

FINANCE AND POLICY COMMITTEE MEETING HELD ON WEDNESDAY 18 MAY 2011 IN MEMORIAL HALL SUPPER ROOM, ESPLANADE, KAIKOURA.

AGENDA

1. *Apologies*

2. *Matters of Importance to be raised as Urgent Business*

3. *Matters arising from Report of 20/04/2011*

page 78

4. *Minutes Action and Issues List Update*

MEETING	ACTION REQUIRED	BY	DATE ACTIONS
	<i>10 NOVEMBER 2010</i>		
Finance & Policy	Obtain a report from Merrill Ring once the current logging is completed regarding the state of the forest.	Chief Executive Officer	Logging still in progress.
	<i>20 APRIL 2011</i>		
Finance & Policy	Report on why interest earned is not used to pay loan interest on the Pynes Building.	Finance Manager	Report included on page 43
Finance & Policy	Provide loan options for the PGG building loan after the current fixed term expires.	Finance Manager	In Progress
Finance & Policy	Provide a report on the process regarding use of surplus forestry money.	Chief Executive Officer / Finance Manager	In Progress
Finance & Policy	Provide a report regarding a change to the Pay and Display fees.	Asset Manager	Report included in Works and Services agenda.
Finance & Policy	Provide a report regarding times spent on traffic issues and freedom campers which have been moved on.	Chief Executive Officer / Finance Manager	In Progress

5. *Rural Fire Garage / Shed at the Tar Depot*

page 45

6. *Reports:*

- ◆ *Finance Report*
- ◆ *Statement of Financial Position*
- ◆ *Statement of Financial Performance*
- ◆ *Corporate Services Budget Report*
- ◆ *Library Report*

page 46

page 61

page 62

7. *Urgent Business*

Use of Interest Earned to Offset Interest Expense

Currently, all interest revenue is added to funds held in special funds and reserves. The reason for this is that it is those funds that are earning the interest in the first place.

Interest revenue is budgeted to be around \$100,000 per annum. This financial year interest revenue is already over \$124,000; however this is only because we are still holding large cash balances in anticipation of the museum project.

The property fund, which would ordinarily have funds in the bank and be earning interest, has been depleted and is actually overdrawn by \$100,000. The reason for this is two-fold, from the cash losses from the Pynes building and the rental holiday for the North Wharf properties.

The vast majority of Council's special funds and reserves are tagged for specific purposes. By way of example, Council may not consider it appropriate to reallocate the interest earned from the Library Donations Fund to offset the cost of the Pynes building loans. Certain funds, such as the George Low bequest, use interest earned to provide funding assistance to sports and recreation clubs, schools, and other local organisations.

The Forestry Fund, however, appears to have no specific purpose attached to it, other than a general expectation that it will be used to purchase other assets required towards the realisation of Council's strategic objectives (and will be used prudently and effectively, thereby optimising value and return).. The Forestry Fund currently has a cash balance of over \$600,000. Use of that fund will be discussed in a separate report when the logging at Clarence is completed.

Term deposits and cash held in the bank form part of our Investments Portfolio. Similarly, the Pynes building is also considered an investment property. This means both are subject to Council's Investment Policy. The following is an extract from that policy;

Use of Revenue from Investments

Income generated from investment should be used initially to offset costs associated with owning and operating that investment. The use of surplus revenues will then be used:

- a) According to the source and criteria attached to the initial investment sum, or the criteria attached to the fund from which the investment fund came, or
- b) in accordance with any resolution of Council, or
- c) for general operating revenue.

On maturity, investments held for a specific purpose will only be used for that purpose or reinvested for a further period. The capital portion of any investment will not be used to offset general operating expenditure unless the purpose for which the investment was initially set up no longer exists.

Proceeds from Sale of Assets

Council assets will be disposed of from time to time. Income received from the disposal of vehicles and operating plant will be credited to Council's plant renewal account while income from the disposal of property will go into Council's property account. The capital from these accounts will either be reinvested in a separate account for this special purpose or used to purchase other assets required toward the realisation of Council's strategic objectives. The funds could also be used to repay term debt but such a move would only be by resolution of Council.

The policy did not anticipate that any investments would operate at a loss, and so there is currently no specific provision for the recovery of losses from investments.

Interest earned from term deposits could potentially be used to offset the cost of interest on the Pynes building. Council's Investment Policy does provide for the use of revenue (i.e. interest on term deposits) to be applied to general operating revenue as in c) above.

Similarly in Council's Liability Management Policy it states in relation to debt repayment that "Council will not use internal loans to pay external debt nor will it use special funds to repay debt unless the fund had been established specifically for that purpose.

The use of interest earned to cover the cost of loan interest should only be considered a short term fix. The Council will need to have considered and had a meaningful debate about the long term strategic options for all its various reserve accounts and special fund accounts before it decides on the use of interest from some special funds to be used to cover interest costs in other specials reserves.

Rural Fire Garage/Shed at the Tar Depot

Don Clark, Council's Principal Rural Fire Officer, has obtained quotes to build a rural fire depot so as to house essential emergency services in a safe location away from the foreshore. The 20m x 10m building has a total construction cost of \$65,182 plus GST, plus additional costs to connect utility services and fit out.

The National Rural Fire Authority has approved a 50% subsidy for construction, leaving a projected shortfall of \$35,000. The subsidy has only been approved for the 2010/2011 financial year, leaving just over a month for the depot to be built.

The current condition of the councils Volvo rural fire tanker and the location is questionable, the tanker is kept outside next to the council building and appears to have had equipment removed from it. The condition of the vehicle is deteriorating and will need rust cutting and repainting this winter as the sea salt is destroying this valuable community asset.

The proposal for the depot is to cater for both Council's rural fire and civil defence resources and additional space has been allowed for an office, toilet etc. making the building the new Kaikoura District Council emergency centre which will be located in a more practical location. This depot will house the Council's emergency response equipment and will be the central depot providing assistance to the Goose Bay, Clarence, and Keekerengu volunteer rural fire and civil defence teams.

Servicing of emergency equipment will be complete on site reducing cost within the budget. There is increasing local interest in forming a central response team but currently operating from a shipping container is not satisfactory nor is able to house the district's emergency response resources.

