

**FINANCE, AUDIT AND RISK COMMITTEE MEETING HELD AT 2.00PM  
ON MONDAY 15 AUGUST 2016 AT MEMORIAL HALL SUPPER ROOM,  
ESPLANADE, KAIKOURA.**

**AGENDA**

**1. Apologies**

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

**3. Reports:**

- ◆ *Finance Report* *page 1*
- ◆ *Statement of Financial Position*
- ◆ *Statement of Financial Performance*
- ◆ *Corporate Services Budget Report*

**4. Confirmation of Minutes**

- ◆ *Finance, Audit & Risk 18/07/2016* *page 16*
- ◆ *Finance, Audit & Risk 20/06/2016* *page 19*

**5. Minutes Action and Issues List Update**

MEETING	ACTION REQUIRED	BY	ACTIONED
18 July	Provide a report on the future of the swimming pool.	Manager: Operations	In progress
18 July	Provide a report for discussion on the potential milling of the South Bay forest.	Chief Executive Officer	Valuation to be undertaken at year end. Report to be completed after that received.
18 July	Investigate a landing fee collection system for the Airport.	Finance Manager	In progress

**6. Urgent Business**

**7. Finance, Audit & Risk Public Excluded Session**

*Moved, seconded that the public be excluded from the following parts of the proceedings of this meeting, namely*

- a. Confirmation of Minutes 20/06/2016 & 18/7/2016*
- b. Debt Recovery Report*

*The general subject matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) and 7(2)(i) of the Local Government Information and Meetings Act 1987 for the passing of this resolution are as follows:*

<b>General subject of each to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Grounds of the Act under which this resolution is made</b>
Public Excluded Minutes 20/06/2016 & 18/07/2016	The exclusion of the public from the whole or the relevant part of the proceedings of the meeting is necessary to enable the Local Authority to protect information where the making available of that information would likely unreasonably to prejudice the commercial position of the person who supplied the information or who is the subject of the information.	<b>Section 48(1)(a) and 7(2)(b)(ii)</b>
Debt Recovery Report	The exclusion of the public from the whole or the relevant part of the proceedings of the meeting is necessary to enable the Local Authority to protect information where the making available of that information would likely unreasonably to prejudice the commercial position of the person who supplied the information or who is the subject of the information.	<b>Section 48(1)(a) and 7(2)(b)(ii)</b>

## Finance Report

End of financial year adjustments are still ongoing, with asset valuations and Marlborough Regional Forestry results still pending, plus various accruals yet to be processed. The finance team has been very busy; successfully setting the rates in the new computer system, loading new annual plan budgets, creating standing orders and recurring invoices, reconciling end of year accounts, and collating and invoicing water meter reads.

### Statement of Financial Position

Comparing the balance sheet at 31 July to that of 30 June, cash has decreased; but only slightly. As resolved by the council last month, there are no longer any properties held for sale. Trade creditors are particularly low, reflecting the substantial payments made on 20 July of around \$1 million. There were various loan movements in July as we raised or paid loans; these movements included a partial drawdown of the new Civic Centre contingency loan, and the South Bay water loan, and resulted in an increase in total loans to \$8.3 million.

### Statement of Comprehensive Revenue & Expense

The first month of the new financial year has produced an operating surplus of \$104,821, well up on the forecast \$346k deficit for the same month. The surplus is, however, subject to various accruals to post revenue back to the 2015/2016 financial year, and with several monthly contractor invoices still waiting to be processed.

The New Zealand Transport Agency (NZTA) subsidy for the year ended 30 June is overstating this year's revenue by \$129k, and water meter charges of \$92k also need to accrue back to the previous financial year. Conversely, we didn't invoice rates until August whereas the budget included an estimate of rates revenue during July.

### Statement of Activity Performance

This page now shows the net operating result of each group of activities, and by taking depreciation out of the equation, it attempts to show the net cash result of these activities.

#### Revenue Variances:

Revenue is up on budget by \$129k overall – noting the comments above. The main variances in further detail, by activity and over \$25k, are:

<i>Activity</i>	<i>Variance</i>	<i>Permanent/ Temporary</i>	<i>Main Reason</i>
Roading	Up \$124,969	Temporary	NZTA subsidies need to be accrued back into the 2015/2016 financial year
Water services	Down \$25,335	Temporary	Rates invoiced in August
Sewerage	Down \$46,881	Temporary	Rates invoiced in August
Community facilities	Up \$25,145	Temporary	Various leases and licenses to occupy where the full year lease is invoiced in July
Commercial activities	Up \$27,720	Permanent	MRF capital distributions continuing

Other revenue	Up \$29,763	Temporary	Rates penalties applied to overdue rates
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### Expenditure Variances:

Expenditure is under budget by \$322,640 overall, with the main variances (over \$25k) as below.

