparts where health and safety is the first item on the agenda. Incidents, accidents and near misses are reviewed and any recommendations arising from investigations shared.

20. The benefit of collaboration not only ensures that Council complies with requirements under Section 34 of HSWA (overlapping duties) but also achieves benefits when exchanging learnings. Recent contractor event investigations have provided the opportunity to share learnings within Council teams. Increased emphasis on assurance and verification, regular reviews, site audits and investigation reviews. Additional contractor near miss reporting is monitored to evaluate trends and comparisons with reported Injury rates (**Table 1**)

Te Kaunihera o Te Tairāwhiti
**Gisborne District Council**

**Near Miss reporting - Tier 1 Contractors**
*Last 6 Months*

| | 2021 | | 2022 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nov | Dec | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct |
| Fulton Hogan | 3 | 2 | 3 | 2 | 1 | 4 | 3 | 2 | 2 | 1 | 2 | 3 |
| Downers | 2 | 1 | 2 | 1 | 2 | 0 | 3 | 1 | 2 | 2 | 1 | 1 |
| Siteworx | 1 | 1 | 0 | 3 | 2 | 1 | 2 | 1 | 1 | 1 | 2 | 1 |
| Rec Services | 0 | 2 | 1 | 1 | 0 | 0 | 0 | 6 | 2 | 6 | 1 | 0 |
| Waste Management | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 1 | 3 |
| Apollo (Kiwa Pools) | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 2 | 0 |
| McConnell Dowell (W/Treat) | 0 | 1 | 0 | 2 | 1 | 3 | 2 | 1 | 1 | 2 | 1 | 1 |
| Floodworks Project | 0 | 0 | 0 | 2 | 1 | 2 | 1 | 1 | 2 | 1 | 0 | 0 |
| GDC | 1 | 5 | 4 | 2 | 3 | 2 | 2 | 1 | 4 | 2 | 4 | 1 |



## Keep Up to Date with Health and Safety Matters

21. Due diligence includes taking reasonable steps to acquire, and keep up to date with, knowledge of work health and safety matters Section 44(4)(a) of HSWA.

### Whakaari/White Island update

22. WorkSafe laid charges against 13 parties, three of which were under HSWA Section 44: "Officers Duties". The next hearing is set for July 2023; the outcome will likely lead to an increased interest and awareness around Officer Duties under Section 44 of HSWA.

### Other

23. WorkSafe NZ will completed national roadshows September-November with a focus on identification and management of carcinogens and airborne risks – including asbestos, silica, welding fume, and wood dust.

24. TPL Access Ltd/Auckland were fined $100,000 and $43,000 reparations for failing to ensure roof edge protection (scaffolding) was safe and fit to use. A worker fell 3.6 metres, suffered significant injuries and fortunate to survive. Our Homesafe team work closely with contractors on our larger construction projects including Banks Street and Kiwa Pools, carrying out regular audits covering all site risks including working at heights / scaffold.

25. Wellbeing of workers is a key focus for all workplaces. For the benefit of newly elected members, as previously reported, Council staff completed an engagement survey recently which included a focus on health, safety, and wellbeing. 343 staff were invited to take part in the survey, with 309 (90%) participating. Staff agree that these areas are well above average (top four):
    - Psychological Wellbeing – 80%
    - Our response to COVID-19 – 79%
    - Diversity & Inclusion – 79%
    - Health, Safety & Wellbeing 77%