It is therefore requested that Council consider approving \$35,000 from the forestry fund to be used to build the rural fire depot.

FINANCE REPORT

Statement of Financial Position

Cash dropped a little during April, mainly due to payment of invoices for the second aerated lagoon, and payment to Environment Canterbury for their share of rates revenue. Other than this, transactions were particularly light last month.

Statement of Comprehensive Income

A net surplus of \$924,240 at the end of April is much better than had been anticipated; boosted by logging sales at the Clarence forest, the Marlborough Regional Forestry capital distribution, and grants and subsidies revenue. A second capital distribution (of \$69,000) was received from the MRF joint venture in April. Expenditure remains very close to budget for each expense type.

Statement of Activity Performance

Revenue from grants and subsidies is well up across all activities, and logging sales have boosted commercial activities revenue. Consent fees and other user fees remain extremely low. The main reasons for activity variances in excess of \$40,000 are explained below.

Income Variances:

Activity	Variance	Main Reason
Roading	Up \$60,203	Subsidies and costs recovered from NZTA in response to emergency works following last year's rains and the work required to repair the Inland Rd during the big SH slip.
Water Services	Up \$273,364	Grant revenue from Ministry of Health higher than expected (funding assistance for two reservoirs not just one).
Community Facilities	Up \$84,455	Development contributions exceeding expectations
Commercial Activities	Up \$500,218	Logging continuing due to higher log prices currently being achieved
Regulation & Control	Down \$70,664	Consent fees extremely low due to economic climate
Safety & Wellbeing	Up \$64,646	National Rural Fire subsidies for the new fire engine for Oaro/Goose Bay
Interest Revenue	Up \$51,438	Cash balances higher than anticipated

Expenditure Variances:

Activity	Variance	Main Reason
Roading	Over \$173,718	Emergency works to reinstate roads and bridges after the two heavy rain events, and urgent work to repair the Inland Road during the slip on SH1.
Water Services	Over \$78,074	Electricity (meter not read for four months at the new ground water source), and depreciation increase due to revaluation.
Community Facilities	Under \$126,929	Savings in toilet cleaning and parks & reserves contracts, and timing of maintenance items.

Statement of Cash Flows

Strong positive cash flow from operating activities has enabled ongoing investment in upgrading of assets, needing only a very small net increase in borrowings. Overall, cash has increased by \$1.08 million since the start of the financial year.

Cash Flow Projection

This graph highlights the movements in cash balances discussed above. The projection had assumed that construction of the new Museum would have commenced by now, utilising substantial funds held in reserve for the project.

Capital Expenditure

April capital works included the upgrading of Sullivan's Gully stormwater, ongoing water pipe renewals, and development of the second aerated lagoon. Invoices for capital works have been slow to be received and processed over the last couple of months – the above work was actually completed in March.

Working Capital & Liquidity

Working capital includes the total rates requirement commencing from the start of each financial year, so it is a normal trend for working capital to decrease as rates are paid to us over the year.

Liquidity is 5.33:1, meaning we have \$5.33 worth of cash (or assets that can quickly be converted to cash) for every \$1.00 of liabilities that need to be paid in the short term. Similar to working capital, it is normal for this ratio to track downwards as the year progresses.

Income & Expenditure Pie Charts

Thanks to the boost of revenues discussed throughout this report, rates revenue makes up only 57% of our total revenue for year to date. User fees and charges remain at extremely low levels and currently make up only 12% of total income.

GLOSSARY OF TERMS: Items on the Statement of Financial Position

Cash & Cash Equivalents	Bank accounts and term deposits that mature within 90 days.
Trade & Other Receivables	Debtors and Rates accounts (the amount that our ratepayers and customers owe us).
Prepayments & Inventory	Bills we have paid in advance (such as insurance), plus stock items.
Other Financial Assets	Term deposits that mature after 90 days, and sinking funds (interest-bearing funds held by Public Trust to repay loans when they mature).
Investment Property for Sale	Property that Council intends to sell within 12 months
Forestry Assets	The standing value of trees grown specifically for logging
Investment Property	Any property that is owned with the intention of generating a return (e.g. Pynes building and north wharf buildings).
Property, Plant & Equipment	All other assets – roads, wharves, water and sewer infrastructure, land, buildings, vehicles, furniture, art works, library books, etc
Trade & Other Payables	Bills we haven't paid yet, and other amounts we must pay within 12 months (refundable bonds, GST, ECan's share of rates revenue, etc).
Employee Liabilities	Annual leave owing to employees
Borrowings – Current	Loans that must be repaid within 12 months.
Provisions	Landfill Aftercare Provision – an estimate of the cost that will be incurred to secure and cap the site once the landfill is closed.
Borrowings – Non Current	The balance of loans that don't need to be repaid within 12 months.
Other Term Debt	Our share of Marlborough Regional Forestry debts, and other long term liabilities.
Public Equity	A type of equity which records accumulated surpluses and deficits, and other movements in equity not recorded below.
Asset Revaluation Reserve	A type of equity which records movements in property, plant and equipment values.
Special Funds & Reserves	A type of equity which records funds set aside for specific purposes (such as grants, targeted rates, development contribution funds, etc)

