

**FINANCE, AUDIT AND RISK COMMITTEE MEETING HELD AT 2.30PM
ON MONDAY 19 SEPTEMBER 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*

4. Confirmation of Minutes

- ◆ *Finance, Audit & Risk 15/08/2016* *page 14*

5. Minutes Action and Issues List Update

MEETING	ACTION REQUIRED	BY	ACTION
Finance 18/07/2016	Provide a report on the future of the swimming pool.	Chief Executive Officer	In progress
Finance 18/07/2016	Provide a report for discussion on the potential milling of the South Bay forest.	Chief Executive Officer	In progress
Finance 15/08/2016	Provide rental stated as per square metre for the Civic Centre	Chief Executive Officer	Actioned. Email sent to elected members.
Finance 15/08/2016	Risk Register Workshop	Chief Executive Officer	A workshop will be held following the Council meeting.

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. Debt Recovery Report*
- b. Draft Annual Report*
- c. Confirmation of Minutes 15/08/2016*

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:

General subject of each to be considered	Reason for passing this resolution in relation to each matter	Grounds of the Act under which this resolution is made
Public Excluded Minutes 15/08/2016	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.	Section 48(1)(a) and 7(2)(b)(ii)
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.	Section 48(1)(a) and 7(2)(b)(ii)
Draft Annual 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; to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between members or officers or employees of any local authority.	Section 48(1)(a) and 7(2)(b)(ii), 7(2)(f)(i).

Finance Report

Statement of Financial Position

Cash reduced during August, but is expected to increase in September with the receipt of the first rates instalment. Current assets are substantially different to that reported for August 2015 because of the way the former computer system accounted for rates revenue. Previously the entire year's rates would be "struck" in one lump sum; this year using Ozone we only recognise rates revenue when it is invoiced (quarterly by instalment). No properties are held for sale.

Current liabilities include \$646,952 of development contributions revenue which will be able to be recognised as revenue once the Civic Centre is completed and operational.

Statement of Comprehensive Revenue & Expense

Two months into the financial year, the surplus of \$640k is ahead of budget. Building revenue has been quite strong, and expenses are lower than budget thanks to the timing of maintenance, insurance and costs associated with operating the Civic Centre (cleaning, electricity, etc).

Statement of Activity Performance

This page 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 \$62,000 overall. Most variances occurred across all activities and are minor. The main variances in further detail, by activity are:

<i>Activity</i>	<i>Variance</i>	<i>Permanent/ Temporary</i>	<i>Main Reason</i>
Roading	Up \$26,092	Temporary	Timing of NZTA subsidies
Regulation & control	Up \$16,300	Temporary	Building consent revenues higher than expected

Expenditure Variances:

Expenditure is under budget by \$237,572 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 \$26,577	Temporary	Timing of insurance and maintenance costs
Community facilities	Under \$73,426	Temporary	Timing of cleaning, maintenance, etc
Leadership & governance	Under \$58,397	Temporary	Timing of audit fees and election expenses

Statement of Cash Flows

Cash decreased by \$858,988 during July, but we do expect cash to increase again in September with receipt of the first rates instalment. A new line has been added to the statement, for clarity to show the net GST movements. No further loans were raised during August, but the Glen Alton and Airport Terminal loans were refinanced.

Capital Expenditure

Footpaths on Churchill St, Hasting St, Kotuku Rd, Wakatu Quay and the walkways of Chance Haven and Lyell Creek have been renewed, and work is about to commence on Deal Street. Stormwater renewal included pipe realignment and a new manhole in the West End.

The Civic Centre project total costs have now been adjusted so that the total no longer includes the costs incurred in the 2015/2016 year that will be recovered with the insurance claim for the roof product failure. Those costs have now been written off in the 2015/2016 Annual Report, and await verification from Audit NZ.

Revenue vs. Expenditure

Revenue far exceeds expenses for August, thanks to the invoicing of the first rates instalment.

Working Capital & Liquidity

Working capital (current assets less current liabilities) dropped substantially with loan movements in the current portion. Almost all of these loans will be refinanced when they fall due.

