Amended Attachment 8.3.1

8.6. Draft Year End 2021/22 Results

Audit, Finance and Risk Committee report

Date of meeting	Thursday, 25 August 2022
Author	Jaden Wallace, Corporate Reporting Accountant
Responsible Director	Giles Southwell, Director Corporate Services

Purpose

1. To report on the financial results for the year ended 30 June 2022.

Recommendations

That the Audit, Finance and Risk Committee:

1. **Receives the Portfolio Health and Financial Health report for the year ending 30 June 2022.**

Background

2. Monthly financial results are reported to the Audit, Finance and Risk Committee as part of our prudent financial management responsibilities. The financial results for the year ended 30 June 2022 have been prepared and are now presented to the Audit, Finance and Risk Committee for review.

3. The Audit, Finance and Risk Committee (AFRC) Portfolio Financial Report includes financial performance information for the year ended 30 June 2022. Service delivery will be reported in the quarterly Portfolio Performance Report.

Portfolio Performance

4. A year-end operating surplus of $0.31M compared to a budgeted deficit of $0.84M, results in a positive variance of $1.15M. This reflects the achievement of the $1M savings in operational expenditure included in the 2022/23 Annual Plan. Overall, this is a good result considering various events that affected ECAN's operations including the flood recovery work, and Covid-related disruptions which particularly impacted the public transport network.

5. It should however be noted that this result is before unbudgeted asset value adjustments of $3.93M.

6. Surplus/(deficit) by Portfolio for FY22 is set out in the table below.

7. The overall performance for the financial year (including asset value adjustments) indicates a draft deficit of $3.62M compared to a budgeted deficit of 0.84M. This has resulted in a negative budgeted variance of $2.78M. If the accounting adjustments relating to the asset write offs were excluded, the surplus would be $0.31M as noted in (4) above. The accounting adjustment has been funded by reserves in the current financial year, with reserve replenishment budgeted in the subsequent 5 years as per the adopted 2022/23 Annual Plan.

	Actual	Budget	Variance (Budget)
Air Quality, Transport & Urban Development	(2.95M)	(1.41M)	(1.54M)
Biodiversity and Biosecurity	(0.07M)	(0.35M)	0.27M
Climate Change and Community Resilience	8.14M	7.41M	0.73M
Regional and Strategic Leadership	(2.20M)	(1.15M)	(1.05M)
Water and Land	(6.54M)	(5.34M)	(1.20M)
Total	(3.62M)	(0.84M)	(2.78M)
Less Accounting Adj.	3.93M	-	3.93M
Total (Excluding Accounting Adj.)	0.31M	(0.84M)	1.15M

8. In **Air Quality, Transport & Urban Development**, COVID-19 had a direct impact on operations throughout the year due to the direct link to transport patronage. Half price fares were applied from 1 April to all ECAN services including Total Mobility, however, revenue loss and associated costs will be 100% covered by Waka Kotahi. Increased expenses due to increased wage and fuel costs were offset by underspends across key partnership programmes.

9. The **Biodiversity and Biosecurity** programmes were also impacted by the COVID-19 lockdown measures experienced at the beginning of the financial year, as well as reduced approved funding from MPI. This led to unanticipated reductions in both revenue and expenditure, largely offsetting the surplus/deficit impact of the portfolio performance. Despite the underspend, the performance of the portfolio's programmes was largely on target.

10. In **Climate Change and Community Resilience**, revenue was more than budgeted at year-end which was driven by significant revenue claimed from the National Emergency Management Agency for the May 2021 flooding event and other on-the-ground projects that received unbudgeted funding from other partner organisations. The delays noted in various projects have not negatively impacted the net operating position of the portfolio due to offsetting impacts between the reduction in both revenue and expenditure, resulting in the favourable to budget variance in the portfolio.

11. **Regional and Strategic Leadership's** draft deficit was a result of higher-than-expected leave costs primarily due to COVID sickness, and lower than forecast additional rates revenue from newly developed properties. There were challenges noted in the user pay services delivery due to the impacts of COVID-19 and staff turnover. This caused a temporary reduction in service delivery and largely led to the draft deficit at year end. The capacity and capability to process consents was identified as a critical risk to ECAN and was the key contributor to a higher than budgeted deficit within the portfolio.

12. In **Water and Land**, COVID-19 related delays and recruitment challenges impacted the overall portfolio which was reflected in the 8+4 forecast, however, revenue remained in line with budget throughout the year as the portfolio is predominantly funded by rates. Accounting adjustments for water data and Managed Aquifer Recharge account for much of the overspend in the Freshwater Resilience and Monitoring and Understanding our Environment programmes.

Financial Health Performance

13. Financial Performance for FY22 is set out in the table below.

	Actual	**Budget**	**Variance (Budget)**
Revenue	236.30M	243.08M	(6.78M)
Expenditure	239.92M	243.92M	(4.00M)
Total Surplus/(Deficit)	(3.62M)	(0.84M)	(2.78M)
Less Accounting Adj.	3.93M	-	3.93M
Total (Excluding Accounting Adj.)	0.31M	(0.84M)	1.15M

14. Revenue and expenditure were both behind budget for the year, with the COVID-19 restrictions earlier in the financial year causing delays in various projects across the five portfolios. The reduction in revenue and expenditure is not indicative of an amendment to the scope of the service delivery.

Treasury Performance

15. Total cash at bank (including investments) was $49.7M as at 30 June 2022. Cash and short-term investment includes borrowing from LGFA and grant funding received in advance. These funds are invested in term deposits until required. Environment Canterbury is charged an average interest rate of 2.82% on $79M of debt.

16. Cash at bank at the same time last year (30 June 2021) was $43.9M. The cash position is favourable for this time of the year. Cash has remained steady compared to the last quarter ($49.0M at 31 March 2022), which was expected given that annual grant revenue is often received in advance and additional borrowing of $13.0M was

taken on in June 2022. Based on current cash levels, ECAN will be reviewing opportunities to gain additional income from increased use of Term Deposits where prudent.

17. Capital expenditure of $17.80M was $23.79M under full year approved budget, with the largest contributors to this variance being the Kainga Redevelopment and the Water Data project. Underspend on the Kainga Redevelopment is due to a delay in confirmation of the contract and the retendering of the project, and the Water Data project costs are lower than expected due to a change in accounting treatment that means a significant amount of water data programme expenditure is now treated as OPEX rather than CAPEX.

Fitch Credit Rating

18. In 2020, Environment Canterbury, upon the advice of our Treasury Advisors, Bancorp Treasury Services, engaged Fitch Australia Pty Ltd to provide an internationally recognised credit rating.

19. Fitch Australia Pty Ltd have recently completed their annual rating review and advised that Environment Canterbury have retained their AA+ Long-Term and F1+ Short-Term Issuer Default Ratings. (We have maintained these results since our initial assessment in 2020.)

20. The results of the review impact our borrowing costs with 10 points being deducted from the New Zealand Local Government Funding Agency (LGFA) borrowing rate if an AA rating is achieved.

21. The renewed ratings are in line with our Long-Term Plan target.

Attachments

1. FH BI Report 30 JU N 22 [**8.6.1** - 4 pages]
2. Porfolio Financial Report June 22 [**8.6.2** - 6 pages]

File reference	[SharePoint link for this paper]
Legal review	
Peer reviewers	[Names of two peer reviewers who have reviewed this paper]