STATEMENT OF FINANCIAL POSITION

AS AT 30 APRIL 2011

	FORECAST (to Year End) \$	ACTUAL 30/04/11 \$	ACTUAL 30/04/10 \$
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	2,105,247	4,427,967	2,859,569
Trade & Other Receivables	931,523	2,236,348	2,405,869
Prepayments & Inventory	71,111	35,051	38,220
Other Financial Assets	333,768	260,436	278,714
Investment Property for Sale	-	-	890,000
Total Current Assets	3,441,649	6,959,802	6,472,372
<i>Non-Current Assets</i>			
Other Financial Assets	619,856	418,094	323,380
Forestry Assets	2,583,334	2,417,840	2,541,418
Investment Property	3,841,000	3,985,000	2,210,000
Property, Plant & Equipment	132,828,461	150,638,284	123,760,812
Total Non-Current Assets	139,872,651	157,459,218	128,835,610
TOTAL ASSETS	143,314,300	164,419,020	135,307,982
LIABILITIES			
<i>Current Liabilities</i>			
Trade & Other Payables	2,740,009	1,114,167	1,154,259
Employee Liabilities	80,000	135,212	61,918
Borrowings – Current	2,497,999	2,256,000	1,753,000
Total Current Liabilities	5,318,008	3,505,379	2,969,177
<i>Non-Current Liabilities</i>			
Provisions	167,325	149,445	147,248
Borrowings – Non Current	4,543,412	4,019,000	4,333,000
Other Term Debt	481,587	699,956	482,445
Total Non-Current Liabilities	5,192,324	4,868,401	4,962,693
EQUITY			
Public Equity	82,369,407	88,345,955	88,992,176
Asset Revaluation Reserve	49,359,397	63,687,152	35,395,399
Special Funds & Reserves	1,075,164	4,012,133	2,988,537
Total Equity	132,803,968	156,045,240	127,376,112
TOTAL LIABILITIES & EQUITY	143,314,300	164,419,020	135,307,982

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 APRIL 2011

	BUDGET 30/04/11 \$	ACTUAL 30/04/11 \$	ACTUAL 30/04/10 \$
REVENUE			
Rates Revenue	3,739,852	3,739,510	3,638,954
Water Meter Charges	71,662	90,243	93,180
User Fees & Charges	925,034	833,615	1,020,858
Grants & Subsidies	668,321	1,017,929	475,366
Development Contributions	-	78,266	426,213
Interest Revenue	82,000	133,438	98,253
Other Revenue ¹	228,334	777,976	109,759
Total Revenue	5,715,203	6,670,977	5,862,583
EXPENSES			
Personnel	1,287,645	1,289,899	1,225,314
Depreciation	1,389,077	1,372,818	1,348,448
Financing Expenses	397,083	366,153	356,078
Other Expenses	2,649,690	2,717,867	2,667,100
Total Expenses	5,723,495	5,746,737	5,596,940
Net Surplus/(Deficit)	(8,292)	924,240	265,643
OTHER COMPREHENSIVE INCOME			
Gains on asset revaluation	-	-	-
Financial assets at fair value through equity	-	-	-
Total Other Comprehensive Income	-	-	-
TOTAL COMPREHENSIVE INCOME	(8,292)	924,240	265,643

¹ Other Revenue includes forestry logging sales, Marlborough Regional Forestry joint venture revenue, and petrol tax

STATEMENT OF ACTIVITY PERFORMANCE

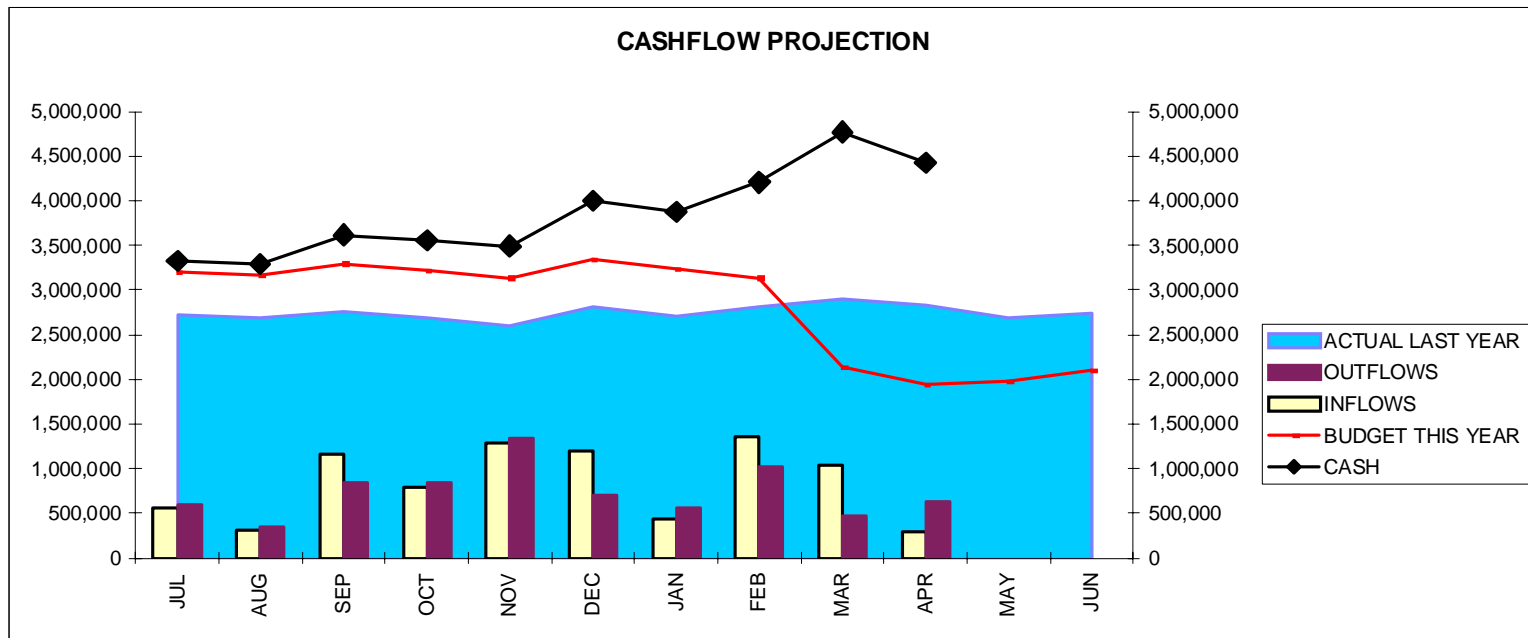
FOR THE PERIOD ENDED 30 APRIL 2011

	BUDGET 30/04/11 \$	ACTUAL 30/04/11 \$	ACTUAL 30/04/10 \$
REVENUE			
Roading	908,905	969,108	890,476
Water Services	767,144	1,040,508	626,905
Sewerage & Stormwater	513,796	497,041	567,457
Refuse & Recycling	100,374	109,392	97,811
Community Facilities	412,529	496,984	666,296
Commercial Activities	478,806	979,024	495,073
Leadership & Governance	72,159	46,876	56,841
Regulation & Control	316,678	246,014	334,357
Safety & Wellbeing	150,962	215,608	218,681
District Development	309,465	334,644	272,898
Interest Revenue	82,000	133,438	98,253
General Rates	1,602,385	1,602,340	1,537,535
	5,715,203	6,670,977	5,862,583
EXPENDITURE			
Roading	1,156,071	1,329,789	1,070,775
Water Services	702,268	780,342	681,640
Sewerage & Stormwater	570,630	531,069	541,329
Refuse & Recycling	321,717	310,163	337,843
Community Facilities	933,181	806,252	915,818
Commercial Activities	311,190	337,312	359,677
Leadership & Governance	463,907	448,910	477,401
Regulation & Control	531,408	493,544	500,846
Safety & Wellbeing	270,353	281,874	272,298
District Development	462,770	427,482	439,313
	5,723,495	5,746,737	5,596,940
Activity Surplus/(Deficit)	(8,292)	924,240	265,643