Liquidity is currently 2.05:1, which means there is \$2.05 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

Rates make up 77.9% of Council revenue, which is a particularly high proportion and is partially a timing issue, with the quarterly rates instalment issued in the second month of the year. As the months progress, we expect user fees and other revenue types to accumulate. We would normally expect rates revenue to be around 65% of total revenue by the end of the financial year.

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

Prepared by	Sheryl Poulsen, Finance Manager
Authorised by	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 AUGUST 2016

FINANCIAL STATEMENT MEASURES

OPERATING RESULT

operating surplus/(deficit)

\$0.64m

\$453k favourable v/s year-to-date budget of \$187k
\$917k favourable v/s last year actual of -\$277k

OPERATING COSTS

costs to deliver existing levels of service

\$1.23m

\$238k favourable v/s year-to-date budget of \$1.47m
\$581k favourable v/s last year actual of \$1.81m

TOTAL EXTERNAL DEBT

total borrowings from bank

\$8.11m

\$1,408k favourable v/s full year budget of \$9.5m
\$1,372k unfavourable v/s last year actual of \$6.7m

INTEREST ON DEBT

cost to service debt

\$63k

\$30k favourable v/s year-to-date budget of \$93k
\$11k unfavourable v/s last year actual of \$52k

CAPITAL EXPENDITURE

cost of new &/or replacement of assets

\$7.95m

\$0.2m unfavourable v/s year-to-date budget of \$7.7m
\$0.4m favourable v/s last year actual of \$8.4m

DEVELOPMENT CONTRIBUTIONS

received for district growth

\$0.0k

\$6.6k unfavourable v/s year to date budget of \$7k
\$00k unfavourable v/s last year actual of \$0k

LONG TERM PLAN MEASURES

DEBT AFFORDABILITY BENCHMARK

financing expenses as a % of rates

4.3%

15.7% favourable v/s council approved limit of 20.0%
1.3% favourable v/s last year actual of 5.6%

EBID

earnings before interest and depreciation

\$1.06m

\$464k favourable v/s year-to-date budget of \$0.60m
\$991k favourable v/s last year actual of \$0.07m

BALANCED BUDGET BENCHMARK

revenue equal or greater than expenses

152%

52% favourable v/s council benchmark of 100%
67% favourable v/s last year actual of 85%

BORROWINGS TO EQUITY

Term loans as a % of equity

5.09%

0.73% favourable v/s full year budget of 5.83%
1.78% unfavourable v/s last year actual of 3.32%

STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2016

	BUDGET to year end \$	ACTUAL 31/08/2016 \$	ACTUAL 31/08/2015 \$
ASSETS			
<i>Current assets</i>			
Cash & cash equivalents	3,151,447	1,150,555	2,325,728
Trade & other receivables	1,211,071	1,927,468	7,311,917
Prepayments & inventory	98,200	78,553	63,544
Non-current assets held for sale	-	-	958,000
Total current assets	4,460,718	3,156,576	10,659,189
<i>Non-current assets</i>			
Intangible assets	-	10,934	1,934
Forestry assets	2,583,334	2,139,428	2,490,709
Investment property	2,408,000	1,870,000	497,000
Property, plant & equipment	167,130,887	163,080,314	161,197,190
Total non-current assets	172,122,221	167,100,676	164,186,833
TOTAL ASSETS	176,582,939	170,257,252	174,846,022
LIABILITIES			
<i>Current liabilities</i>			
Trade & other payables	1,101,677	1,359,691	1,532,099
Employee liabilities	100,000	177,500	181,677
Borrowings – current	1,289,723	3,112,300	2,644,610
Other liabilities – current	-	646,952	312,924
Total current liabilities	2,491,400	5,296,443	4,671,310
<i>Non-current liabilities</i>			
Provisions	-	414,184	390,509
Borrowings – non current	8,814,770	4,998,260	4,093,730
Other term debt	564,606	328,080	976,988
Total non-current liabilities	9,379,376	5,740,524	5,461,227
EQUITY			
Public equity	80,752,128	86,203,813	92,878,943
Asset revaluation reserve	81,427,688	71,325,172	69,333,563
Special funds & reserves	2,532,347	1,691,301	2,500,979
Total equity	164,712,163	159,220,286	164,713,485
TOTAL LIABILITIES & EQUITY	176,582,939	170,257,252	174,846,022