Environment Canterbury Regional Council
Kaunihera Taiao ki Waitaha

1/07/2021 30/06/2022

FINANCIAL HEALTH REPORT

YTD Actual Expenditure Vs Full Year Budget

98.36%

YTD Actual/Full Year Budget %

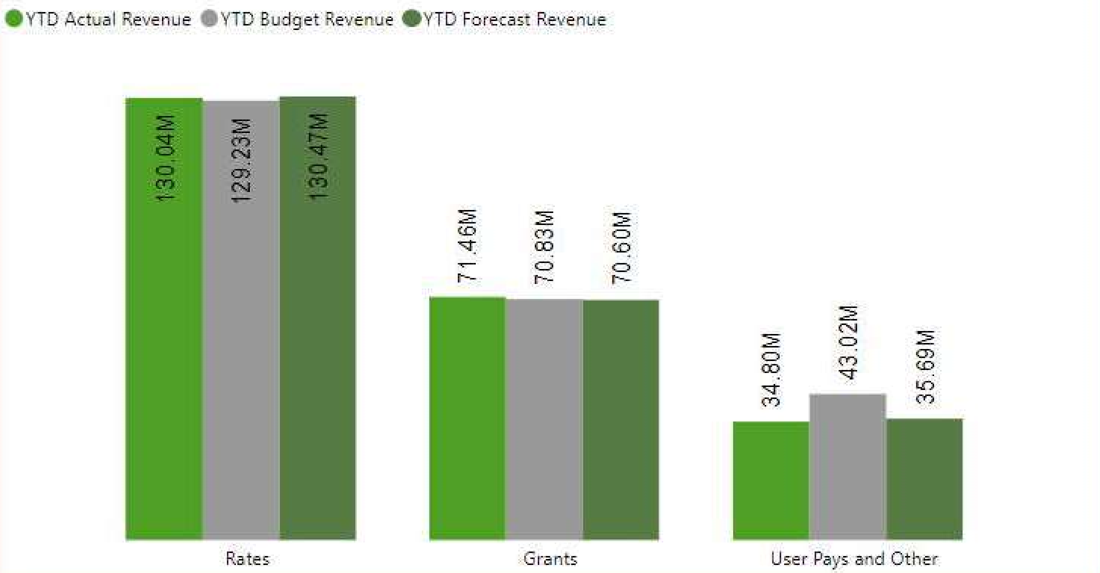
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	236.30M	243.08M	-6.78M	-2.79%	236.76M	-0.46M
Expenditure	239.92M	243.92M	-4.00M	-1.64%	240.61M	-0.69M
Surplus/Deficit	-3.62M	-0.84M	-2.78M		-3.85M	0.23M

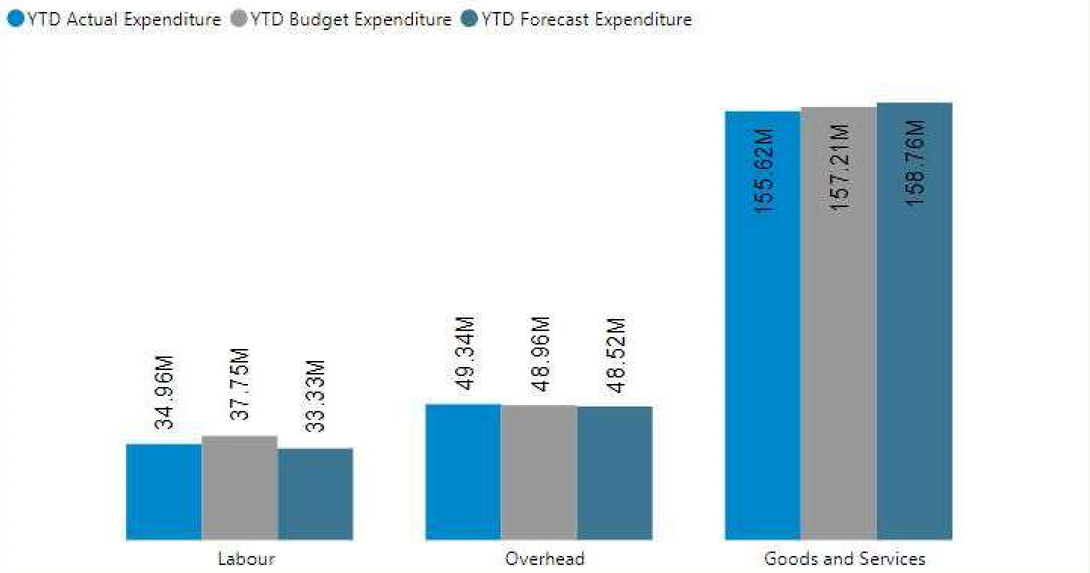
Revenue

User Pays and Other revenue was $8.22M below budget for the year as a result of lower bus fare revenue being collected due to COVID-19 disruptions, and in Consenting and Compliance due to a lower level of cost recovery from compliance activities. Rates and Grants revenue was materially in line with budget for the year with favourable variances of just $0.81M and $0.63M.

Expenditure

Goods and services expenditure was under budget by $1.59M for the year due to the Biodiversity and Biosecurity portfolio being under budget for the work done on the Regional Pest Management programme, which was impacted by COVID-19 and funding being confirmed after confirmation of the LTP. Regional and Strategic Leadership's Goods and Services expenditure is also under budget by $2.75M which is driven by underspend in the Leading Regional Planning and Compliance programme due to the impacts of COVID-19 and staff turnover.





Environment Canterbury Regional Council
Kaunihera Taiao ki Waitaha

Cash and Bank

as at 30/06/2022

49.7M

Cash

40.9M

Metrocard

3.7M

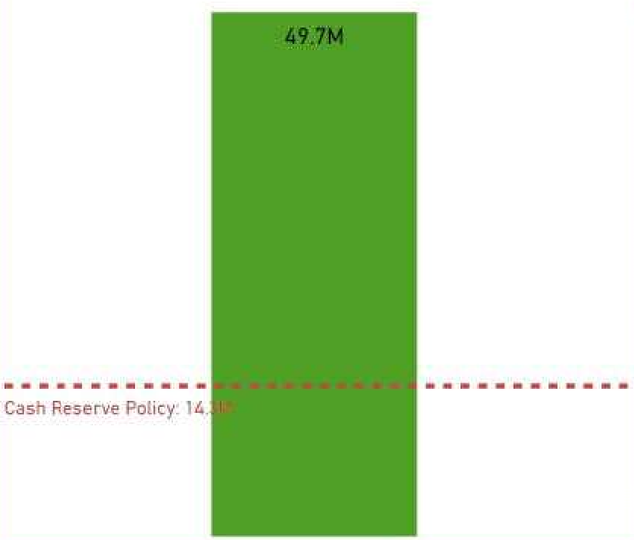
Investment

5.0M

Investment Details ($000)

$	Maturity	Days	Rate
1300	16/11/2022	365	1.99%
2100	12/04/2023	364	3.44%
1600	14/06/2024	731	5.03%