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 APRIL 2011

	ACTUAL 30/04/11 \$	ACTUAL 30/04/10 \$
OPERATING ACTIVITIES		
Receipts from Rates	3,426,044	3,428,638
Interest Received	133,530	98,253
Receipts from Other Revenue	3,158,530	3,670,078
Payments to Employees & Suppliers	(4,177,634)	(5,507,495)
Interest Paid	(366,153)	(356,078)
Net Cash from Operating Activities	2,174,225	1,333,396
INVESTING ACTIVITIES		
Proceeds from Sale of Assets	895	4,875
Sinking Funds Received	250,022	116,301
Purchase of Property, Plant & Equipment	(1,219,766)	(2,045,900)
Purchase of Forestry Assets	-	-
Purchase of Investment Property	-	-
Payments into Sinking Funds	(212,437)	(243,669)
Net Cash from Investing Activities	(1,181,286)	(2,168,393)
FINANCING ACTIVITIES		
Proceeds from Borrowing	1,460,000	1,414,000
Proceeds from Cash Advance	-	200,000
Repayment of Borrowings	(1,374,000)	(668,000)
Repayment of Cash Advance	-	(200,000)
Net Cash from Finance Activities	86,000	746,000
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	1,078,939	(88,997)
CASH AT THE BEGINNING OF THE YEAR	3,349,028	2,948,566
CASH AT THE END OF THE YEAR	4,427,967	2,859,569

CASH FLOW PROJECTION FOR THE YEAR TO 30 JUNE 2011



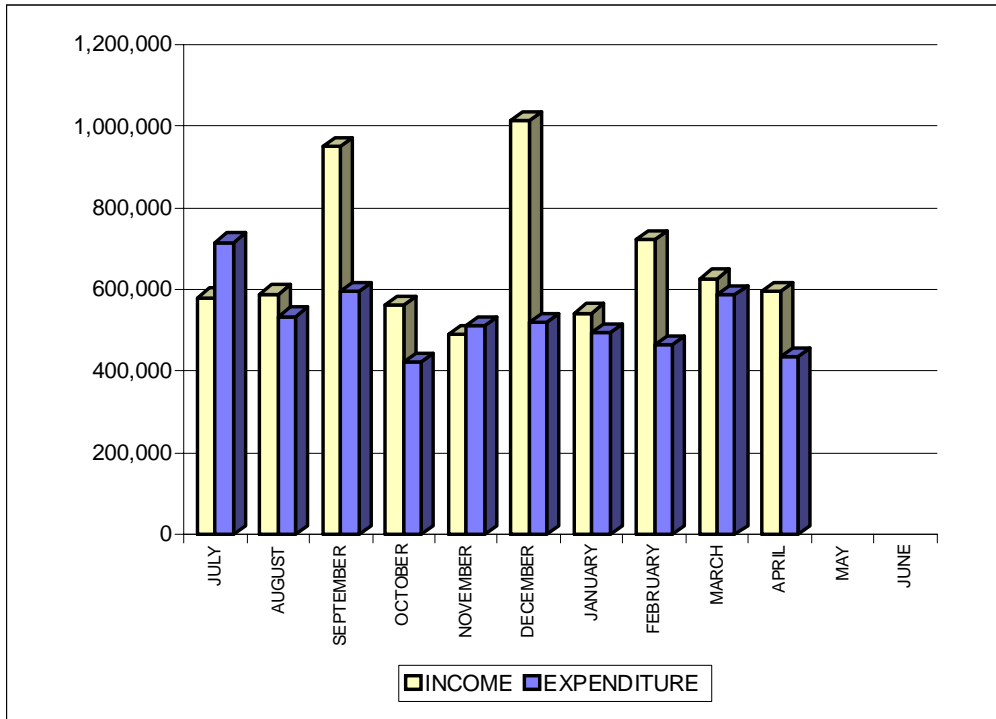
CAPITAL EXPENDITURE FOR THE PERIOD ENDED 30 APRIL 2011

	ACTUAL 2010/2011 \$	BUDGET 2010/2011 \$	BUDGET BT FWD \$
Office Furniture & Equipment	3,514	20,318	-
Vehicle Purchases & Other Plant	1,788	19,325	-
New Fire Appliance (Goose Bay/Oaro)	116,457	-	-
Sealed Road Renewals ²	11,679	132,611	(132,611)
Unsealed Road Renewals	12,140	59,410	-
Kerb & Channel Renewals	57,150	58,349	-
Road Rehabilitation	2,997	63,653	-
Bridges & Structure Replacement	6,587	-	-
Traffic Services	45,472	21,218	-
Associated Road Improvements	23,562	8,487	-
Minor Road Improvements	30,832	74,262	-
New Footpaths	-	153,900	-
Footpath Renewals	770	26,305	-
New Streetlights	7,731	20,666	-
Landfill Cell Capping & Development	-	22,500	-
Sewerage Aerator Lagoon	46,147	-	325,000
Sewerage Pipe Renewals	288,379	432,000	326,723
Stormwater Upgrade	42,032	5,000	224,000
Stormwater Renewals	3,340	12,000	-
Kaikoura Water New Reservoirs	148,352	360,000	-
Kaikoura Water Renewals	181,658	103,470	-
Kincaid Water Upgrade	202	72,825	-
Fernleigh Water Connection	4,780	-	-
Forestry Pruning & Thinning	27,269	4,277	-
North Wharf Upgrade	24,363	-	-
Pynes Building Roofing, etc	15,889	-	-
Airport Hangars	9,338	-	150,000
Town Centre Security Cameras	16,283	15,000	-
Other Parks & Reserves Work	26,782	21,254	-
Jimmy Armers Walkway	6,601	-	20,000
Playground Equipment	-	14,040	-
Council Office & Other Properties	28,199	-	-
New Museum	10,337	2,365,000	-
Library Books & Non-Books	19,136	32,000	-
TOTAL CAPITAL EXPENDITURE	1,219,766	4,117,870	913,112