## Our Key Processes

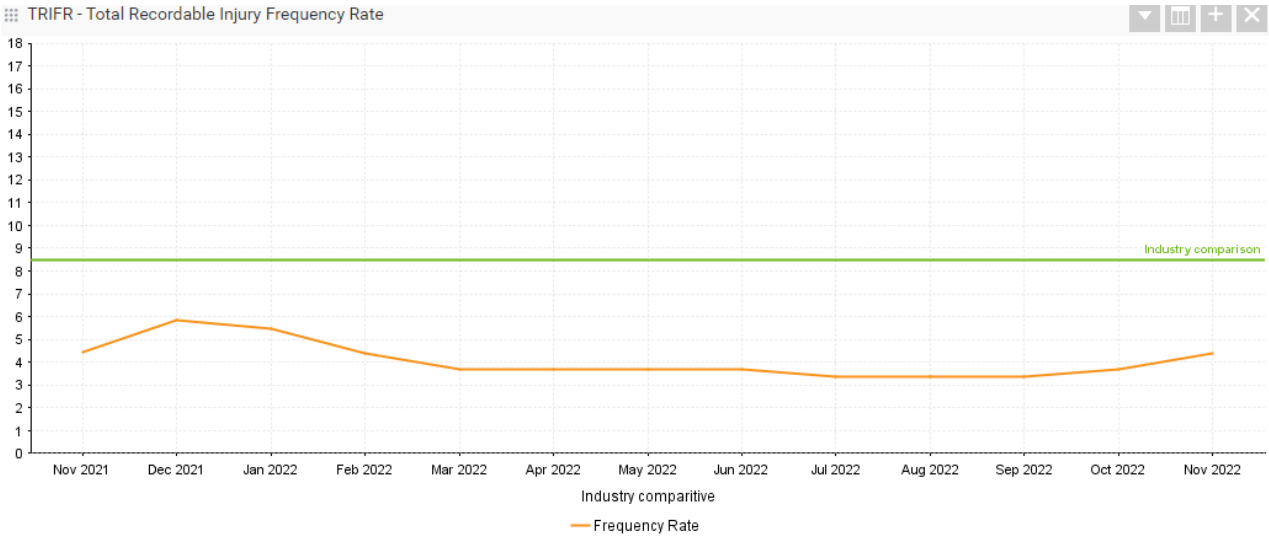
- Facilitate **Employee Participation or WEPR** (worker engagement, participation, and representation) process in line with HSWA regulations.
- Manage the VAULT/Damstra which aligns with AS/NZ4801 Occupational Health and Safety Management systems and provides a repository for all health and safety information, hazard registers, risk registers, compliance registers and monitors improvement actions and investigations.
- Lead the Health and Safety Risk Management process which is a core function of the VAULT/Damstra system. The risk module has a sophisticated structure that fully integrates with all outputs of VAULT where risk assessments and controls are monitored and continually improved.

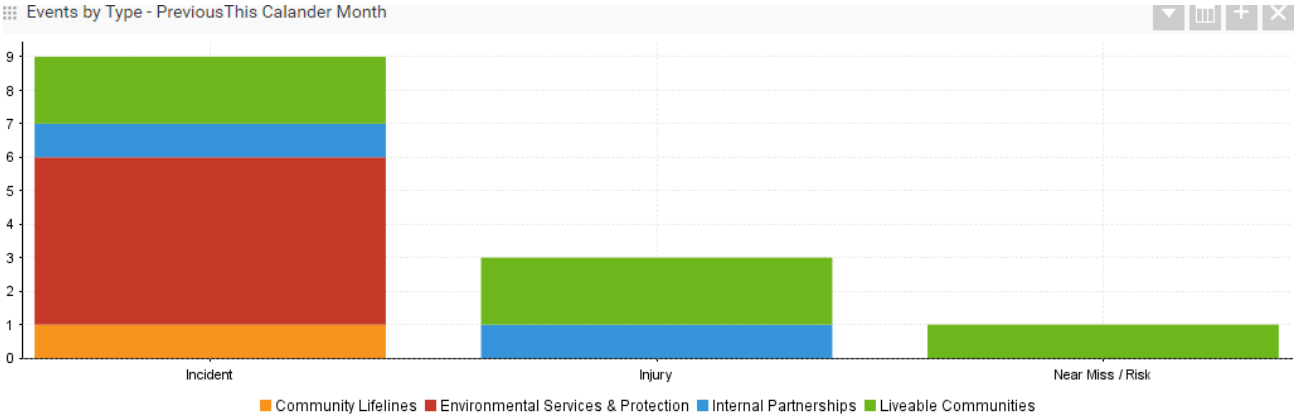
- Contribute to the **BOPLASS Mahi Tahi LG Collaboration Portal** which provides a shared resource where Council health and safety policy, guidance and related material is freely available, and members meet on a quarterly basis.
- Coordinate the **Audit and Review Process** from within VAULT/Damstra. Scheduling and improvement actions are applied to individuals and monitored until close-out.