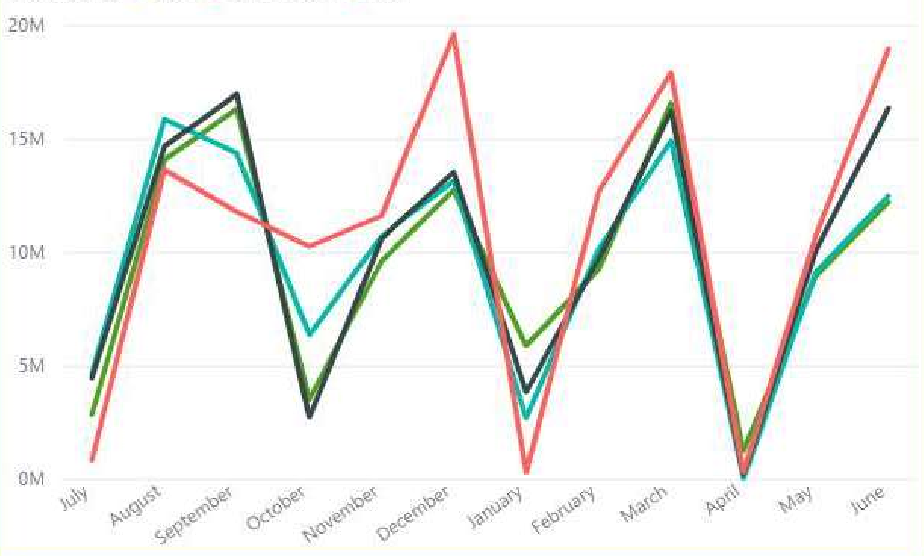
Total Actual Cash & Bank



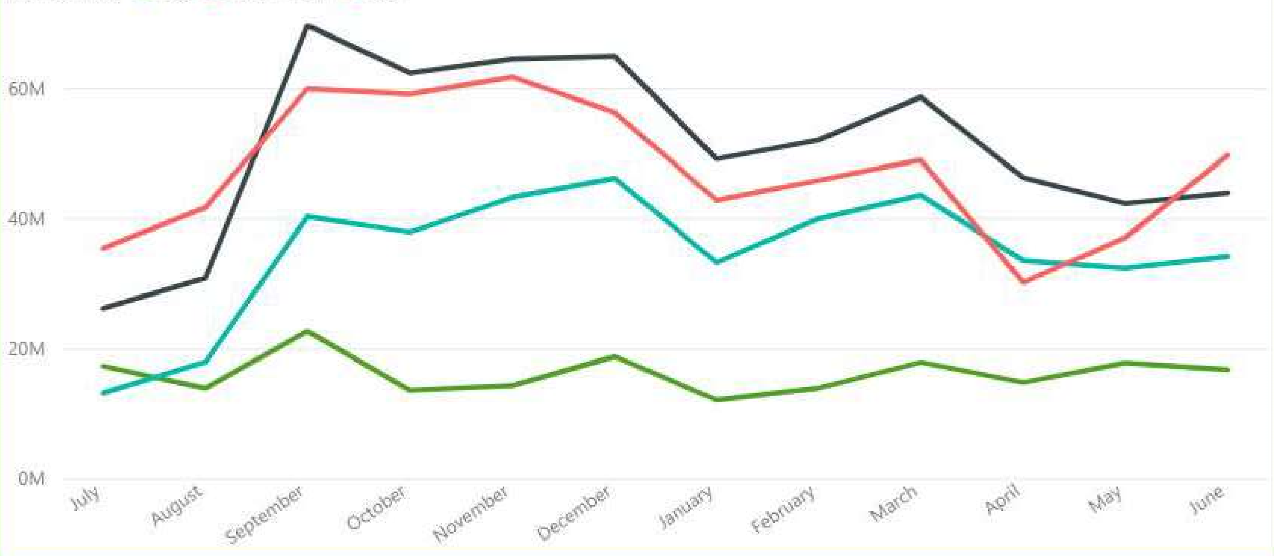
Financial Position

Cash and Bank	49.69M
Other Current Asset	17.49M
Non Current Asset	1,152.86M
Current Liabilities	-31.82M
Non Current Liabilities	-80.20M
Net Assets	1,108.02M

Rates Revenue Tracking Against Previous Years



Cash and Bank Balance Tracking Against Previous Years



Total Outstanding Debts (Excluding Rates)

Period Ending : 30/06/2022

2,643,654

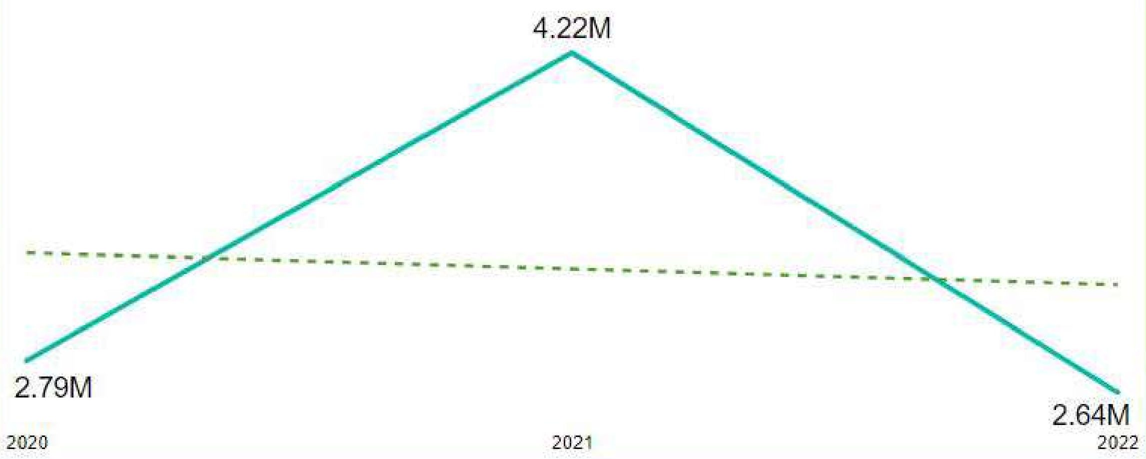
Environment Canterbury Regional Council
Kaunihera Taiao ki Waitaha

OVER 90 DAYS DEBT MANAGEMENT

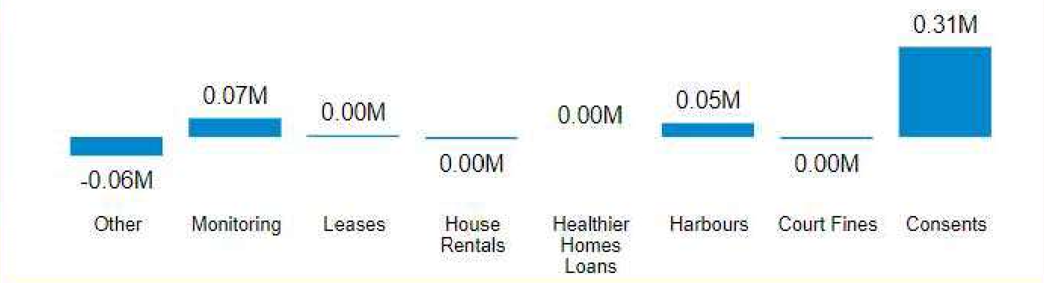
Total	Reminder	Payment Arrangement	Objection/ Query	Collection Agency	Others*
0.37M	0.07M	0.00M	0.13M	0.04M	0.12M

*Others includes Debt recovery, Liens, Court Action/Infringements

Amount by Year (Excluding Rates)

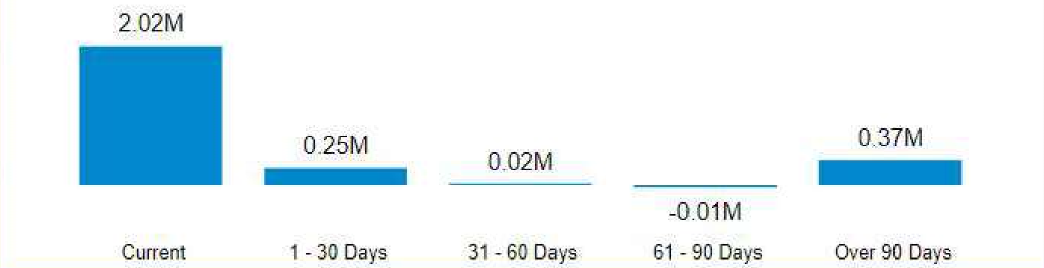


Over 90 Days Debts by Revenue Stream (Excluding Rates)



Total Debts by Revenue Stream (Excluding Rates)

Amount by Aging (Excluding Rates)



Notes

$2.02M of the $2.64M debt is current. Only $0.37M is over 90 days, which is at different stages of debt management as shown above.