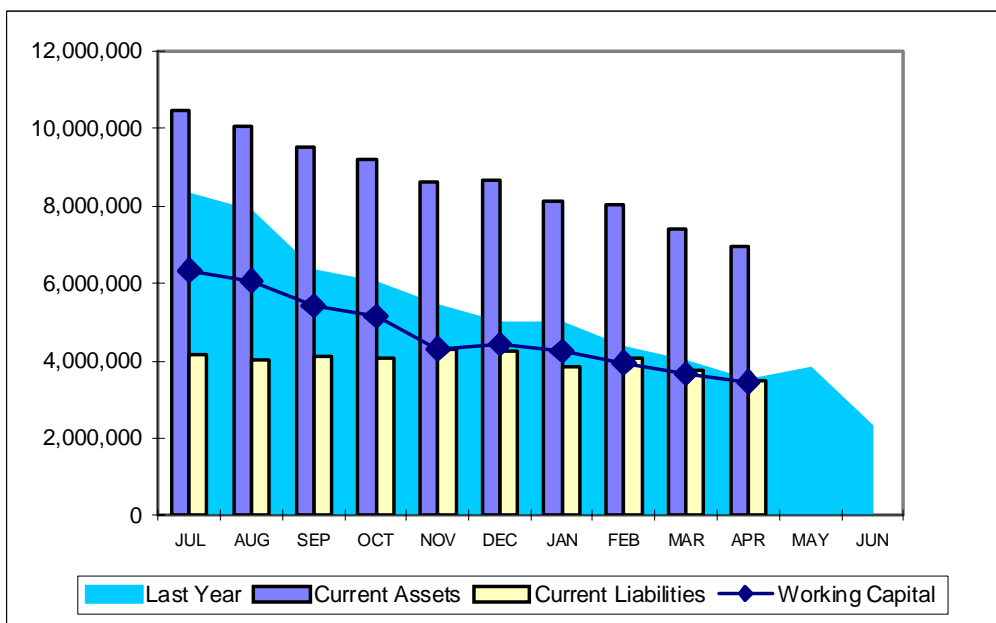
² Two years worth of reseals were done in 2010, therefore the budget provision this year is not intended to be spent, and there is a deficit brought forward from the previous financial year.

