

Report No.	21-29
Information Only - No Decision Required	

FINANCIAL PERFORMANCE FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2021

1. PURPOSE

- 1.1. This report is to inform members of Council of the financial performance for the past eight months to 28 February 2021 against the Council's revised budgets. Revised budgets include the Council approved end of year carry forwards along with any Council resolutions approving the use of reserves.

2. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 21-29.

3. FINANCIAL IMPACT

- 3.1. This item reports Horizons Regional Council's overall financial performance for the period ending 28 February 2021.

4. COMMUNITY ENGAGEMENT

- 4.1. There is no requirement for community engagement.

5. SIGNIFICANT BUSINESS RISK IMPACT

- 5.1. Assuming that the activities track to the 2020-21 Annual Plan and the 2020-21 revised budget, there is no significant business risk.

6. FINANCIAL REPORTING OF ACTUAL RESULTS TO REVISED BUDGET

- 6.1. For the first eight months of 2020-21, the operating surplus is \$2.43M favourable (2019-20 \$2.62M). This has arisen primarily as a result of underspending in close to all areas of expenditure with major variances of \$762k in other expenditure and \$327k in environmental expenditure. Salaries are currently \$1.016M favourable to date, however this is timing as a result of the number of pays per month vs the budgeted allocation per month which is equal. Overspends in both Insurance and Rent, Leases & Rates have offset favourable variances somewhat. Minimal change from the previous months for variances to budget.
- 6.2. Attached to this report is the Council's monthly report for the period ending 28 February 2021, reporting actual revenue and expenditure for each of the business activities, along with explanations for the material variances to the revised budget.
- 6.3. Of particular note is that the most activities are tracking favourable to budget. Where managers believe this favourable variance is a permanent variance, as opposed to timing, Council will see this reflected in the forecast. Staff have forecast, when compared to the revised budget, that Council will finish the year in an unfavourable position by (\$2.241M). This is due to less investment revenue, coupled with overspend in both external contractors and grants & subsidies.
- 6.4. The Investment activity is unfavourable due to a combination of factors. Investment Revenue is unfavourable due to lower than expected interest rates (although this will be

offset in other areas of the organisation with lower interest costs). Whilst Rate Penalty revenue is higher than anticipated this year, this has been more than offset by a greater amount of discounts provided earlier in the year. By year end, Investments is forecasting to be significantly unfavourable to budget as a result of a lower dividend anticipated from MWRC Holdings Ltd.

7. CAPITAL EXPENDITURE

- 7.1. Horizons has a significant capital works programme to undertake in this financial year. The 2020-21 Annual Plan has the capital budget set at \$17.560M. Council’s capital budget has been growing year on year by approximately \$3M per year. Of the budget for the current year, \$11.152M is for the River Management team’s infrastructure projects. Key projects included in the annual plan are; Reid’s Line floodway upgrade, Rural Upgrade Project, Lower Whanganui River Training Structures, Parewanui stopbank upgrade, Foxton drainage and flood protection upgrade.
- 7.2. Council’s other notable capital projects identified in the annual plan include Lake Horowhenua restoration works, silviculture & forestry improvements, Environmental Data site operation & upgrades, vehicle & plant replacements as well as building improvements & site developments.
- 7.3. Subsequent to the annual plan being adopted, Council approved the carry forwards from the 2019-20 financial year which arose from project delays, COVID-19 lockdown and the timing of works being completed across the end of the financial year. The approved carry forwards totalled \$2.945M. This resulted in the revised capital budget for the year increasing from \$17.560M to \$20.505M.
- 7.4. Central Government’s response to COVID-19 resulted in funding being given to Regional Councils’ who applied with appropriate projects that met the criteria. Horizons were successful in securing funding for two tranches of work – Jobs for Nature and Climate Resilience projects. The latter has resulted in a further increase on the current year’s capital project of \$4.720M. This takes the total capital budget for council in the 2020-21 financial year to \$25.225M.
- 7.5. Council’s forecast capital spend for the end of year is \$21.410M. the predicted underspend almost entirely comes from the River Management team as a result of delays on the two key projects of Lower Whanganui River Training Structures and the Rural Upgrade Project. Both projects have suffered delays during the year that have been outside council officer’s control. Some work has been re-budgeted in the LTP as a result of this.