Environment Canterbury Regional Council
Kaunihera Taiao ki Waitaha

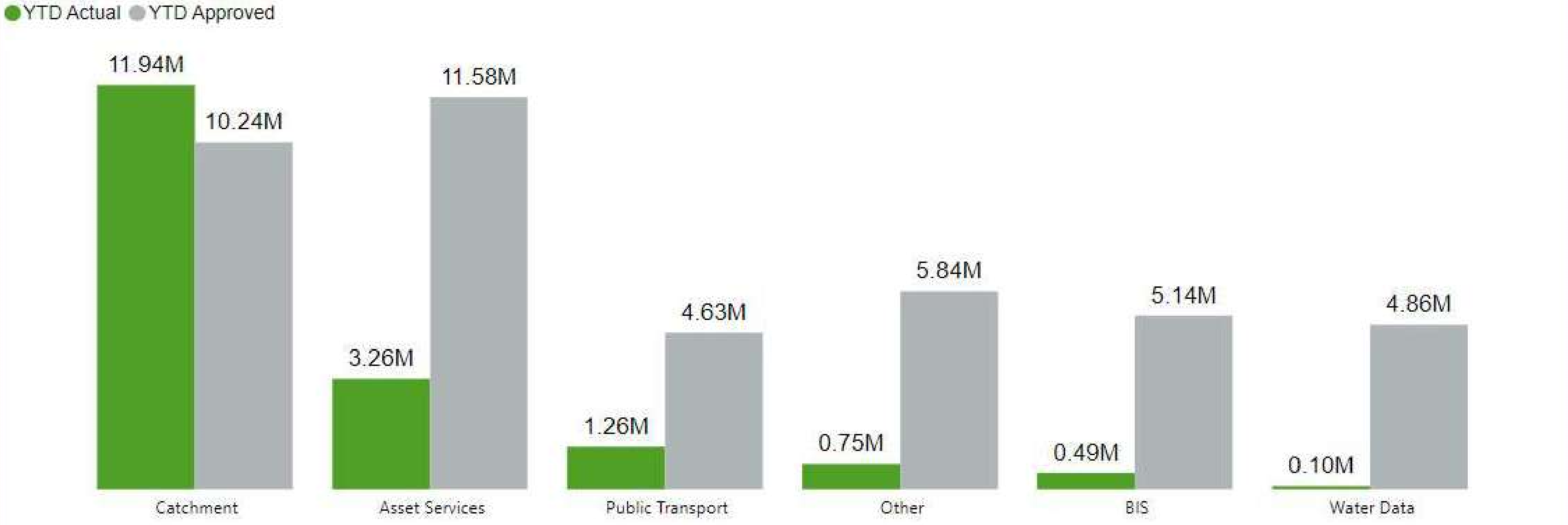
as at 30/06/2022

17.80M!

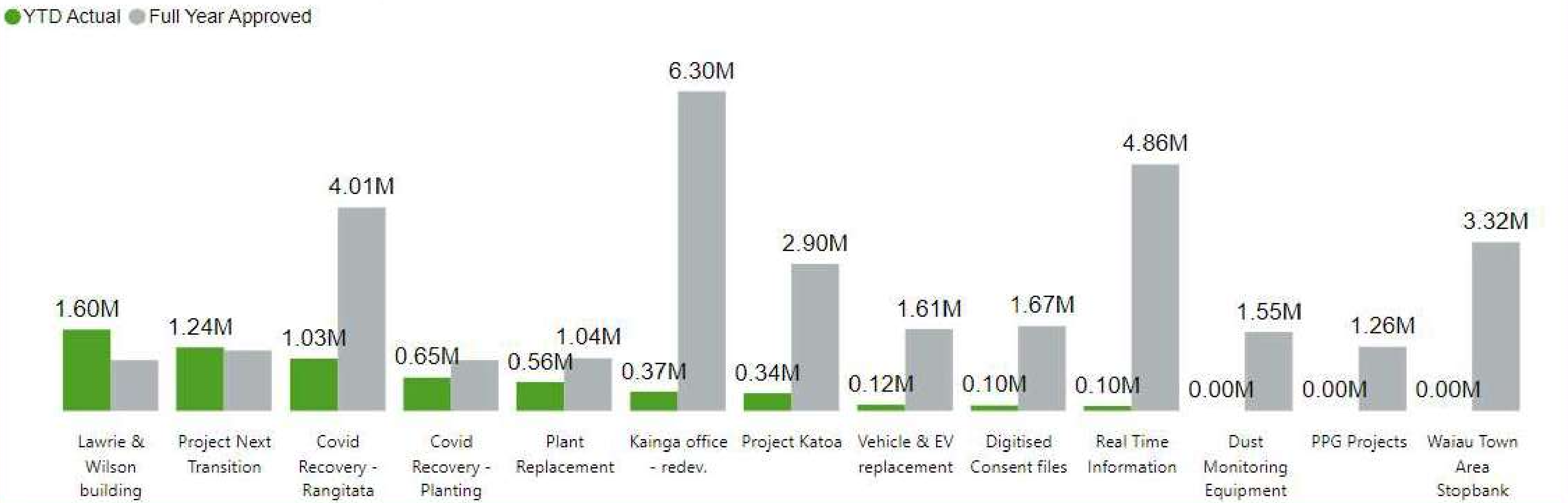
Full Year Approved: 41.59M (-57.22%)

YTD Approved: 42.29M (-57.92%)

Capital Expenditure (including work in progress)



Significant Projects - Capital Expenditure (including work in progress)



Environment Canterbury Regional Council
Kaunihera Taiao ki Waitaha

Reporting Period

1/07/2021 30/06/2022

Previous Month (YTD)

Category	Revenue $	Expenditure $	Surplus/Deficit $
Actual	207.72M	205.55M	2.17M
Budget	217.88M	219.54M	-1.67M
Variance	-10.16M	-14.00M	3.84M
% Var	-4.66%	-6.38%	
Forecast	207.03M	212.98M	-5.95M
Variance	0.69M	-7.43M	8.12M

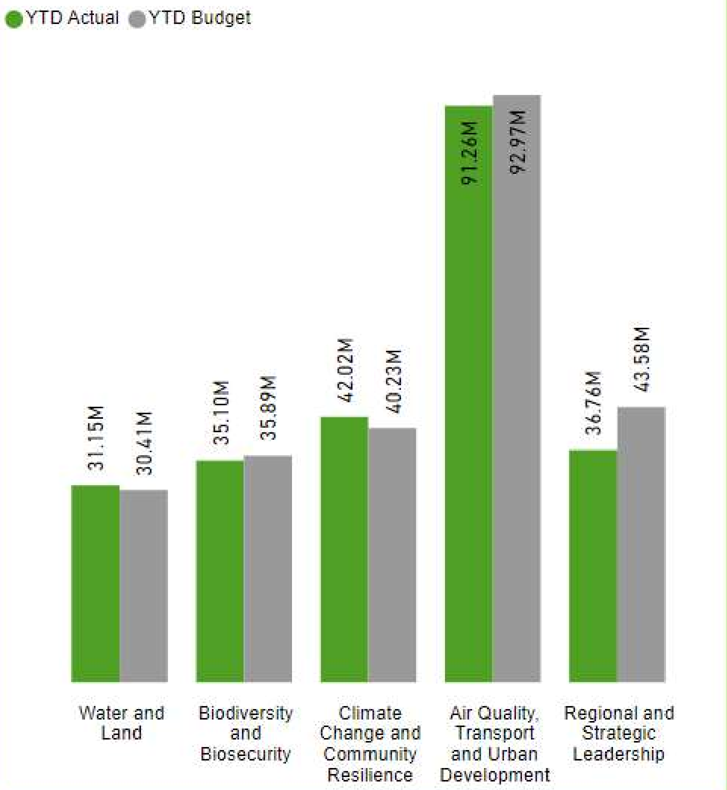
Current Month (YTD)

Category	Revenue $	Expenditure $	Surplus/Deficit $
Actual	236.30M	239.92M	-3.62M
Budget	243.08M	243.92M	-0.84M
Variance	-6.78M	-4.00M	-2.78M
% Var	-2.79%	-1.64%	
Forecast	236.76M	240.61M	-3.85M
Variance	-0.46M	-0.69M	0.24M

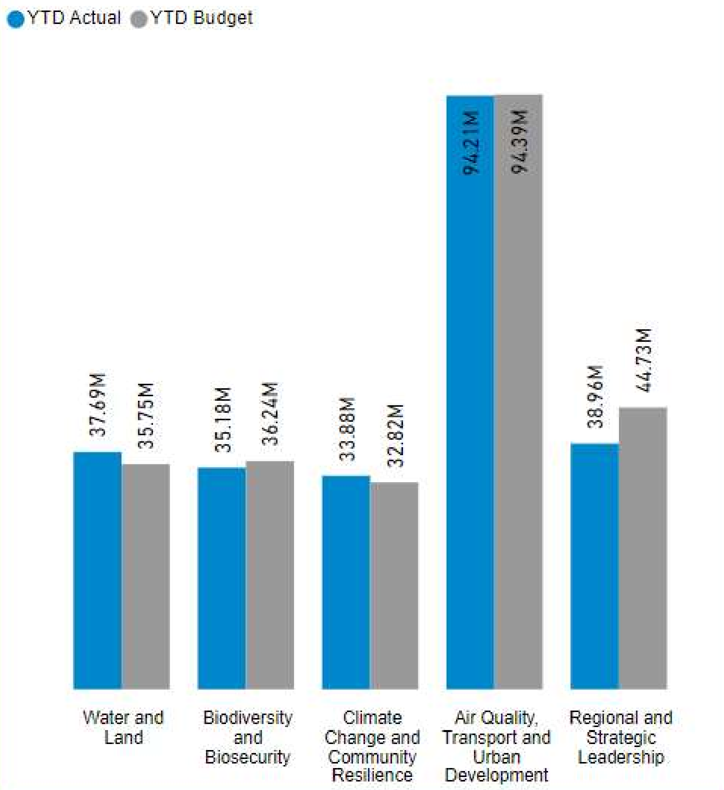
Movement between Months

Category	Revenue $	Expenditure $	Surplus/Deficit $
Actual	28.59M	34.37M	-5.79M
Budget	25.20M	24.38M	0.82M
Variance	3.38M	10.00M	-6.61M
% Var	13.43%	41.01%	
Forecast	29.73M	27.63M	2.10M
Variance	-1.14M	6.74M	-7.89M