INCOME AND EXPENDITURE

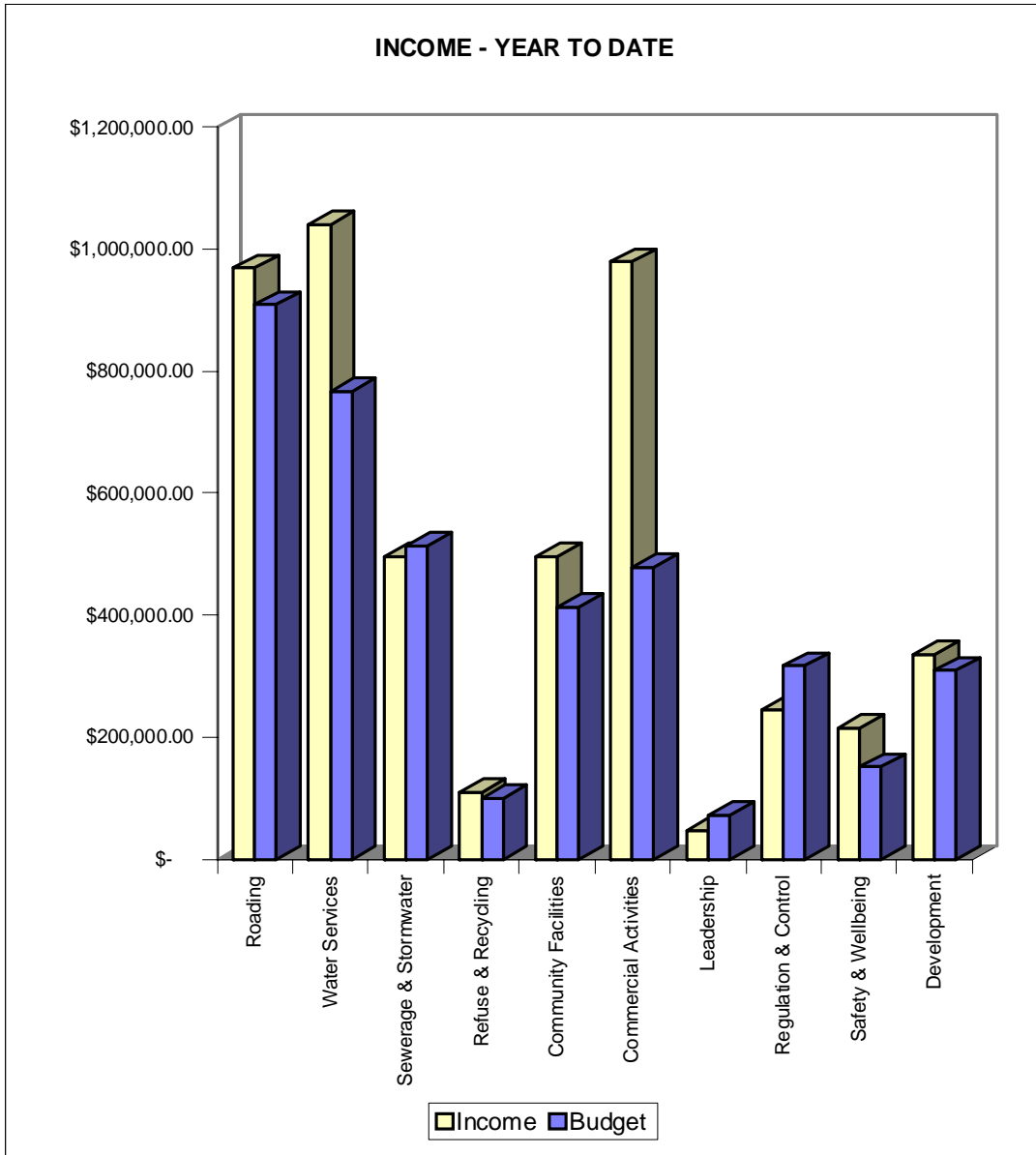
TO 30 APRIL 2011



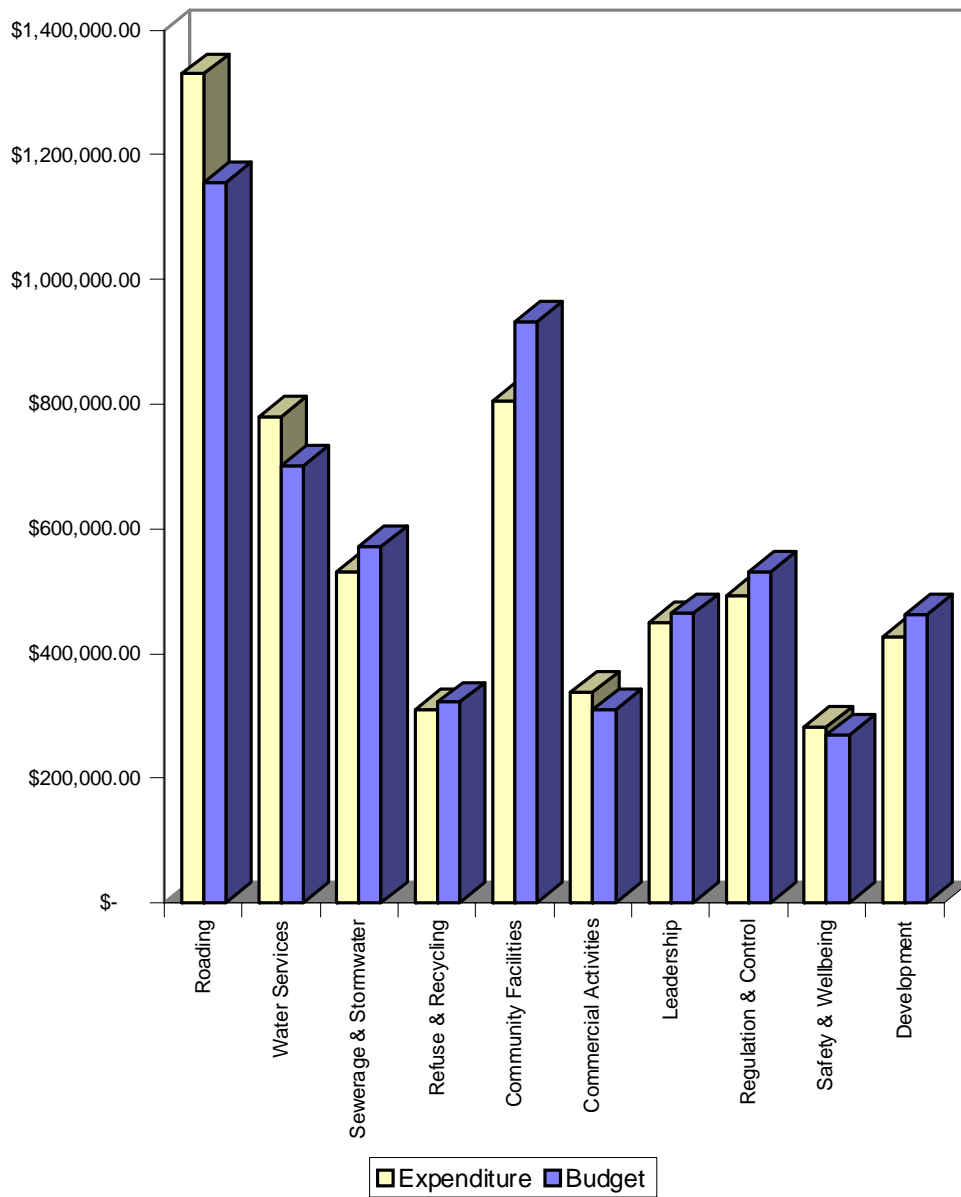
WORKING CAPITAL TO 30 APRIL 2011



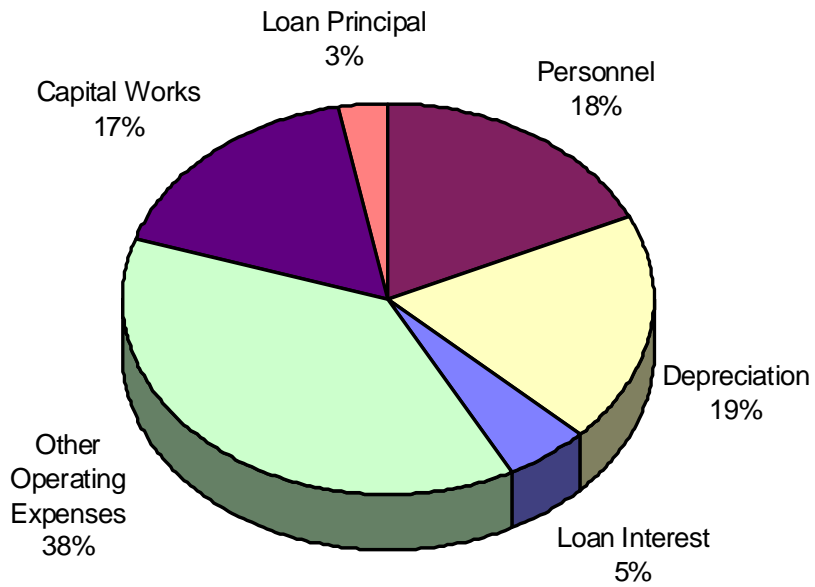