<i>Activity</i>	<i>Variance</i>	<i>Permanent/ Temporary</i>	<i>Main Reason</i>
Water services	Under \$41,714	Temporary	Timing of insurance and maintenance costs
Sewerage	Under \$30,401	Temporary	Timing of insurance and maintenance costs
Community facilities	Under \$82,327	Temporary	Timing of cleaning, maintenance, etc
Leadership & governance	Under \$50,973	Temporary	Timing of audit fees and election expenses
Regulation & control	Under \$34,803	Temporary	Timing of subscriptions and other expenses

### Statement of Cash Flows

Cash decreased by \$35,501 during July. Substantial payments to creditors (of almost \$1 million) were paid out on 20 July for invoices to the end of June. Cash out from investing activities primarily related to the Civic Centre, and new loans were drawn to cover those commitments.

### Capital Expenditure

The South Bay water renewal project was finalised in July, and the \$300k loan raised as provided in the Annual Plan. New CCTV security cameras are being installed in the West End to improve the resolution of images and wider areas covered.

The South Bay rock removal project has been substantially delayed pending a cultural impact assessment before Environment Canterbury can grant resource consent, in order for the physical work to progress.

The Civic Centre project total costs have topped \$7 million, noting that this includes costs incurred in the 2015/2016 year that will be recovered with the insurance claim for the roof product failure.

The table below summarises costs to date, with further operating expenses still to be written off once verified. An independent valuation is underway to confirm the fair market value of the building as at 30 June (i.e. still under construction) for financial reporting and to meet accounting standards.

<b>Civic Centre project costs</b>	<b>2015/2016</b>	<b>2016/2017</b>	<b>Total to date</b>
Total project costs (construction, concepts, etc)	6,837,797	135,390	6,973,187
Impairment losses (roof components removed)	341,007	-	341,007
Expense costs relating to roof replacement (scaffolding, crane hire, extra building hours, etc)	166,472	-	166,472
	<b>7,345,276</b>	<b>135,390</b>	<b>7,480,666</b>

### Revenue vs. Expenditure

Revenue exceeded expenses for July, with several end-of-year adjustments and accruals pending.

## **Working Capital & Liquidity**

Working capital remains slightly below zero in June, with the prior year trend line highlighting the extent to which cash assets ebb and flow with the invoicing of each rates instalment. Working capital is calculated by taking current assets less current liabilities; and current liabilities include loans which fall due within the next twelve months. Almost all of those loans in the current portion will be refinanced when they mature and repaid utilising special funds and reserves that have been established for that purpose.

Liquidity is currently 3.87:1, which means there is \$3.87 cash or cash equivalents for every \$1.00 of payables due in the next twelve months.

## **Budget Performance (Revenue YTD and Expenditure YTD)**

These are a graphic representation of the Statement of Activity Performance, so you can see at a glance how activities are performing against budget and in comparison with each other.

## **Revenue & Expenditure Types**

The percentages of revenue and expense types are distorted in the first month of the year, with almost no rates revenue during July, and the timing of other receipts and payments.

***Recommendation: It is recommended that the Finance Report be received.***

<b>Prepared by</b>	Sheryl Poulsen, Finance Manager
<b>Authorised by</b>	Angela Oosthuizen, Chief Executive Officer

## 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.
Non-current assets held for sale	Investment property that the council intends to sell within 12 months
Intangible assets	Carbon credits and computer software (Ozone)
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. Pyne's 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.
Other liabilities – current	Development contributions held for the civic centre.
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	Environment Canterbury's share of Marlborough Regional Forestry debts, held on behalf.
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)

# KEY INDICATORS

## AS AT 31 JULY 2016

### FINANCIAL STATEMENT MEASURES

#### OPERATING RESULT

*operating surplus/(deficit)*

**\$0.10m**

\$451k favourable v/s year-to-date budget of -\$347k  
\$262k unfavourable v/s last year actual of \$366k

#### OPERATING COSTS

*costs to deliver existing levels of service*

**\$0.44m**

\$323k favourable v/s year-to-date budget of \$0.76m  
\$185k favourable v/s last year actual of \$0.62m

#### TOTAL EXTERNAL DEBT

*total borrowings from bank*

**\$8.34m**

\$549k unfavourable v/s full year budget of \$7.8m  
\$1,847k unfavourable v/s last year actual of \$6.5m

#### INTEREST ON DEBT

*cost to service debt*

**\$7k**

\$36k favourable v/s year-to-date budget of \$44k  
\$13k favourable v/s last year actual of \$21k

#### CAPITAL EXPENDITURE

*cost of new &/or replacement of assets*

**\$3.66m**

\$3.5m unfavourable v/s year-to-date budget of \$0.2m  
\$3.6m unfavourable v/s last year actual of \$0.1m

#### DEVELOPMENT CONTRIBUTIONS

*received for district growth*

**\$0.0k**

\$1.0k unfavourable v/s year to date budget of \$1k  
\$00k unfavourable v/s last year actual of \$0k

### LONG TERM PLAN MEASURES

#### DEBT AFFORDABILITY BENCHMARK

*financing expenses as a % of rates*

**24.1%**

4.1% unfavourable v/s council approved limit of 20.0%  
19.6% unfavourable v/s last year actual of 4.5%