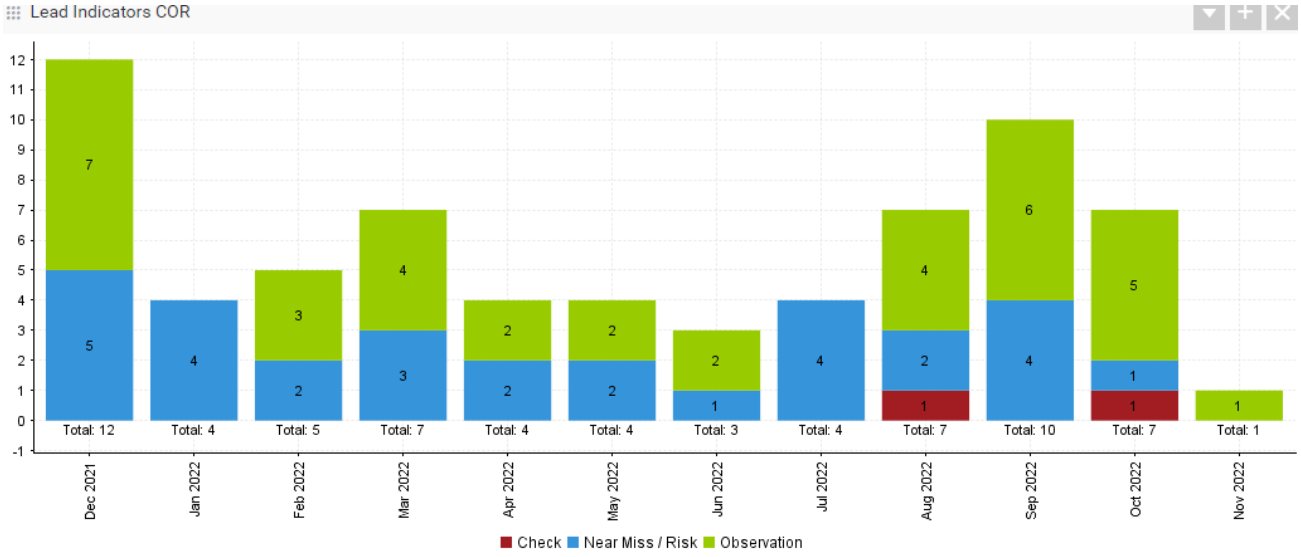
### Process Gaps or Improvement Opportunities

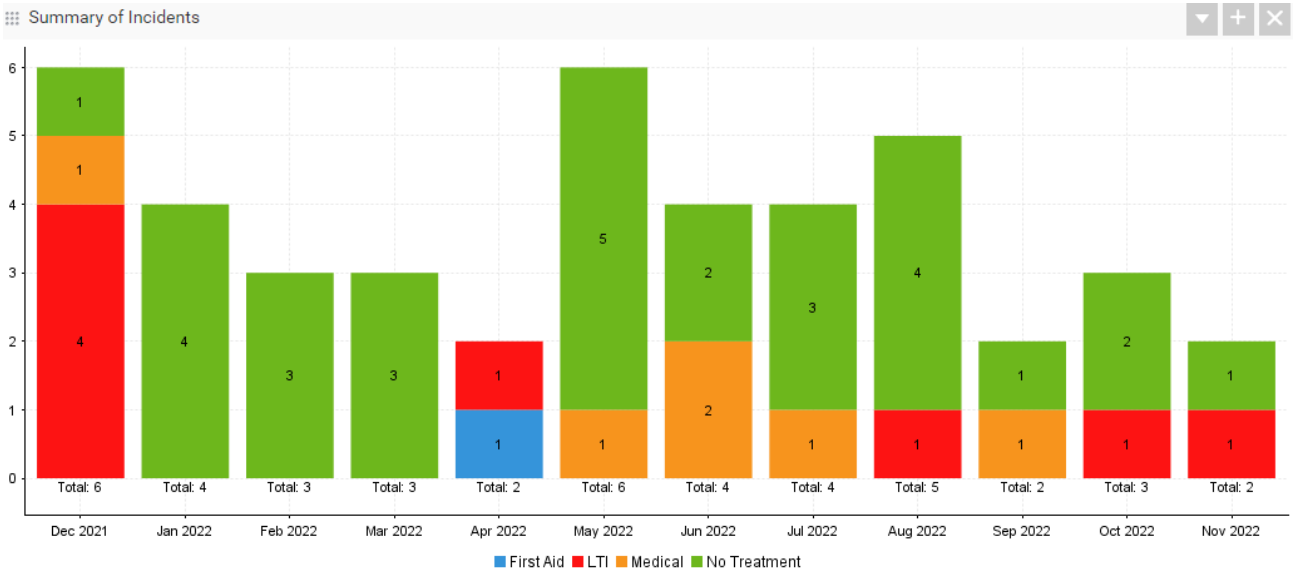
26. Improvement opportunities identified include:
    - Some aspects of VAULT/Damstra remain not well understood or utilised. Additional training is ongoing, targeting managers, team leaders and their teams.
    - Encouraging staff and contractors to ensure prompt reporting of events that include near misses.
    - Health and wellbeing initiatives require further development and implementation.
    - Managers/Team Leaders regularly engage with those working from home to support wellbeing and workstation set up.
    - Health and safety culture recognition and rewards scheme requires formalisation.
    - Audit and review of major contractors is ongoing and requires further enhancement.
    - Accountability – annual health and safety KPIs assessment and review requires completion following year-end.
    - Staff turnover adds pressure to depleted teams, and our People & Capability team who front recruitment. Increased focus on staff recruitment, retention and succession planning continues to provide challenges.