BUDGET PERFORMANCE TO 30 APRIL 2011



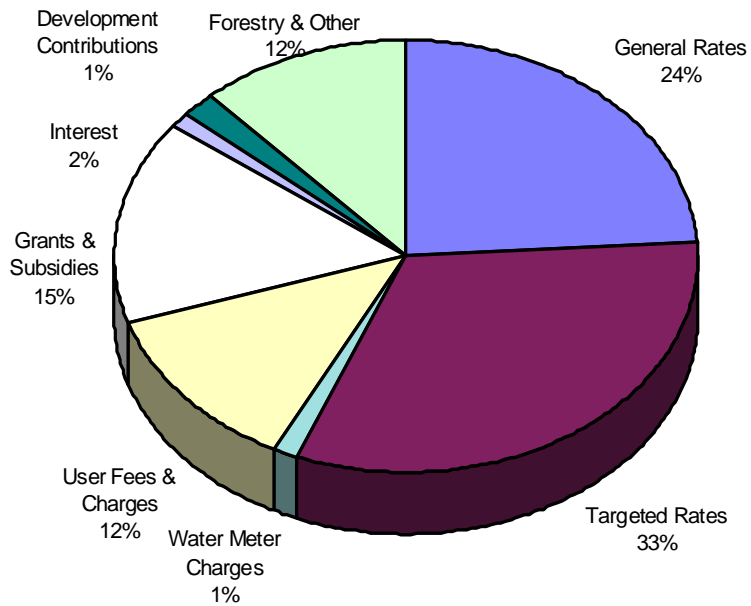
EXPENDITURE - YEAR TO DATE



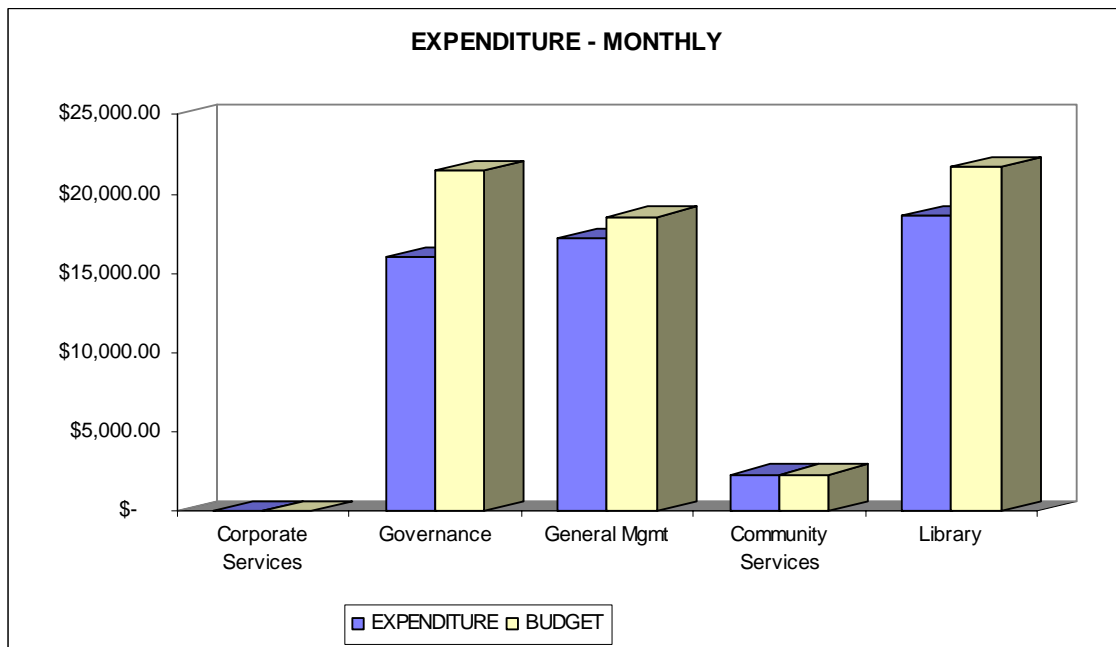
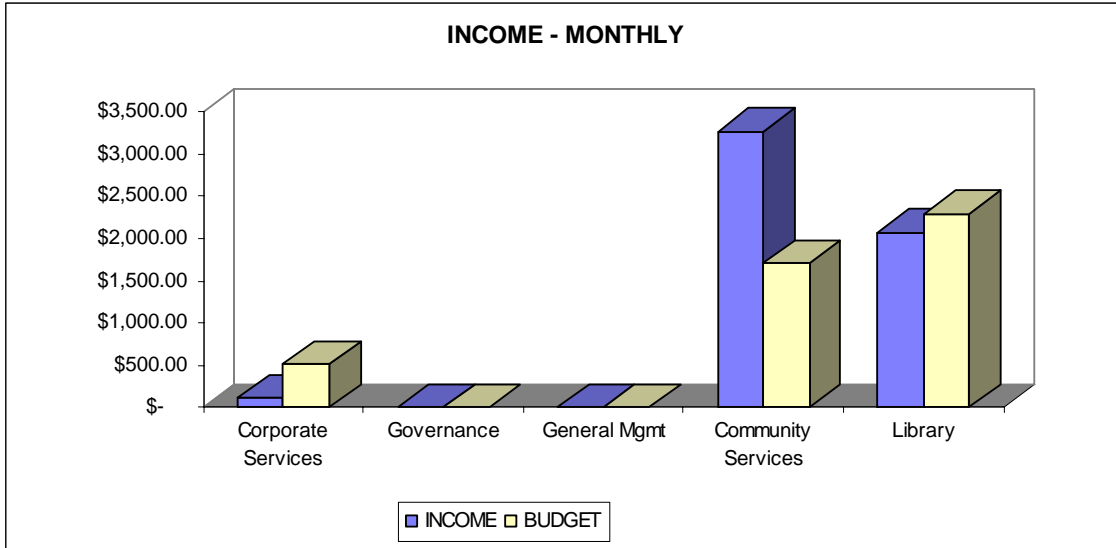
Expenditure Type (Year to Date)