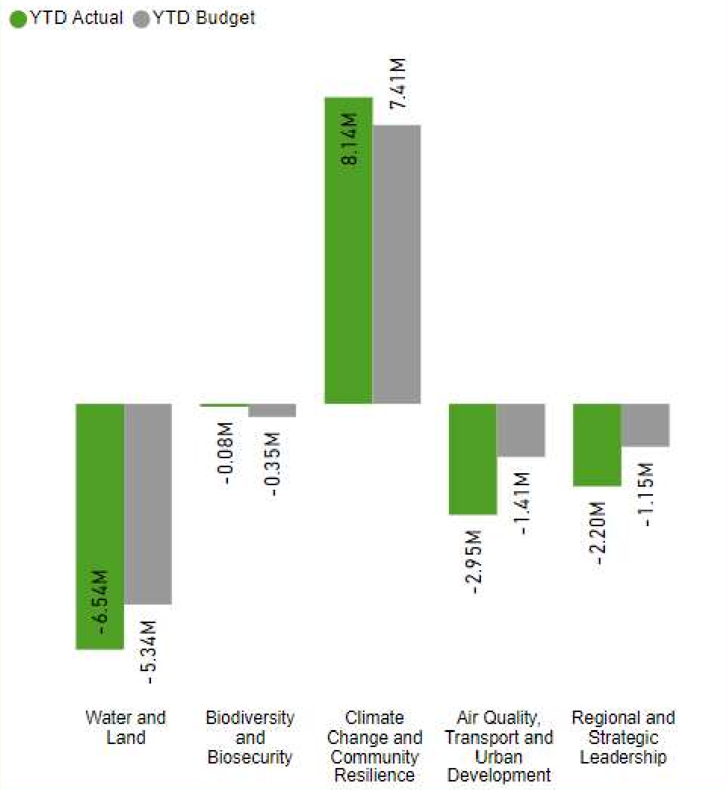
Revenue



Expenditure



Surplus/Deficit



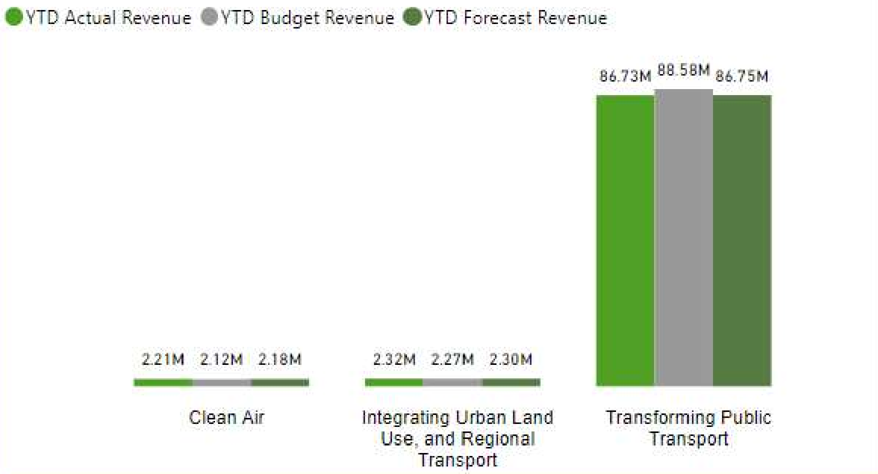
Reporting Period

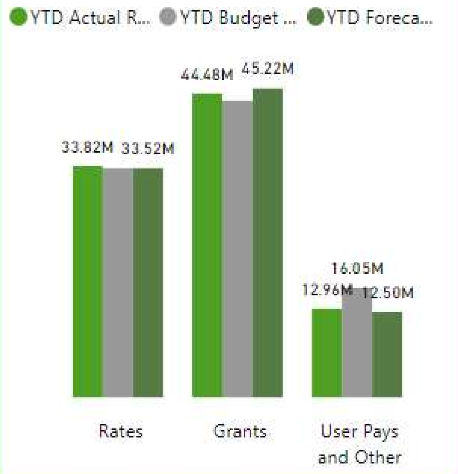
1/07/2021 30/06/2022

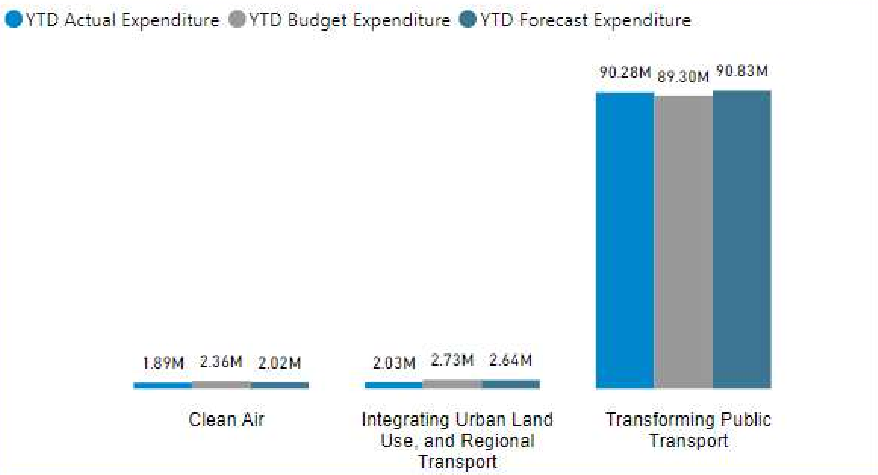
YTD Actual Expenditure vs Full Year Budget

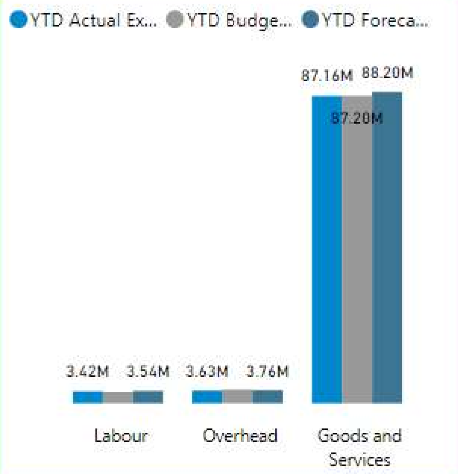
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	91.26M	92.97M	-1.72M	-1.85%	91.24M	0.02M
Expenditure	94.21M	94.39M	-0.18M	-0.19%	95.49M	-1.29M
Surplus/Deficit	-2.95M	-1.41M	-1.54M		-4.25M	1.30M

Air Quality, Transport and Urban Development









Revenue

The portfolio revenue is under budget at year-end. The Transforming Public Transport programme is under budget due to less fare revenue because of COVID-19 disruptions and introduction of half-price fares by government; Waka Kotahi funds 51% of the COVID-19 impact and reimburses 100% of revenue loss for the half-price fare. Additional public transport targeted rates from new subdivisions/properties as a result of growth have been received offsetting some revenue loss. There is also less grant funding being received than budgeted for IT projects and systems as a result of project delays. Revenue for The Integrating Urban Land Use & Regional Transport programme and Clean Air programme is within budget. The portfolio revenue is close to forecast 8+4.

