

HAWKE'S BAY REGIONAL COUNCIL

Wednesday 30 June 2010

SUBJECT: VENTURE HAWKE'S BAY YEAR END FORECAST, RESTRUCTURE AND BUDGET PROCESS FOR THE 2010-11 YEAR

PURPOSE OF REPORT

1. To set out for Council the financial position for Venture Hawke's Bay (VHB) for year end 30 June 2010, the funding of the deficit and the budget process to be adopted for the 2010-11 financial year.

Background on Reforecast 2009-10 and Budget Process for 2010-11

2. In February 2010 the VHB General Manager was requested to develop a rolling three year forecast, considered important given the changing framework for Central Government funding. That was followed up in writing on 12 March.
3. The first cut of this three year forecast was tabled with the Advisory Board at its April 2010 meeting along with the year end forecast for 2009-10 which at that point was showing a \$199,000 deficit but noting that the Advisory Board had agreed in the original budgeting process to a \$117,000 deficit to ensure Rugby World cup obligations and initiation of a regional event strategy were supported. VHB has \$250,000 in reserves. The \$199,000 deficit was carried forward in the overall 3rd Quarter forecast (a standard process) for the Council.
4. The Advisory Board subsequently turned its attention to the three year forecast (3 years commencing 2010-11) which identified an entrenched deficit going forward of approximately \$500,000 per annum, driven to a significant degree by declining Central Government revenues but also by an unsustainable cost structure.
5. Regional Council management attended a session in April 2010 with the Advisory Board. At this meeting questions were asked as to the certainty of achieving the projected forecast for 2009-10 and the following issues emerged in the discussion.
6. Issues included in this reforecast included unrealised and unearned contracts from Central Government sources that will now be funded in the 2010/11 financial year. The outsourcing of business and revenue streams to other parties with no subsequent adjustment in the cost structure, and the delivery of some unfunded work (for example development of the "Cruise Sector" which is in a forecast growth phase). VHB has also underwritten some unanticipated costs for support of industry initiatives a case being costs associated with protecting the Hawke's Bay Wine Country Brand.
7. VHB management undertook a reforecasting exercise for 2009-10 as a result of issues that arose during the April 2010 Board meeting, and presented the reforecast to a special Board meeting on Monday, 10 May 2010. The reforecast deficit position was shown to be \$477,000, noting that the budget had been approved with the deficit of \$117,000.
8. The Board then resolved to consider options for managing the deficit and a restructuring plan for VHB to ensure it entered the 2010-11 year able to operate effectively within a significantly modified but fully funded budget.
9. The Advisory Board met on 21 May and resolved on a restructuring plan which involved disestablishment of four roles including overhead roles, and other unfunded roles. Additionally there will be three term contract roles which cease at the end of the contract.
10. In total some eight full time equivalent roles will be retained.

Management of the Deficit for 2009-10

11. On Monday 21 June 2010 a further financial analysis indicated that the year-end deficit has been revised to \$495,000 as revenue earned for web services is anticipated to be below budget and external expenditure on the Shanghai trade initiative has increased marginally.
12. It is proposed to fund this year-end deficit position of \$495,000 from VHB reserves (\$250,000) and by a loan (\$250,000) from this Council to VHB, such loan to be repayable over a five year period at market interest. This loan will be in addition to the loan for Rugby World Cup.

Management of Restructuring Costs

13. The proposal is that the restructuring costs of approximately \$90,000 be managed through the Council's overall personnel budget which at this stage of the financial year is underspent due to the delay in the filling of some personnel vacancies.

Budget for the 2010-11 Financial Year

14. At this point the budget for VHB has been developed to the point whereby total revenue is expected to total \$1.550 million. In particular there is a focus on securing external revenues over and above the rate revenue of \$1.2 million. Sources of income subject to final notification but with good probability include NZ Trade and Enterprise regional strategy funding, winning additional funding via a joint Venture with the Chamber of Commerce for Technology NZ funding and BIZ Info funding noting that VHB will concentrate on the technology component whilst the Chamber will focus on the BIZ Info and business capability aspects probably with Napier City.
15. Discussions are also underway with Wine Country Tourism Association to more tightly involve them in the strategy development and prioritisation of resources and focus points within the Regional Tourism budget.
16. Of note is that the personnel budget is \$660,000 but that as the contract roles exit this will drop under \$600,000 the point being that the personnel to revenue ratio is targeted at approximately 30% of total budget, the intent being to leave sufficient funding for activities and promotions.
17. The proposal is that this budget remain in draft and key elements be fine tuned utilising a reference group including the Board, Visitor Industry and economic development practitioners. Once this process is complete our intent is to present it to the Council for full debate and ratification.

DECISION MAKING PROCESS

18. Council is required to make a decision in accordance with Part 6 Sub-Part 1, of the Local Government Act 2002 (the Act). Staff have assessed the requirements contained within this section of the Act in relation to this item and have concluded the following:
 - 18.1. Sections 97 and 98 of the Act do not apply as these relate to decisions that significantly alter the service provision or affect a strategic asset.
 - 18.2. Sections 83 and 84 covering special consultative procedure do not apply.
 - 18.3. The decision does not fall within the definition of the Council's policy on significance.
 - 18.4. The decision required in this paper is for the funding of up to \$250,000 of deficit, the options for this funding is either through Council's cash operating balances or a loan to VHB.
 - 18.5. Section 80 of the Act covering decisions that are inconsistent with an existing policy or plan does not apply.
 - 18.6. Council can exercise its discretion under Section 79(1)(a) and 82(3) of the Act and make a decision on this issue without conferring directly with the community or

others having given due consideration to the nature and significance of the issue to be considered and decided, and also the persons likely to be effected by or have an interest in the decisions to be made.

RECOMMENDATIONS

That Council:

1. Agrees that the decisions to be made are not significant under the criteria contained in Council's adopted policy on significance and that Council can exercise its discretion under Sections 79(1)(a) and 82(3) of the Local Government Act 2002 and make decisions on this issue without conferring directly with the community and persons likely to be affected by or to have an interest in the decision due to the nature and significance of the issue to be considered and decided.
2. Receive this paper and note the issues raised in the paper.
3. The remaining \$250,000 of Venture Hawke's Bay deficit for the year 2009-10 be funded by a loan of up to \$250,000 to Venture Hawke's Bay, such a loan to be repayable over a five (5) year period at market interest.

A handwritten signature in black ink that reads "ANDREW NEWMAN". The signature is written in a cursive style and is positioned above a solid horizontal line.

ANDREW NEWMAN
CHIEF EXECUTIVE