#### EBID

*earnings before interest and depreciation*

**\$0.29m**

\$434k favourable v/s year-to-date budget of -\$0.14m  
\$245k unfavourable v/s last year actual of \$0.54m

#### BALANCED BUDGET BENCHMARK

*revenue equal or greater than expenses*

**124%**

24% favourable v/s council benchmark of 100%  
35% unfavourable v/s last year actual of 159%

#### LONG TERM DEBT TO EQUITY

*debt as a % of equity*

**4.55%**

0.90% unfavourable v/s full year budget of 3.65%  
1.96% unfavourable v/s last year actual of 2.59%

# STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2016

	<b>BUDGET to year end \$</b>	<b>ACTUAL 31/07/2016 \$</b>	<b>ACTUAL 31/07/2015 \$</b>
<b>ASSETS</b>			
<i>Current assets</i>			
Cash & cash equivalents	3,151,447	2,013,988	2,602,837
Trade & other receivables	1,211,071	834,401	7,666,327
Prepayments & inventory	98,200	-	62,361
Non-current assets held for sale	-	-	1,038,000
<b>Total current assets</b>	<b>4,460,718</b>	<b>2,848,389</b>	<b>11,369,525</b>
<i>Non-current assets</i>			
Intangible assets	-	10,934	1,934
Forestry assets	2,583,334	2,160,709	2,704,543
Investment property	2,408,000	1,692,100	560,000
Property, plant & equipment	167,130,887	161,466,742	160,768,043
<b>Total non-current assets</b>	<b>172,122,221</b>	<b>165,330,485</b>	<b>164,034,520</b>
<b>TOTAL ASSETS</b>	<b>176,582,939</b>	<b>168,178,874</b>	<b>175,404,045</b>
<b>LIABILITIES</b>			
<i>Current liabilities</i>			
Trade & other payables	1,101,677	515,976	1,171,387
Employee liabilities	100,000	220,894	56,903
Borrowings – current	1,289,723	1,876,430	3,179,610
Other liabilities – current	-	646,952	645,178
<b>Total current liabilities</b>	<b>2,491,400</b>	<b>3,260,252</b>	<b>5,053,078</b>
<i>Non-current liabilities</i>			
Provisions	-	390,509	41,657
Borrowings – non current	8,814,770	6,462,363	3,312,590
Other term debt	564,606	324,598	319,429
<b>Total non-current liabilities</b>	<b>9,379,376</b>	<b>7,177,470</b>	<b>3,673,676</b>
<b>EQUITY</b>			
Public equity	80,752,128	87,013,315	93,517,437
Asset revaluation reserve	81,427,688	69,333,563	69,317,174
Special funds & reserves	2,532,347	1,394,274	3,842,680
<b>Total equity</b>	<b>164,712,163</b>	<b>157,741,152</b>	<b>166,677,291</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>176,582,939</b>	<b>168,178,874</b>	<b>175,404,045</b>



## STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

FOR THE PERIOD ENDED 31 JULY 2016

	<b>BUDGET</b> <b>31/07/2016</b> \$	<b>ACTUAL</b> <b>31/07/2016</b> \$	<b>ACTUAL</b> <b>31/07/2015</b> \$
<b>REVENUE</b>			
Rates revenue	137,455	30,853	458,003
Water meter charges	65,000	92,172	93,398
User fees & charges	162,136	215,168	362,032
Grants & subsidies	23,399	147,812	55,752
Development contributions	1,003	-	-
Interest revenue	3,247	2,157	-
Other revenue <sup>1</sup>	20,149	52,964	18,609
<b>Total revenue</b>	<b>412,389</b>	<b>541,126</b>	<b>987,794</b>
<b>EXPENSES</b>			
Personnel	147,922	74,846	101,001
Depreciation	159,366	177,786	148,463
Financing expenses	43,693	7,429	20,656
Other expenses	407,964	176,244	351,312
<b>Total expenses</b>	<b>758,945</b>	<b>436,305</b>	<b>621,432</b>
<b>Operating surplus/(deficit)</b>	<b>(346,556)</b>	<b>104,821</b>	<b>366,362</b>
<b>OTHER COMPREHENSIVE REVENUE</b>			
Gains/(losses) on revaluation	-	-	-
Vested assets	-	-	-
Ecan share of MRF profit/loss	-	-	-
<b>Total other comprehensive revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE REVENUE</b>	<b>(346,556)</b>	<b>104,821</b>	<b>366,362</b>

<sup>1</sup> Other Revenue includes Marlborough Regional Forestry joint venture revenue, penalties on overdue leases, petrol tax, and fair value gains.