Expenditure

The portfolio spending is close to budget at year end. The Transforming Public Transport programme is over budget due to higher than expected operating expenses for the bus services resulting from the Waka Kotahi NZTA index adjustment and unbudgeted bus driver living wages. Waka Kotahi funds 51% of this. Expenditure for IT projects and systems is under budget due to delays in implementing the RTI system and the National Ticketing system procurement process. The Integrating Urban Land Use & Regional Transport programme is under budget due to underspends across key partnership programmes as it has taken longer than expected to progress key projects. The Clean Air programme is under budget due to limited applications being received for the low-income assistance scheme and lower costs being incurred than budgeted for compliance-related activities due to staff vacancies. The portfolio's expenditure is lower than forecast 8+4 with less spending on Greater Christchurch Partnership projects and Public Transport infrastructure claims from Territorial Authorities.

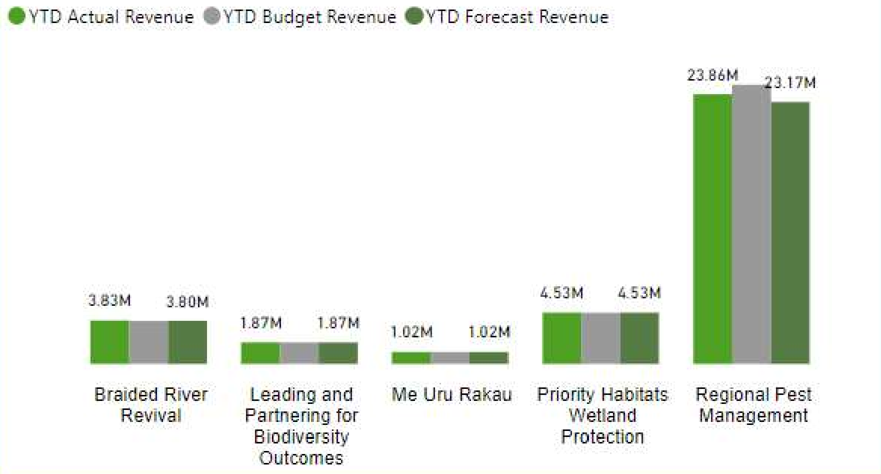
Reporting Period

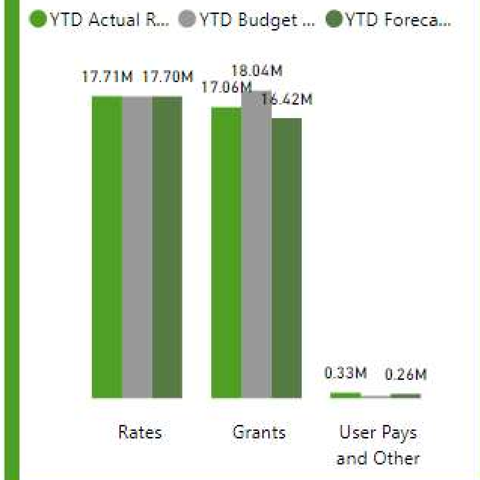
1/07/2021 30/06/2022

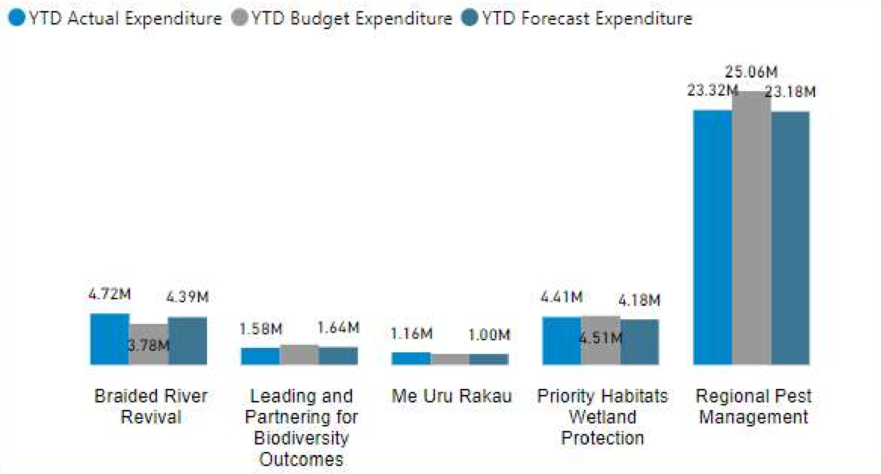
YTD Actual Expenditure vs Full Year Budget

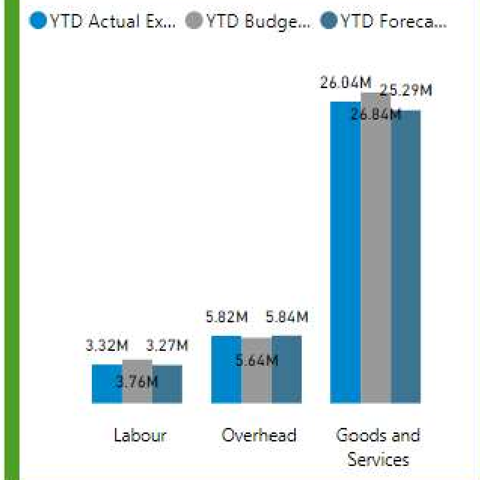
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	35.10M	35.89M	-0.79M	-2.19%	34.38M	0.72M
Expenditure	35.18M	36.24M	-1.06M	-2.92%	34.40M	0.78M
Surplus/Deficit	-0.08M	-0.35M	0.27M		-0.01M	-0.06M

Biodiversity and Biosecurity









Revenue

Pest Management is below budget by $848k as the amounts funded for the national Wallaby and Wilding were less than what was budgeted by $1.26m. The total amount funded by MPI for the national Wilding Pine was $800k less than budgeted however 100% of total funds received from MPI ($13.98m) has been expensed with 2.4m worth of work completed in June in order for all the funded work to be recognised as revenue. The total amount funded for Wallaby was $460k less than budgeted. The national Wallaby programme has expensed $2.58m (93%) of total funds received from MPI ($2.76m) with just over $1m of work completed in June. As revenue is recognised based on expenditure, expenditure is tailored to the amount funded rather than the amount budgeted resulting in the under budget position. An additional $400k of unbudgeted revenue was received from third parties including from Land Information NZ, the NZ Defence Force and from Landowner Contributions.

Expenditure

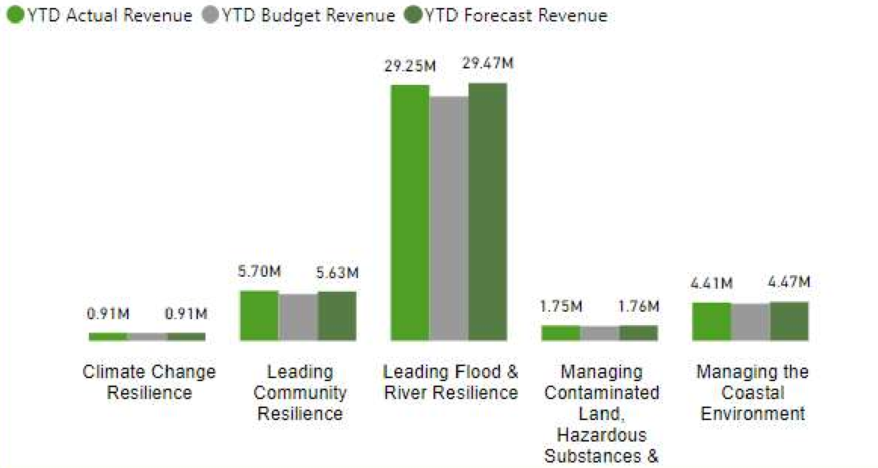
Regional Pest Management is underspent compared to budget as forecast. Expenditure in the nationally funded projects follows funding received which in FY22 was $1.2m less than budgeted. The remaining $600k of underspend is driven by impacts of COVID-19 and weather conditions delaying projects and field monitoring operations. Braided River Revival is overspent against the budget by $940k ($325k above forecast) driven by remediation of the regional parks after the significant May 2021 flood event and increased use of contractors rather than volunteers due to COVID-19 restrictions. Leading and Partnering for Biodiversity Outcomes is $300k underspent compared to budget, largely due to a delay in central government direction slowing progress in the revitalisation of the Canterbury Biodiversity Strategy. Me Uru Rakau G&S is overspent by $206k (24%) and needs further investigation as this might represent FY23 work brought forward. Priority Habitats Wetland Protection programme sits within 2% of budget with overs and unders in various cost codes. The result is delivery as planned with a $100k under expenditure total.