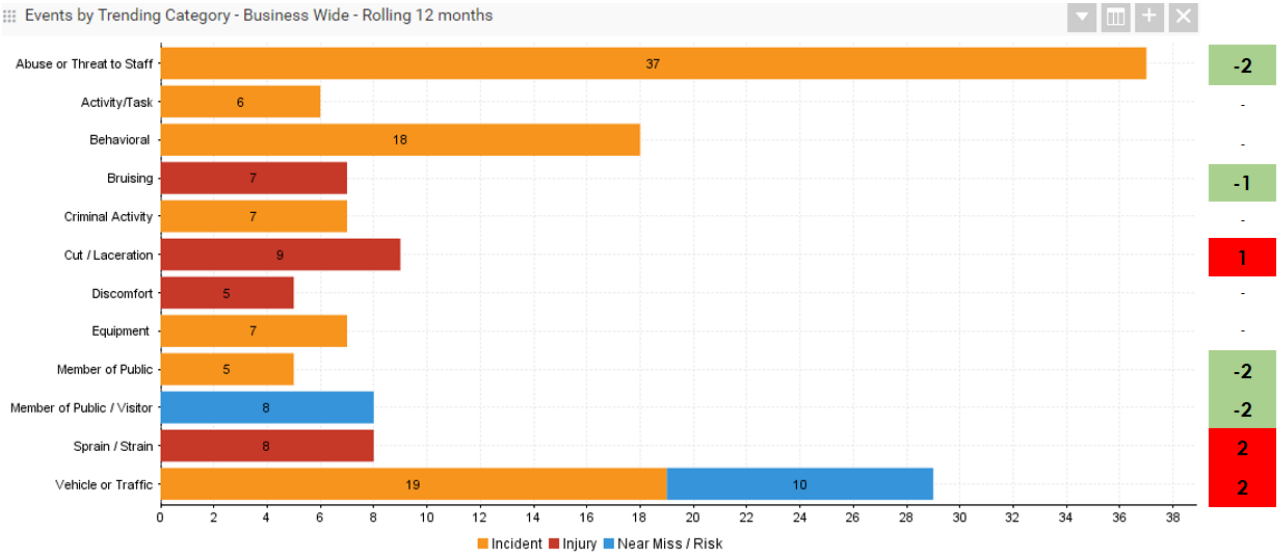
### Reporting




Events by Type - PreviousThis Calander Month
Incident
Injury
Near Miss / Risk
Community Lifelines
Environmental Services & Protection
Internal Partnerships
Liveable Communities


Lead Indicators COR
Total: 12
Total: 4
Total: 5
Total: 7
Total: 4
Total: 4
Total: 3
Total: 4
Total: 7
Total: 10
Total: 7
Total: 1
Dec 2021
Jan 2022
Feb 2022
Mar 2022
Apr 2022
May 2022
Jun 2022
Jul 2022
Aug 2022
Sep 2022
Oct 2022
Nov 2022
Check
Near Miss / Risk
Observation


Summary of Incidents
Total: 6
Total: 4
Total: 3
Total: 3
Total: 2
Total: 6
Total: 4
Total: 4
Total: 5
Total: 2
Total: 3
Total: 2
Dec 2021
Jan 2022
Feb 2022
Mar 2022
Apr 2022
May 2022
Jun 2022
Jul 2022
Aug 2022
Sep 2022
Oct 2022
Nov 2022
First Aid
LTI
Medical
No Treatment




NB: Abuse & threats to staff trending down.