**STATEMENT OF ACTIVITY PERFORMANCE**  
**(NET RESULT BY ACTIVITY EXCLUDING DEPRECIATION)**

FOR THE PERIOD ENDED 31 JULY 2016

	REVENUE \$	EXPENSE \$	Add back Depreciation	NET RESULT \$
<b>ACTIVITY REVENUE &amp; EXPENSE</b>				
Roading	151,061	(114,645)	79,322	115,738
Water services	92,172	(73,810)	38,892	57,254
Sewerage	2,858	(54,669)	28,348	(23,463)
Stormwater	-	(5,812)	4,923	(889)
Refuse & recycling	3,897	(26,348)	1,309	(21,142)
Community facilities	132,957	(54,802)	21,255	99,410
Commercial activities	51,860	(1,367)	33	50,526
Leadership & governance	6,368	(38,663)	1,715	(30,580)
Regulation & control	50,851	(28,929)	-	21,922
Safety & wellbeing	6,592	(7,553)	1,989	1,028
District development	9,500	(29,938)	-	(20,438)
Hospital	-	231	-	231
	<b>508,116</b>	<b>(436,305)</b>	<b>177,786</b>	<b>249,597</b>
<b>NON-ACTIVITY REVENUE &amp; EXPENSE</b>				
Less depreciation				(177,786)
Plus general rates, UAGC, and rates penalties, less rates remissions				30,853
Plus interest received				2,157
Plus/(less) gains/losses on sale of assets				-
Less losses on impairment of assets				-
Less bad debts written off from previous years				-
Less bad debt collection fees				-
				<b>(144,776)</b>
<b>Total Operating Surplus/(Deficit) per the Statement of Comprehensive Revenue and Expense on previous page</b>				<b>104,821</b>

## STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 JULY 2016

	<b>BUDGET to year end \$</b>	<b>ACTUAL 31/07/2016 \$</b>	<b>ACTUAL 31/07/2015 \$</b>
<b>OPERATING ACTIVITIES</b>			
Receipts from rates	5,804,370	139,925	351,303
Interest received	66,667	2,157	-
Receipts from other revenue	3,907,583	237,052	254,186
Payments to employees & suppliers	(6,800,822)	(938,864)	(1,473,569)
Interest paid	(627,806)	(7,429)	(20,656)
<b>Net Cash from Operating Activities</b>	<b>2,349,992</b>	<b>(567,159)</b>	<b>(888,736)</b>
<b>INVESTING ACTIVITIES</b>			
Sale of investment property	-	-	-
Sale of forestry	-	-	-
Purchase of property, plant & equipment	(2,035,637)	(164,242)	(112,555)
Purchase of forestry assets	-	-	-
Purchase of intangible assets	-	-	-
Payment into term deposits	-	-	-
<b>Net Cash from Investing Activities</b>	<b>(2,035,637)</b>	<b>(164,242)</b>	<b>(112,555)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowing	1,912,611	700,000	300,000
Repayment of borrowings	(1,985,309)	(4,100)	(3,860)
<b>Net Cash from Finance Activities</b>	<b>(72,698)</b>	<b>695,900</b>	<b>296,140</b>
<b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>241,657</b>	<b>(35,501)</b>	<b>(705,151)</b>
<b>OPENING CASH</b>	<b>2,909,790</b>	<b>2,049,489</b>	<b>3,307,988</b>
<b>CLOSING CASH BALANCE</b>	<b>3,151,447</b>	<b>2,013,988</b>	<b>2,602,837</b>