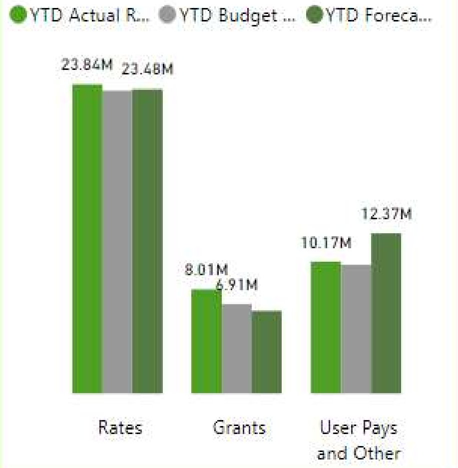
Reporting Period

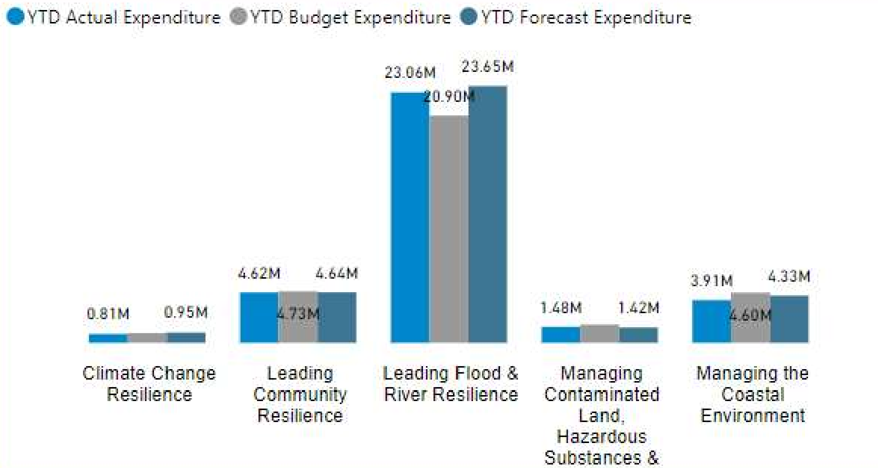
1/07/2021 | 30/06/2022

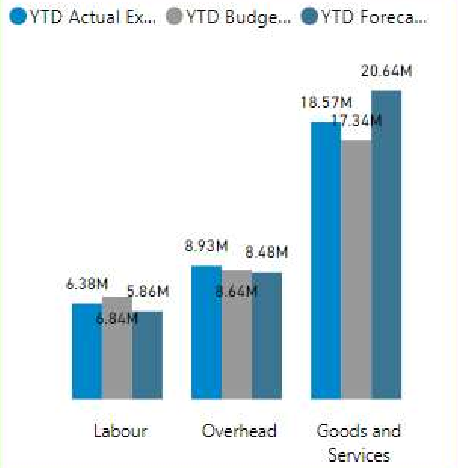
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	42.02M	40.23M	1.79M	4.46%	42.24M	-0.22M
Expenditure	33.88M	32.82M	1.06M	3.24%	34.98M	-1.10M
Surplus/Deficit	8.14M	7.41M	0.73M		7.26M	0.89M

YTD Actual Expenditure vs Full Year Budget









Climate Change and Community Resilience

Revenue

The portfolio revenue is $1.8m more than budgeted at year-end. The variance is largely due to the Leading Flood and River Resilience programme which is $1.3m above budget ($1m above forecast). In this programme, significant revenue has been claimed from NEMA for the May 2021 flooding event ($3.6m). Other on-the-ground projects have also received unbudgeted funding from other partner organisations. This has been offset with less funding revenue recognised than budgeted for the COVID-19 shovel-ready capital projects as these projects are behind schedule and revenue can only be recognised as contracted work is completed. Several of these contracts will deliver work over the coming 18 months – with deliverables recognised over both the 2021/22 and 2022/23 financial years. Non-capital COVID-19 shovel ready projects have been completed ahead of schedule and the revenue recognised accordingly.

Expenditure

The portfolio is $1.1m over budget at year-end ($1.1m under the year-end forecast). The main driver of the overspend is in the Leading Flood & River Resilience programme which is $2.2m over budget, ($593k under forecast). Extra expenditure comes from the regionally significant May 2021 flood event and is partially funded through claims to NEMA. Council agreed to fund the unbudgeted expenditure for this event in June 2021. In addition, more work has been completed ahead of schedule for the COVID-19 shovel-ready non-capital projects, resulting in additional expense this year, but within the overall planned expenditure for the projects. The Managing the Coastal Environment programme is $656k under budget ($422k below forecast) due to the review of the Coastal Plan being delayed. The focus in 2021/22 has been engagement with Papatipu Runanga to develop a partnership and due to delays with this, the technical and planning work was not able to progress as originally planned. Different options on how to progress this work in the 2022/23 financial year are currently being investigated. Other programmes in the portfolio were below or within budget, but were impacted by staff vacancies.

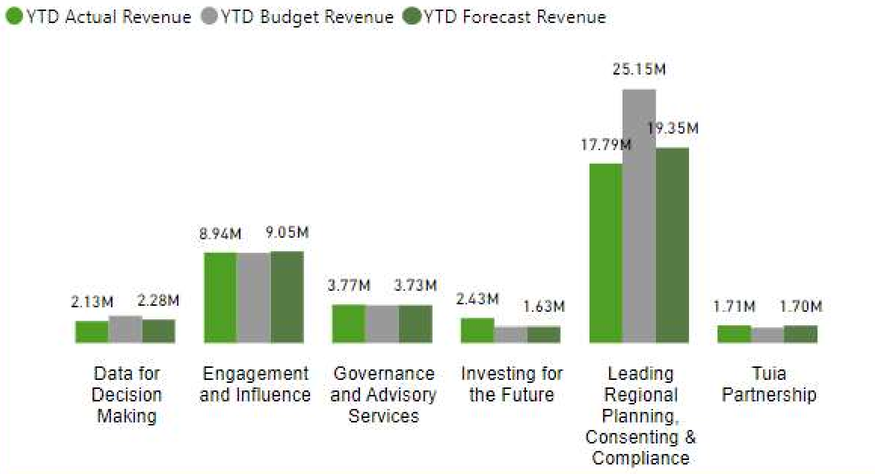
Reporting Period

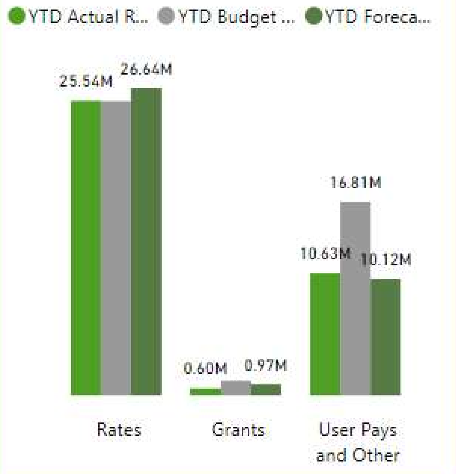
1/07/2021 30/06/2022

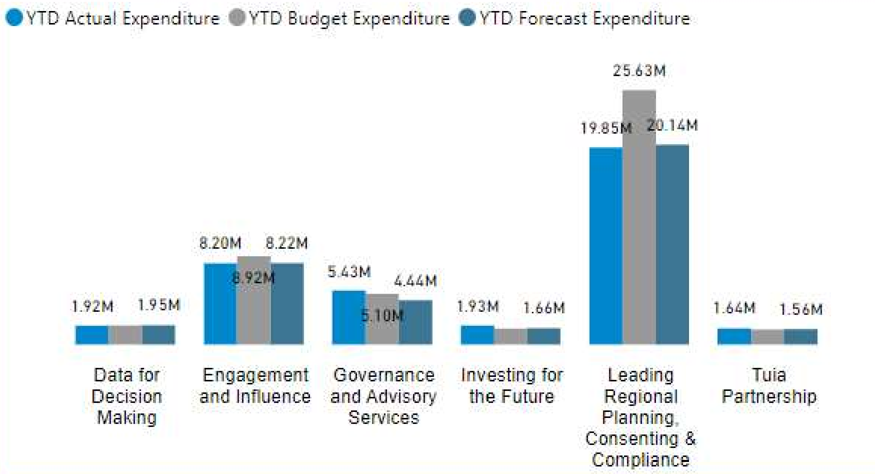
YTD Actual Expenditure vs Full Year Budget