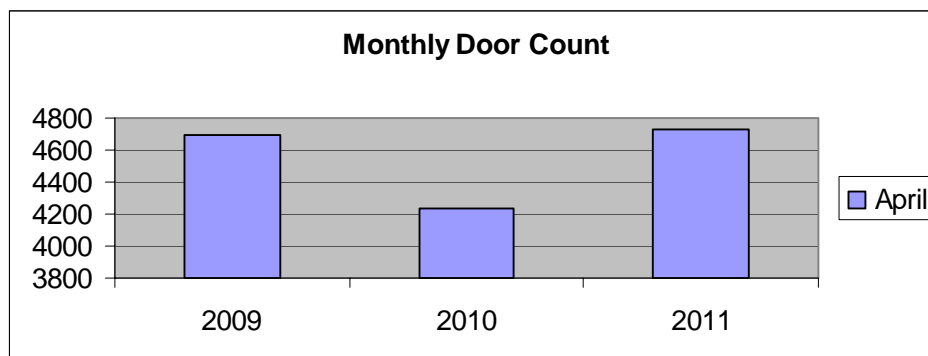
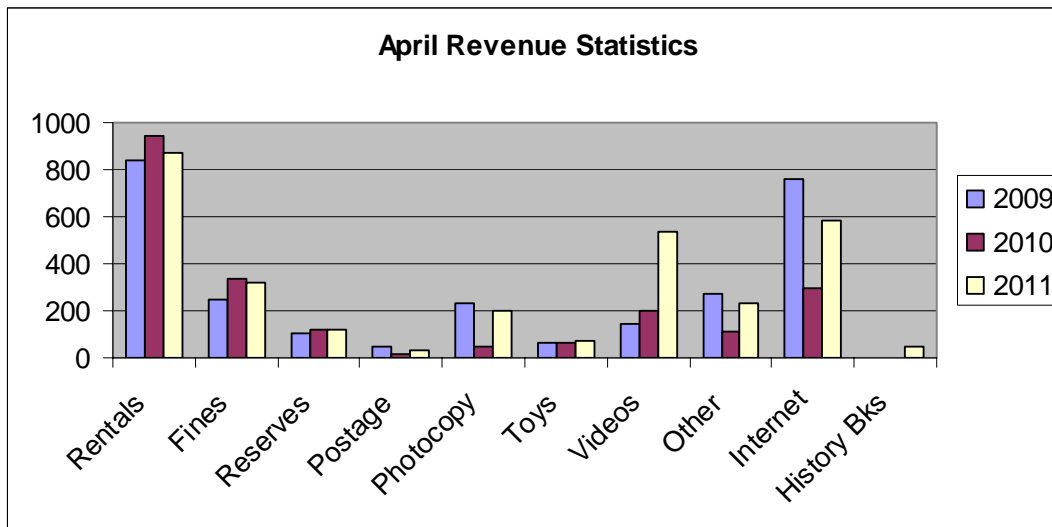
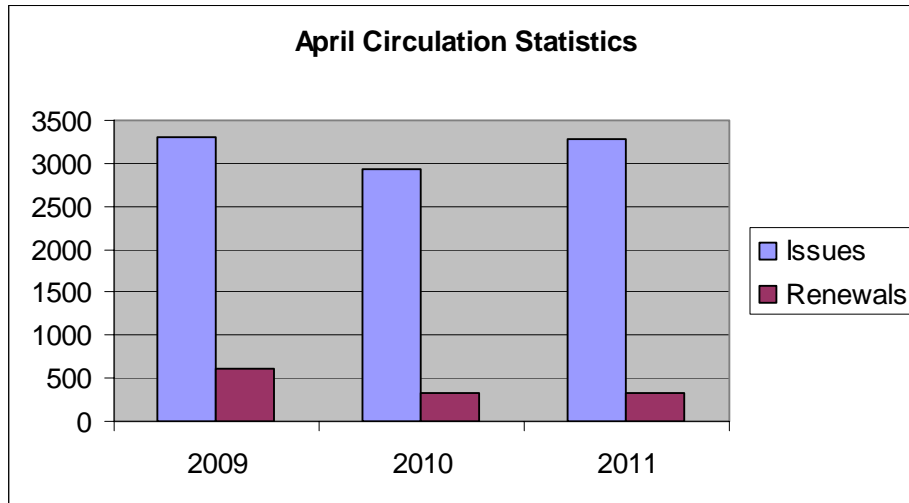
Income Type (Year to Date)



Corporate Services Budget Report



LIBRARY REPORT



◆ 1-30 April 2011 = 4727.
Daily average = 206.

Administration

- ◆ The library resumed winter hours from 3rd April, closing at 5.30pm on Friday evenings.
- ◆ Library Building Warrant of Fitness checked on the 7th April 2011.
- ◆ The Kaikoura District Library was broken into sometime 26th April (Monday night). DVD's and cash were taken. The library was closed for the whole day while Police conducted a scene examination and fingerprinted the area and external security of the library building was once again obtained by tradesman. Library staff were busy with investigation and clean up to ensure things were back to normal for Wednesday 28th April. A sign was put on the main entrance to the library apologizing for any inconvenience due to closing that day.

Collection Development

- ◆ New Zealand Post Children's Book Awards 2011 on display at the library with Children's Choice Award voting which closed on 29th April 2011. In conjunction a free school holiday activities guide book was handed out to students over the holidays.
- ◆ Display at the library for ANZAC Day which ran from the 20th – 27th April 2011.
- ◆ Five face out browser bins were added to the picture book collection and a four compartment browser bin on caster wheels was added to the toddler's collection to help accommodate these growing collections and library staff have had some great feed back.

Class Visits

- ◆ Suburban School enjoyed a visit on the 15th April 2011.
- ◆ Whales Tales Pre-School enjoyed a visit on the 21st April 2011.
- ◆ Little Tamariki Montessori Pre-School enjoyed a visit on the 27th April 2011.
- ◆ Adult Learning Centre enjoyed a visit on the 8th April 2011.

Technology

- ◆ Kaikoura District Council is happy to announce two new funding information databases for Kaikoura residents free of charge at the Kaikoura District Library:
FundView is New Zealand's primary source of information about funding for voluntary organisations and contains over 600 different funding schemes.
BreakOut is New Zealand's primary source of funding information for students, researchers, sports people, artists and those wanting professional development.
- ◆ Pete from TLC visited on the 8th April to check our new server. Richard from TLC visited on the 15th April to install the new backup system.