**CAPITAL EXPENDITURE**

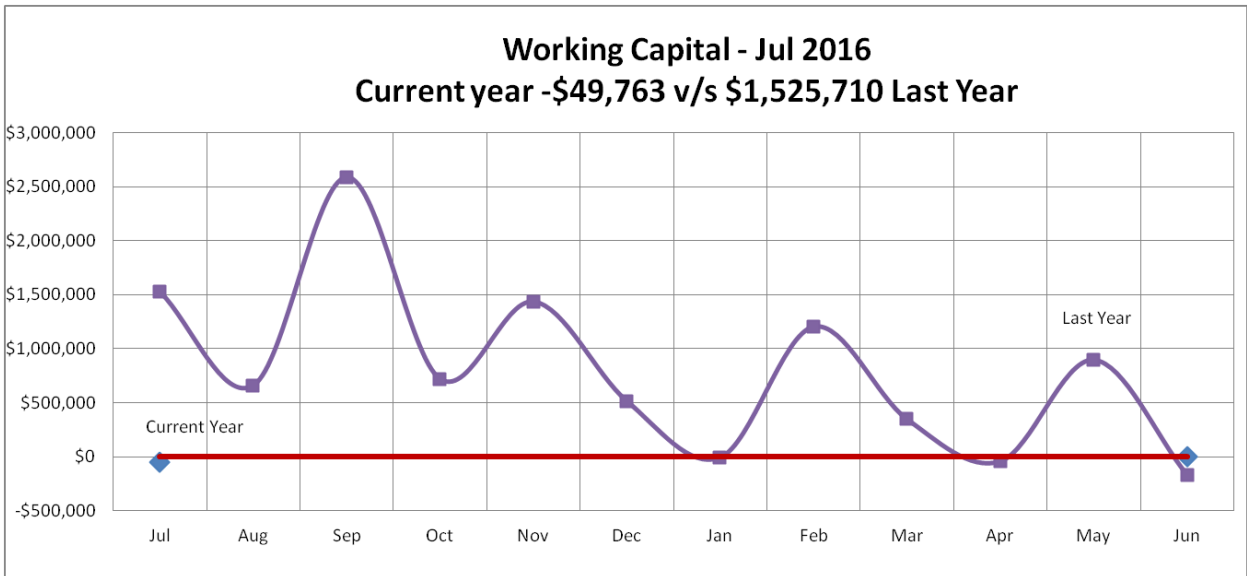
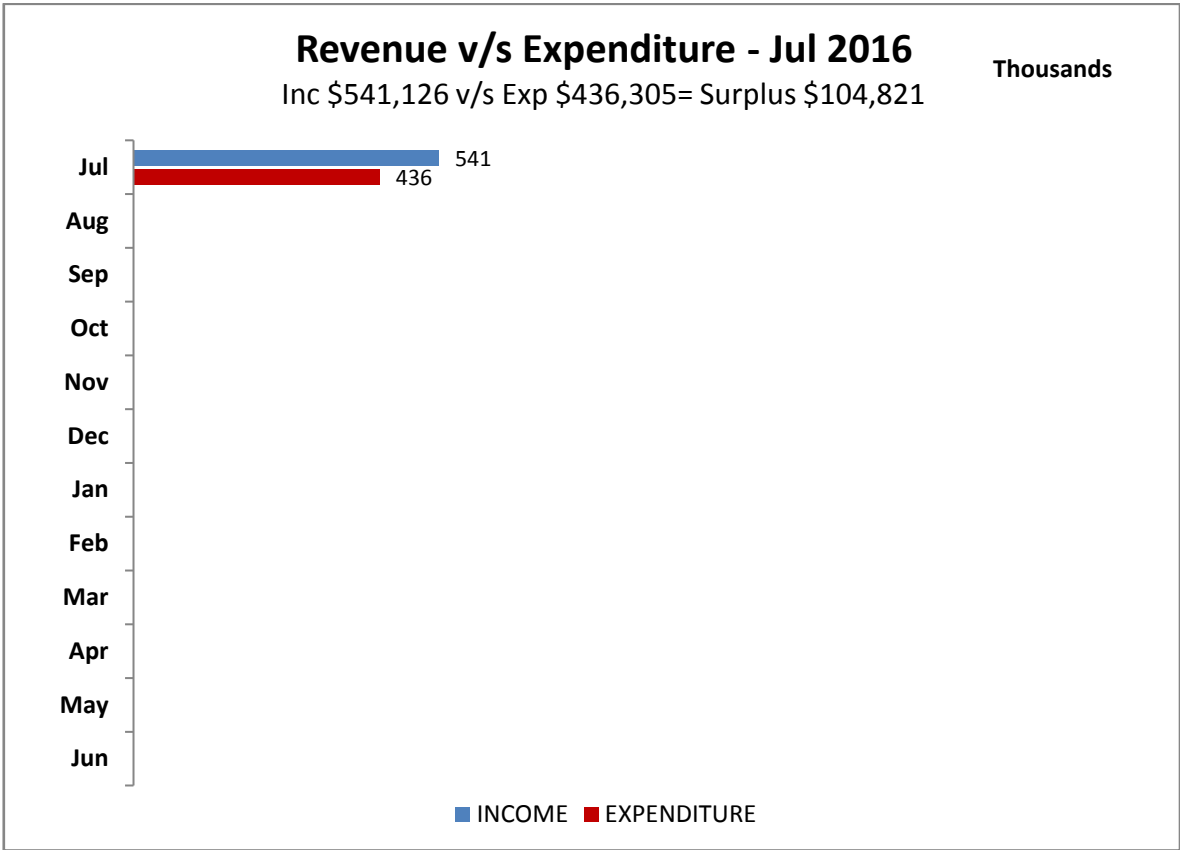
**2016/2017**

Project	Carried forward from 2015/16	Budget \$	Actual Spent \$	Percent complete	Date scheduled	Projected cost to complete	Status	Comments	On track?
<b>ROADING</b>									
Bridge replacement	90,000	90,000						Carried over from 2015/2016	
Reseals	100,000	100,000						Carried over from 2015/2016	
West End aesthetics		100,000						Design yet to be developed	
Unsealed road renewals		60,000							
Drainage renewals		50,000							
Pavement rehabilitation	90,000	101,923						Carried over from 2015/2016	
Traffic service renewals		10,844							
Minor work improvements		50,000							
Footpath renewals	500,000	-	184,159	37%		\$250,000	In progress	Carried over from 2015/2016	
Streetlights		26,156							
<b>WATER SUPPLIES</b>									
South Bay water	80,000	220,000	297,378	99%			Completed	Final work completed in July 2016, total budget \$300k	Yes
Kaikoura pipe renewals		80,000							
Kincaid renewals		20,000							
Oaro water treatment		4,000							
Peketa water		16,000						No capital work planned	
<b>SEWERAGE</b>									
Oxidation pond fencing		40,000							
Oxidation pond resource consent		50,000							
<b>STORMWATER</b>									
Renewals		50,000							
<b>REFUSE &amp; RECYCLING</b>									
New recycling bins		15,000							
Landfill capping & aftercare		7,500			As required		Not required	Unspent funds accumulate in aftercare fund	
<b>COMMUNITY PROPERTIES</b>									
West End security CCTV		26,000	15,000	58%	Sept 2016	11,000		Progressing well	Yes
Library books, DVDs, etc		26,000						Ongoing book purchases throughout the year	
Airport runway reseal		50,000			Sept 2016			Airport operators have requested work be done in September	