LTI (Lost Time Injury) Injuries:

- Knocked head on door frame (Journeys).
- Slipped whilst loading motorcycle onto vehicle (Biosecurity).
- Fell in forest and branch penetrated leg (Waingake Transformation).

### Key/Explanation

- **Total Recordable Injury Frequency Rate (TRIFR):** Shows our performance gauged against similar organisations. It is an industry standard reporting calculation based on (recorded incidents × 200,000) ÷ total number of hours worked.
- Events by trend (last 12 months) highlight top three events as: vehicle and driving, conflict and aggression and an increase in criminal damage to Council facilities.

### Notifiable events:

- In the past 12 months no Council staff have been involved in events requiring notification to WorkSafe.
- Two notifiable events, both incurred by contractors, required notification to WorkSafe, both fully investigated.
  - Two people seriously hurt in road traffic incident, and remain off work with long recoveries.
  - Overhead wires struck by digger, resulting in machinery damage no injuries.

### Other events of Note:

27. Three most recent Lost Time Injuries: -
    - Knocked head on door frame
    - Slipped whilst loading motorcycle onto vehicle
    - Fell in forest and branch penetrated leg

## ASSESSMENT of SIGNIFICANCE - TE AROTAKENGA o NGĀ HIRANGA

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

28. 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 - TŪTAKITANGA TANGATA WHENUA

29. While no tangata whenua engagement was required to complete this report, we are respectful when partnering with our community and organisations and ensure Te Tiriti o Waitangi – The Treaty of Waitangi is recognised in our daily work.

30. HomeSafe team actively promote the principles of Te Tiriti o Waitangi – The Treaty of Waitangi.

## COMMUNITY ENGAGEMENT - TŪTAKITANGA HAPORI

31. No community engagement was required to complete this report. All teams – including HomeSafe – are responsible for the safety and wellbeing of our workers and community. Contractor management and requests for service from our community may require input and guidance from the HomeSafe team.

## CLIMATE CHANGE – Impacts / Implications - NGĀ REREKĒTANGA ĀHUARANGI – ngā whakaaweawe / ngā ritenga

32. There are no impacts or implications on climate change, however, we require regular re-evaluation of risks from the impact of increased extreme weather events.

## CONSIDERATIONS - HEI WHAKAARO

### Financial/Budget

33. Any financial implications relating to this report will be met from within existing budgets.

### Legal

34. HSWA and associated regulations were introduced in 2016 and now embedded. Significant fines have been highlighted in the media for PCBUs [1] who have not taken all reasonably practicable steps to mitigate health and safety risks. Any notifiable events have the potential to be investigated by the Government regulator (WorkSafe).

## POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me ngā RITENGA WHAKAMAHERE

35. There are no policy and planning implications to consider. Health and safety are inherent in all areas of Council work.

## RISKS - NGĀ TŪRARU

36. HSWA and its associated regulations require a PCBU to take all reasonably practicable steps to ensure the safety of its workers. There remains a risk to workers, Council reputation and regulatory censure due to any unidentified or unknown risks or failure of workers to follow safe work procedures. Risks to Council workers' health and wellbeing have increased, compounded by COVID-19, and increased flexible working arrangements including working from home. The majority of known critical risks identified continue to be well managed.

37. Staff turnover and availability of competent replacements can also have a detrimental effect on business operations and added pressure on teams that may be under resourced until replacements sourced and brought up to speed.

## 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 | 22-269 | Strategic Risk Deep Dive Background Report |
   | Item 11.2 | 22-264 | Litigation Risk and Legal Issues |

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:**

| | | |
|---|---|---|
| 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). |
| Item 11.2 | 7(2)(g) | Maintain legal professional privilege. |