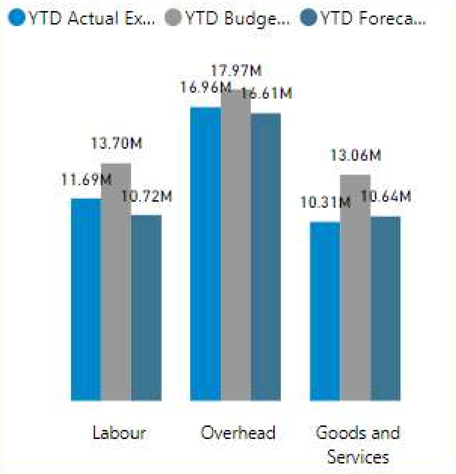
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	36.76M	43.58M	-6.81M	-15.64%	37.74M	-0.97M
Expenditure	38.96M	44.73M	-5.77M	-12.90%	37.97M	0.99M
Surplus/Deficit	-2.20M	-1.15M	-1.05M		-0.23M	-1.96M

Regional and Strategic Leadership









Revenue

Overall the portfolio revenue is $6.8m lower than budgeted, largely due to anticipated revenue from user pays services, such as consent application processing and compliance monitoring, being less than forecast. Impacts of COVID-19 have also reduced our ability to recover costs. In the Data for Decision Making programme, revenue is more than $500k lower than expected due to rescheduling of partner contributions.

Expenditure

At year end, expenditure is $5.8m lower than budgeted across the portfolio, largely due to underspend in the Leading Regional Planning, Consenting and Compliance programme. This relates largely to user pays services and is the result of a similar variance in user pays revenue. Due to the impacts of COVID-19 there is a temporary reduction in service delivery. The processing of the consent application backlog and discounting of charges on delayed consents has led to additional unrecoverable costs. The expenditure for the Engagement and Influence programme is under budget by $730k. This is due to delays in filling vacancies and impacts of COVID-19, for example, on our ability to hold events and undertake face-to-face engagement activities. In the Governance and Advisory Services programme, there is also an underspend that in part relates to a discretionary fund for urgent, unexpected projects that has not been needed so far this year.

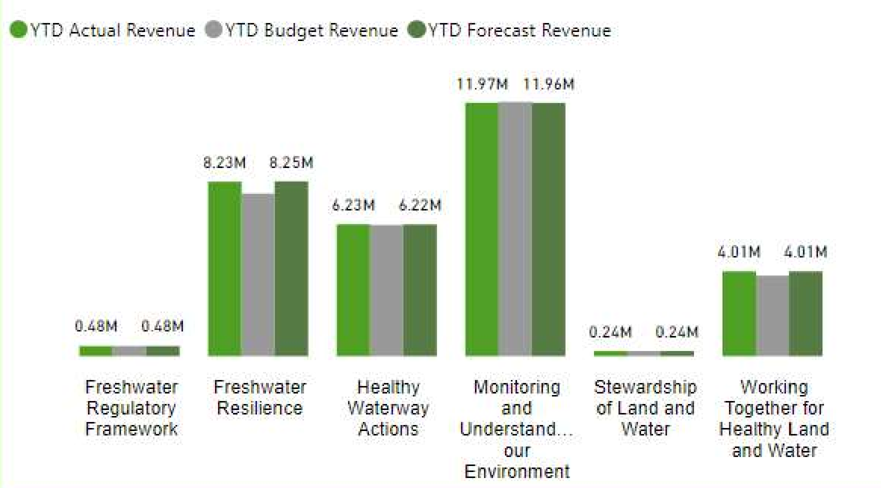
Reporting Period

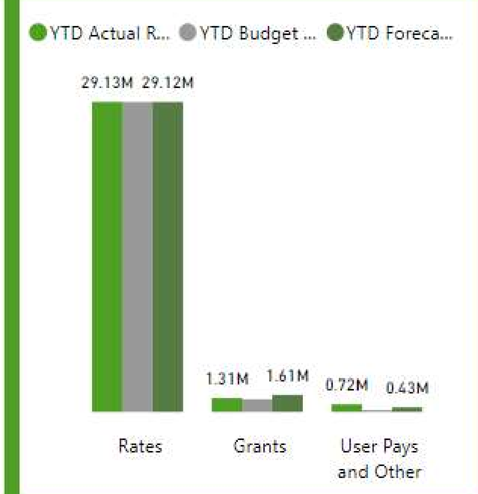
1/07/2021 30/06/2022

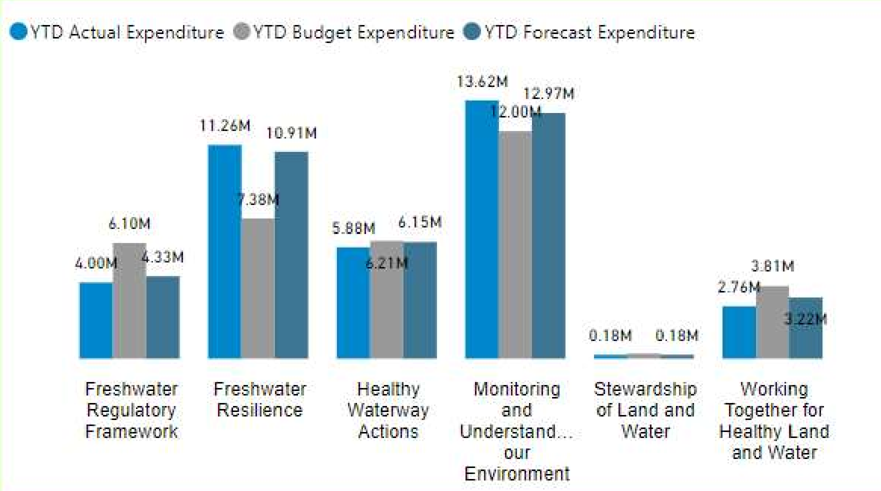
YTD Actual Expenditure vs Full Year Budget

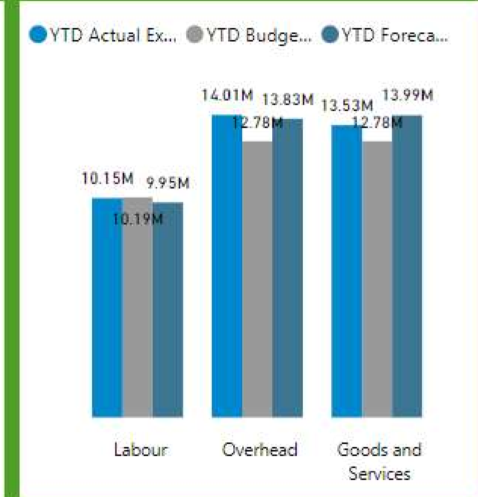
Category	Actual $	Budget $	Variance $	% Var	Forecast $	Variance $
Revenue	31.15M	30.41M	0.75M	2.45%	31.16M	-0.01M
Expenditure	37.69M	35.75M	1.94M	5.43%	37.77M	-0.08M
Surplus/Deficit	-6.54M	-5.34M	-1.20M		-6.61M	0.07M

Water and Land









Revenue

Expenditure

COVID-19 related delays and recruitment challenge have impacted the portfolio overall. Significant progress has been made in the Freshwater Regulatory Framework programme toward development of an authentic partnership approach to give effect to central government's Essential Freshwater package. A work programme is yet to be agreed in partnership with Mana Whenua and as a result an intensive science work programme and economic modelling have not been able to progress. Accounting adjustments for water data and MAR account for much of the overspend in the Freshwater Resilience and Monitoring and Understanding our Environment programmes. The Working Together for Healthy Land and Water programme had trouble securing project management support and slower than expected engagement with suppliers. Zone Committee Action Plan funding was successfully allocated for the year, but less in-person meetings caused a reduction in CWMS committee expenses and an arrangement was not established with Papatipu Runanga for expenses supporting ongoing engagement in the development of a new regional plan.