8. ACCOUNTS RECEIVABLE

- 8.1. Accounts receivable as at 28 February 2021 is **\$3,043k** (this does not include rates).

SUNDRY DEBT		INVOICE AMOUNTS						INVOICE AGES			
MONTH	TOTALS	Under \$1k	\$1k to \$5k	\$5k to \$20k	\$20k to \$50	\$50k to \$100k	Over \$100k	Current	1 month	2 month	3+ months
FEB 2021	\$3,042,727	-\$20,380	\$214,430	\$346,913	\$208,589	\$141,790	\$2,151,386	\$2,885,963	\$21,624	\$3,177	\$123,231
Percentage	100%	-0.67%	7.05%	11.40%	6.86%	4.66%	70.71%	94.85%	0.71%	0.10%	4.05%
No. of Invoices	661	521	91	38	6	2	2	315	20	16	88
JAN 2021	\$5,017,074	\$409,593	\$882,670	\$656,686	\$276,065	\$112,188	\$2,679,873	\$4,686,535	\$195,518	\$1,399	\$133,622
Percentage	100%	8.16%	17.59%	13.09%	5.50%	2.24%	53.42%	93.41%	3.90%	0.03%	2.66%
No. of Invoices	2,324	1,858	367	84	9	2	3	405	3	1	31
DEC 2020	\$1,430,699	-\$21,225	\$154,430	\$275,780	\$289,698	\$90,293	\$641,723	\$1,270,699	\$10,131	\$12,974	\$136,895
Percentage	100%	-1.48%	10.79%	19.28%	20.25%	6.31%	44.85%	88.82%	0.71%	0.91%	9.57%
No. of Invoices	333	225	67	29	8	1	2	166	17	19	238

The current balance (being one month or less) makes up 95% of total receivables. The debt over three months old is being actively managed.

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9. INVESTMENT

9.1. MWRC Holdings

- 9.1.1. The 23 Victoria Avenue site is not yet fully tenanted so is performing financially as expected given the situation. Management are continually investigating opportunities to ensure this tenancy is filled as quickly as possible. The dividend originally indicated in the 2020-21 Statement of Intent is likely to be reduced in light of this.
- 9.1.2. The 2021-24 Statement of Intent was placed on the hub for Council at the end of February. Any feedback to this document needs to be provided to either the CFO or MWRC Holdings Ltd directors before 1 May 2021.
- 9.1.3. Hobson Wealth Portfolio value at 28 February 2021 was \$3.650M, an increase of \$317k in the current year.

9.2. Cash Investments

- 9.2.1. As at 28 February 2021 Horizons had a cash balance of \$6.6M (excluding term deposits). In addition there are term deposits of \$16M invested between 30 and 210 days from the date of deposit.
- 9.2.2. Interest rates remain variable and Horizons monitors the rates to maximise returns on its cash-flows whilst meeting policy and minimising risks. Interest rates continue to be much lower than what was budgeted for in the Annual Plan.

10. SWAPS

- 10.1. On 28 February Council had five interest rate swaps. These swaps in total fix \$8M of Council's debt at what was at the time historically low interest rates. Given the current interest rate climate, it is not intended to renew swaps as they become due. If new information regarding potential increases of interest rates comes to light, treasury staff will reconsider the use of interest rate swaps at that time.
- 10.2. The table below details the swaps in place at 28 February 2021:

Description	Amount	Term (yrs.)	Start Date	End Date	Fixed Rate
ASB Fixed	1,000,000	3.50	18 Sep 17	18 Mar 2021	4.26%
ASB Fixed	1,000,000	4.50	22 Mar 17	24 Sep 2021	3.90%
ASB Fixed	2,000,000	5.00	18 Sep 17	30 Sep 2022	4.47%
ASB Fixed	2,000,000	8.00	22 Mar 16	22 Mar 2024	4.54%
ASB Fixed	2,000,000	7.00	18 Sep 17	18 Sep 2024	3.87%

11. EXTERNAL LOANS

- 11.1. The below schedule details the loans that Horizons has borrowed externally. Excluding the one loan noted in the table below from Westpac, all other loans have been borrowed through the **Local Government Funding Agency (LGFA)**. The borrowing rates provided by LGFA have consistently been cheaper than alternative borrowing options. Council could further reduce interest expense by getting a credit rating. This is being investigated by staff, given the level of borrowing and the potential savings that would result from this. The grey shading through the table denotes those loans which have been borrowed on behalf of MWRC Holdings and directly on-lent to the holding company. Excluding the MWRC Holdings debt, Council's core debt position is \$37M.