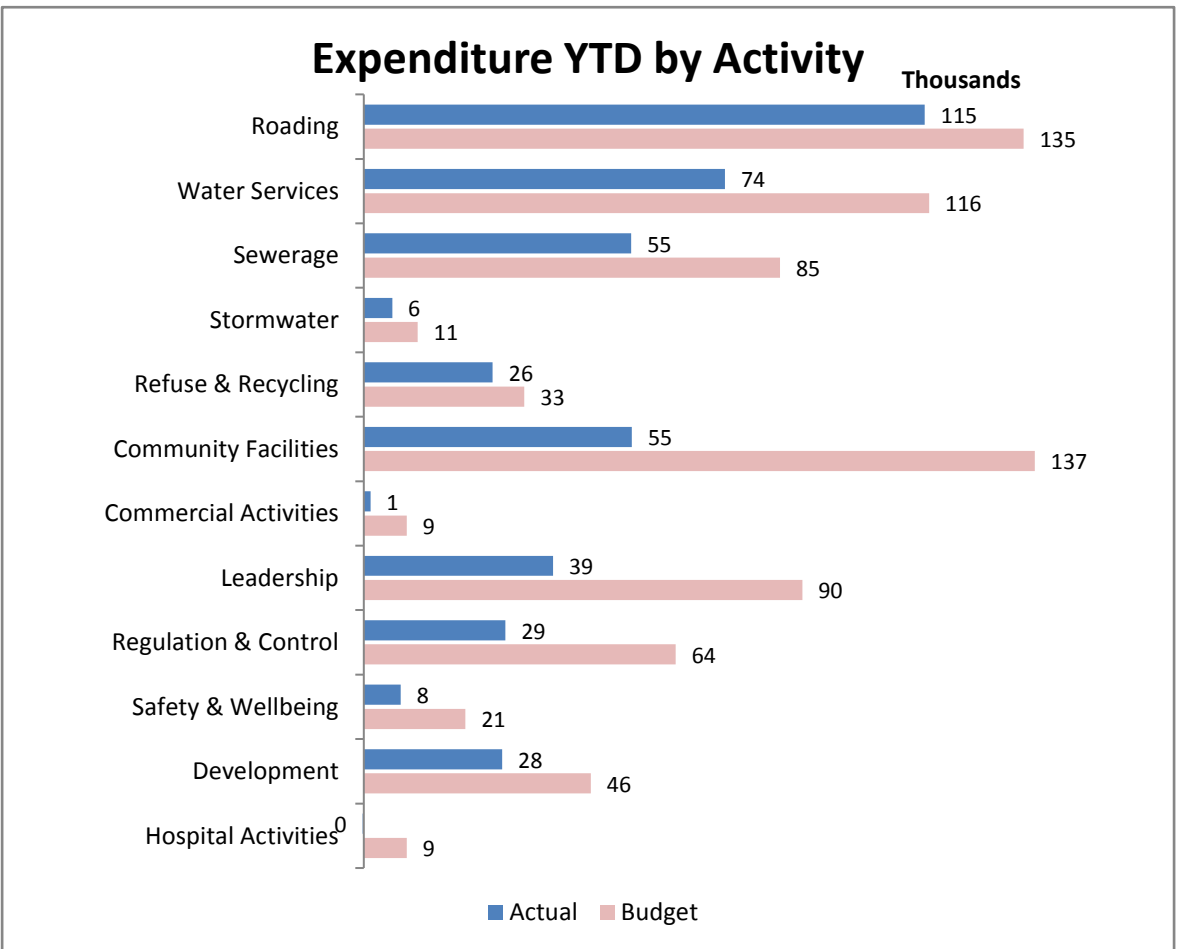
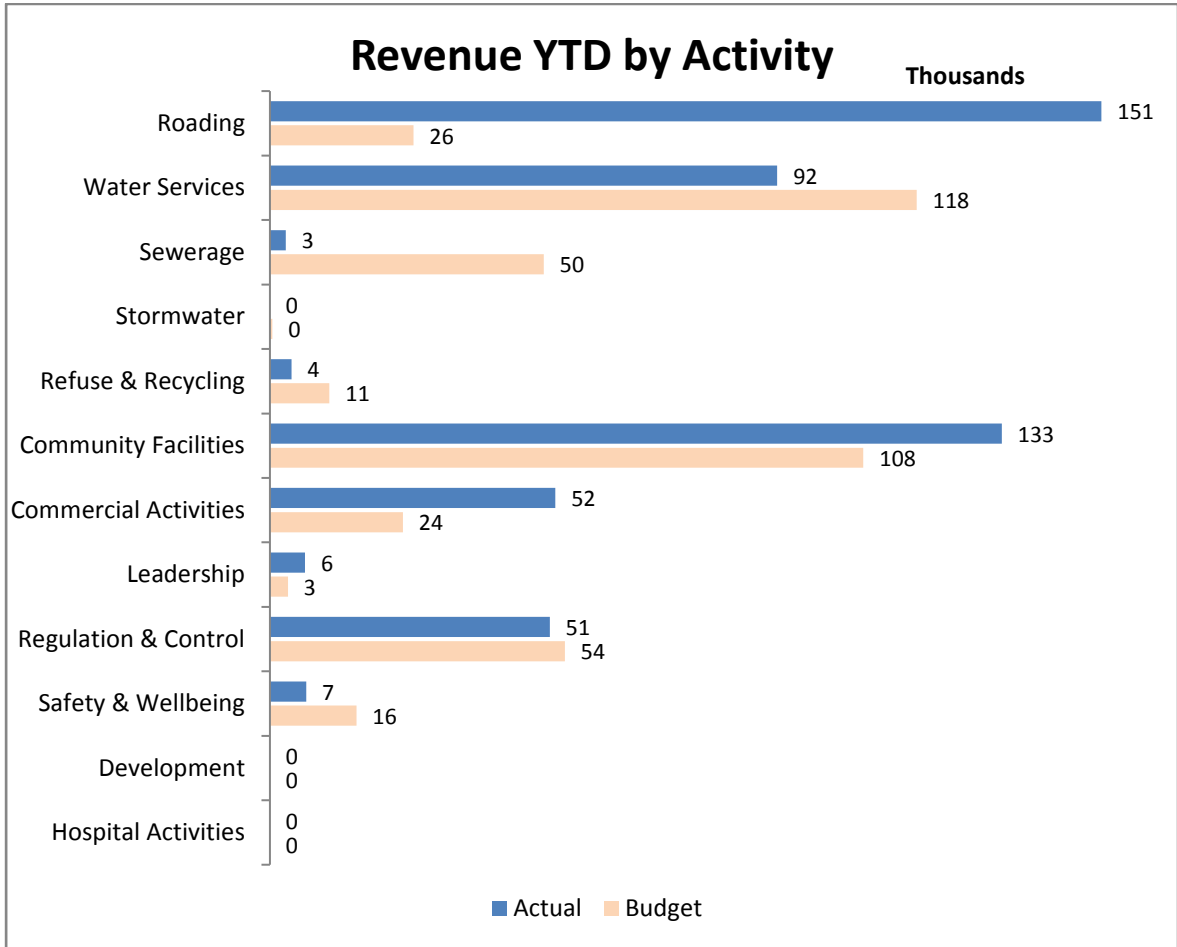
Project	Carried forward from 2015/16	Budget \$	Actual Spent \$	Percent complete	Date scheduled	Projected cost to complete	Status	Comments	On track?
<b>New public toilets</b>		30,000					On hold	Carried over from the 2014/2015 financial year, pending approval of a location and seeking alternative funding	
<b>South Bay harbour rock removal</b>	50,000	250,000	20,715	7%	Delayed	\$30,000 for consent	On hold pending consent	Costs to date are for benthic harbour assessment – awaiting further invoices for cultural impact assessment and consent-related costs. We are forecasting \$50,000 for the consent plus \$250,000 in 2016/2017 to complete rock removal from harbour entrance.	Delays
<b>Swimming pool</b>		50,000							
<b>Civic Centre</b>	4,900,000		6,973,187	92%	October 2016			Carried over from previous years. See separate report for more information.	
<b>Memorial Hall fireproofing curtains</b>	5,000	-						Carried over from 2014/2015. Refrigerator purchased, scaffold no longer required, just fire proofing of curtains remains to be done.	
<b>COMMERCIAL ACTIVITIES</b>									
<b>Forest pruning &amp; thinning</b>		4,464							
<b>LEADERSHIP &amp; GOVERNANCE</b>									
<b>Office furniture &amp; equipment</b>		10,000						Will be used once in the new building	
<b>Computer equipment</b>		20,000						Will be used once in the new building	
<b>Ozone FBI reporting tool</b>		20,000	10,000	50%	Sept 2016	10,000	In progress	The software licence has been purchased, and implementation will commence by the end of August	Yes
<b>Vehicle replacement</b>		20,000							
<b>TOTAL</b>	<b>5,815,000</b>	<b>1,597,887</b>	<b>7,500,439</b>						

