

Title: Gisborne Holdings Limited Financial Results 30 June 2018

Section: Finance & Affordability

Prepared by: Lucy Gibson (Principal Financial Advisor)

Meeting Date: 11 October 2018

Legal Financial Significance = low

Report to FINANCE & AUDIT Committee for information

SUMMARY

The purpose of this report is to give a high level review of Gisborne Holdings Limited's (GHL) financial results for 30 June 2018.

It is not intended to replace GHL's financial commentary, but merely an independent overview of the results.

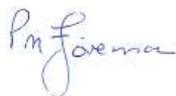
The decisions or matters in this report are considered to be of **low** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Audit Committee:

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

Authorised by:



Pauline Foreman
Chief Financial Officer

Keywords: Gisborne Holdings Limited, GHL draft financial report 2017/18

BACKGROUND

1. Gisborne Holdings Ltd (GHL) is a Council Controlled Trading Organisation (CCTO), and as such, is bound by the accountability provisions of the Local Government Act 2002. As required by that Act and their statement of intent, they have provided Gisborne District Council (Council) with their Annual Report 2017/18.
2. The Annual Report 2017/18 financial statements attached in Appendix 1 are those that are provided to Council under the Statement of Intent (Sol) 'whereby audited annual accounts will be provided to Council by 20 September each year'.
3. It is difficult to analyse performance in the individual activities, such as the Tauwhareparae Farms, Property Holdings, Holiday Park and Vehicle Testing. The new Sol 2018 applicable from 1 July 2018 allows for performance measures based on the individual segments, so in future it will be clearer to see how well each activity is doing standalone.

DISCUSSION

Overall Result

4. Overall for the financial year 2017/18 GHL recorded an \$8m net profit, up \$1.8m on the previous year. Most of this is a result of the Tauwhareparae Farms Ltd (TFL) increased revenue (up \$1.98m) and increased gains in valuation from property increases, livestock and forestry (\$944k). Higher costs of sales from TFL (up \$1.2m) and other administration costs (up \$680K) offset some of the higher income.

Revenue

5. Total revenue for GHL was \$23.2m up \$11m compared to a budget of \$12.1m. The increase was mainly a result of revaluations and increased income from TFL, \$8.4m and \$3.5m respectively when comparing actuals to budget. When eliminating TFL and revaluations, there is an \$825k shortfall in total revenue with \$4.8m compared to a budget of \$5.6m.
6. Property Holdings (PH) total revenue is down \$862k compared to budget and down \$29k compared to prior year.
7. Gisborne Vehicle Testing (GVT) total revenue is \$83k under budget, however has increased \$51k against prior year.
8. Waikanae Holiday Park (WHP) total revenue was up \$120k compared to budget and \$205k compared to prior year.

Expenditure

9. Total expenditure for GHL is overall in line with budget. However, salaries and wages and depreciation are \$648k and \$306k respectively over budget. Both offset by administrative expenses which are \$897k under budget.
10. When compared to last year, salaries and wages, and administration costs are \$461k more this year. Financing costs are also up which align to the purchase of \$9.5m fixed assets.
11. In alignment with increased income from the Farms, the Farm's costs of sales follows and has an increase of \$1.3m.

12. As noted in the background, it is difficult to see if the above increases/decreases in income correlate to the increases/decreases in expenditure, and how well the individual activities are performing without segment reporting. For instance, gross profit from the Farms (without taking the increases from biological valuation increases) is \$751k. Performance of Farms cannot be reasonably assessed without taking into account the biological change in values.

Subvention Payment and Declared Dividend

13. A subvention payment of \$1.3m is recognised within the 2017/18 financial statements. However, post 30 June 2018 after assessing the performance of GHF and its Sol distribution policy, a dividend of \$597k (or net of tax \$400k) was declared on 20 September 2018.
14. Under the Sol distribution policy it has a goal of a minimum total distribution annually of \$1.5m. Although financial statements only show the subvention payment of \$1.3m, for cash flow purposes Council will be no worse off as the dividend declared will be paid with the subvention payment in May 2019.
15. The combined distribution payable in May 2019 will be \$1.7m (subvention \$1.3m plus net dividend of \$400k). This is up \$200k on the Sol performance target.

Financial Performance and Measures

16. Assets have increased \$21.2m in the 2017/18 financial year. Investment property up \$16.5m with \$12.9m in additions (it is unclear if this is the total cost of the Fitzherbert Street rebuild or if there are additional assets included) and \$3.6m in revaluations. Biological assets increased \$3.5m, \$4.1m related to forestry revaluation. Revaluations will only be crystallised on the sale of the asset. These gains will generally be realised for the biological assets but unlikely for investment properties unless they are sold.
17. Liabilities have increased \$9.4m, bank debt has increased \$9m to fund the completion of the Fitzherbert Street building.
18. The performance indicators showed all targets were achieved. Return on Shareholders fund was 12.6% compared to 4% budget. This higher return is due to revaluations. On elimination of the revaluations the return on shareholders' funds drops to 3.9%. Total debt / total debt + equity was 9.9% compared to 20% budget, and ratio of shareholder funds to total assets was 81.3% compared to 80% budget.

ASSESSMENT of SIGNIFICANCE

Criteria	This Report	The Process Overall
The effects on all or a large part of the Gisborne district	Low	Low
The effects on individuals or specific communities	Low	Low
The level or history of public interest in the matter or issue	Medium	Low
Inconsistency with Council's current strategy and policy	Low	Low
Impacts on Council's delivery of its Financial Strategy and Long Term Plan.	Low	Low

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

COMMUNITY ENGAGEMENT

20. There has been no community engagement with this report.

CONSIDERATIONS

Financial/Budget

21. The subvention payment reported was lower than budgeted. However, as a dividend has subsequently been declared relating to the 30 June 2018 financial performance, this results in a nil impact on Council's cash flow. This is because both the subvention payment and net dividend are paid in May following the financial year 2017/18.

Legal

22. There are no legal implications.

RISKS

23. There are no major risks associated with the decisions or matters arising from this report.

NEXT STEPS

24. There are no next steps relating to this report.

APPENDICES

- Appendix 1 – Gisborne Holdings Ltd Annual Report 2017/18.