Type	Term	\$ Value	Interest Rate	Date Maturing
Fixed	5 mo	4,000,000	0.51%	3-Mar-21
Fixed	6 mo	3,000,000	0.54%	15-Mar-21
Fixed	2 yrs 3 mo	3,000,000	2.25%	15-May-21
Fixed	6 mo	5,000,000	0.55%	2-Aug-21
Floating (Westpac)	7 yrs	5,000,000	Currently 0.97%	18-Aug-21
Fixed	3 yrs 8 mo	4,000,000	2.71%	14-Apr-22
Floating	5 yrs	2,500,000	Currently 0.91%	21-Aug-22
Floating	6 yrs	2,500,000	Currently 0.96%	21-Aug-23
Fixed	4 yrs 9 mo	2,000,000	2.09%	15-Apr-24
Fixed	5 yrs 10 mo	2,500,000	3.54%	15-Apr-24
Fixed	5 yrs 10 mo	2,500,000	3.75%	15-Apr-25
Fixed	5 yrs 2 mo	2,000,000	2.81%	15-Apr-25
Fixed	5 yrs 2 mo	5,000,000	2.81%	15-Apr-25
Fixed	6 yrs 4 mo	4,000,000	3.25%	15-Apr-25
Fixed	7 yrs 2 mo	2,000,000	2.97%	15-Apr-26
Fixed	8 yrs 2 mo	2,000,000	3.12%	15-Apr-27
Fixed	9 yrs 10 mo	3,000,000	3.19%	15-Apr-29
		54,000,000		

12. INTERNAL LOANS

- 12.1. Detailed below are the internal loans for the River Management activity of council. Many of the schemes below have multiple loans, covering various work programs and also have variable repayment dates. Interest is charged to the schemes based on the average interest expense incurred by Council over the previous financial year. The estimated closing balance for the current year forms the basis of the loan repayment budget for the 2021-31 Long Term Plan.

Scheme Name	30 June 2020 Actual Closing Balance	30 June 2021 Estimated Closing Balance
Ashhurst Stream	144,007	109,457
Foxton East Drainage	-	180,846
Hōkio Drainage	284,739	432,849
Koputaroa	269,662	227,710
Lower Kiwitea	119,508	96,885
Lower Manawatū	28,131,411	30,403,059
Lower Manawatū (Special Projects)	5,538,868	4,490,370
Lower Whanganui	1,831,414	2,637,399
Makerua Drainage	307,607	232,715
Manawatū Drainage	730,315	760,981
Matarawa	219,753	178,154
Moutoa Drainage	357,337	283,584
Ōhau - Manakau	396,423	357,002
Rangitikei	1,783,254	2,612,508
Upper Manawatū	114,739	96,889
Upper Whanganui	81,833	66,342
Whangaehu - Mangawhero	297,799	241,426
Whirokino Drainage	31,439	26,548
Total Schemes	40,640,108	43,434,725

- 12.2. The schemes have drawn internal loans at varying times based on the need for capital upgrade works or new infrastructure and as a result have many differing dates due for the repayment of the loans. In the above schedule there is one loan due for repayment at 30 June 2021. The longest loan term has a due date of 30 June 2040.
- 12.3. As part of the LTP, taking into account scheme rate rises and affordability for some schemes, there was a revision of loan repayment dates for the currently drawn internal loans. The longest loan due date is now 30 June 2046. There are two loans due for repayment at that date, the loan associated with the Reid's Line Upgrade and the loan associated with the Lower Whanganui River Training Structures.
- 12.4. In the latter part of the proposed LTP, some new loans also have a term of 20 years, taking the repayment dates out as far as 30 June 2049.
- 12.5. Pre-2004 floods, Council had a large amount of cash on hand. At the time the Council made the decision to lend the cash out to the schemes to help with the infrastructure project that followed the event. This is the main reason for the mismatch between the internal loan balance and the core external debt balances.

13. SIGNIFICANCE

13.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

Adrian Smith
CHIEF FINANCIAL OFFICER

Craig Grant
GROUP MANAGER CORPORATE & GOVERNANCE

ANNEXES

A Financial Performance Report