Major variances:

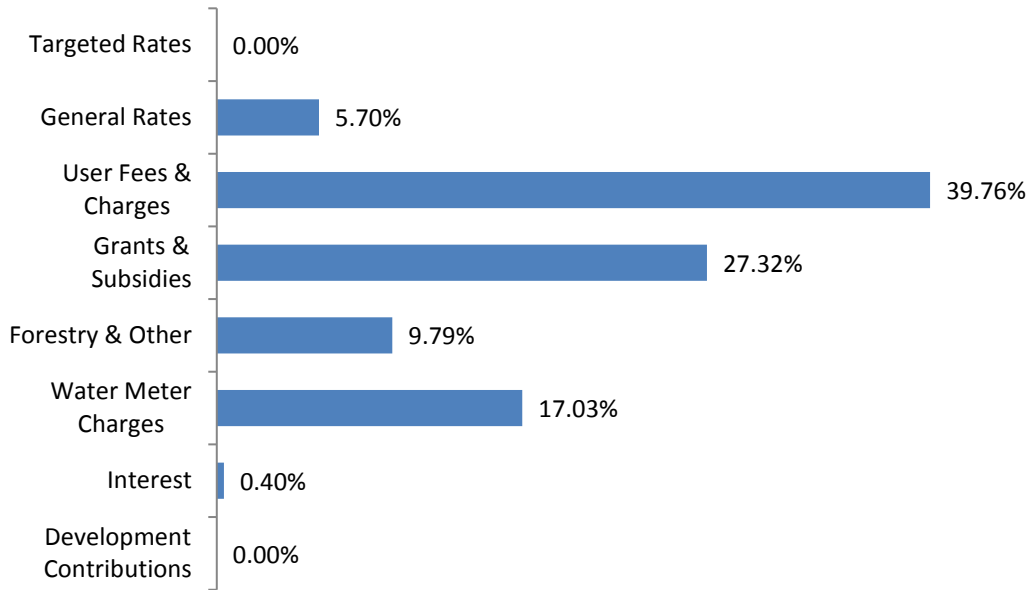
- Civic Centre – yet to be adjusted for impairment. See separate report.
- South Bay harbour rock removal – delays to obtain resource consent, waiting for a cultural impact assessment, tender documents are to be prepared ready for work to commence once consent is granted.



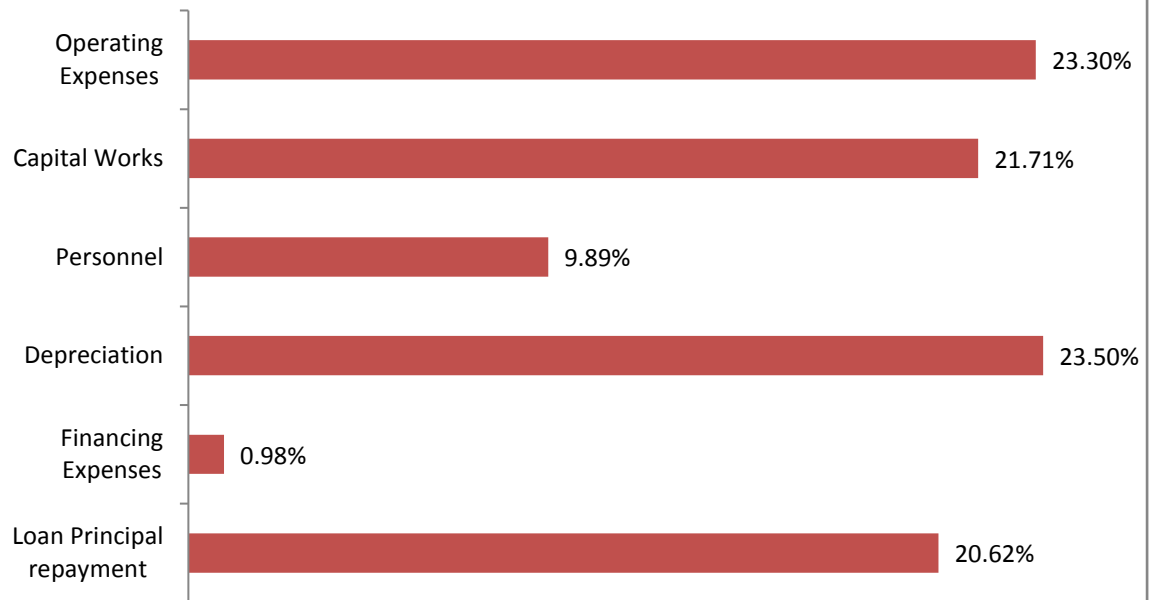
Working capital is calculated by subtracting current liabilities from current assets, and is an indicator of our ability to pay our commitments to suppliers when payments fall due. Current liabilities include the \$1.9M current portion of loans – almost all of which will be refinanced when they fall due. Please refer to the Finance Report narrative for more information.



### Revenue YTD by Category



### Expenditure YTD by Category





# Corporate Services Budget Report