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

FOR THE PERIOD ENDED 31 AUGUST 2016

	BUDGET 31/08/2016 \$	ACTUAL 31/08/2016 \$	ACTUAL 31/08/2015 \$
REVENUE			
Rates revenue	1,439,543	1,459,115	876,444
Water meter charges	-	-	8,035
User fees & charges	268,123	295,002	392,270
Grants & subsidies	46,298	60,233	122,462
Development contributions	6,550	-	12,082
Interest revenue	6,494	2,875	20,336
Other revenue ¹	43,618	55,852	32,739
Total revenue	1,810,626	1,873,077	1,464,368
EXPENSES			
Personnel	295,844	276,878	308,670
Depreciation	318,732	359,487	296,926
Financing expenses	92,636	62,578	66,278
Other expenses	762,790	533,487	571,168
Total expenses	1,470,002	1,232,430	1,243,042
Operating surplus/(deficit)	340,624	640,647	221,326
OTHER COMPREHENSIVE REVENUE			
Gains/(losses) on revaluation	-	-	-
Vested assets	-	-	-
Ecan share of MRF profit/loss	-	-	-
Total other comprehensive revenue	-	-	-
TOTAL COMPREHENSIVE REVENUE	340,624	640,647	221,326

¹ Other Revenue includes Marlborough Regional Forestry joint venture revenue, and petrol tax.

STATEMENT OF ACTIVITY PERFORMANCE
(NET RESULT BY ACTIVITY EXCLUDING DEPRECIATION)
FOR THE PERIOD ENDED 31 AUGUST 2016

	REVENUE \$	EXPENSE \$	Add back Depreciation	NET RESULT \$
ACTIVITY REVENUE & EXPENSE				
Roading	274,097	(281,660)	161,088	153,525
Water services	190,745	(180,836)	78,064	87,973
Sewerage	155,159	(133,424)	56,722	78,457
Stormwater	31,229	(20,854)	9,942	20,317
Refuse & recycling	35,022	(59,791)	2,618	(22,151)
Community facilities	243,688	(218,317)	43,419	68,790
Commercial activities	52,078	(8,366)	70	43,782
Leadership & governance	9,266	(97,111)	3,586	(84,259)
Regulation & control	106,433	(102,056)	4	4,381
Safety & wellbeing	27,177	(35,471)	3,974	(4,320)
District development	151,023	(80,378)	-	70,645
Hospital	57,691	(13,860)	-	43,831
	1,333,608	(1,232,124)	359,487	460,971
NON-ACTIVITY REVENUE & EXPENSE				
Less depreciation				(359,487)
Plus general rates, UAGC, and rates penalties, less rates remissions				536,595
Plus interest received				2,875
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				(307)
				179,676
Total Operating Surplus/(Deficit) per the Statement of Comprehensive Revenue and Expense on previous page				640,647

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 AUGUST 2016

	BUDGET to year end \$	ACTUAL 31/08/2016 \$	ACTUAL 31/08/2015 \$
OPERATING ACTIVITIES			
Receipts from rates	5,804,370	136,417	333,821
Interest received	66,667	2,875	-
Receipts from other revenue	3,907,583	549,287	703,457)
Payments to employees & suppliers	(6,800,822)	(1,181,777)	(2,185,448)
Interest paid	(627,806)	(62,578)	(51,651)
Goods & services tax (net)	-	(186,499)	(168,777)
Net Cash from Operating Activities	2,349,992	(742,275)	(1,368,598)
INVESTING ACTIVITIES			
Sale of investment property	-	-	-
Sale of forestry	-	-	330,000
Purchase of property, plant & equipment	(2,035,637)	(632,802)	(495,528)
Purchase of forestry assets	-	-	-
Purchase of intangible assets	-	-	-
Payment into term deposits	-	-	-
Net Cash from Investing Activities	(2,035,637)	(632,802)	(165,528)
FINANCING ACTIVITIES			
Proceeds from borrowing	1,912,611	700,000	550,000
Repayment of borrowings	(1,985,309)	(220,033)	(7,720)
Net Cash from Finance Activities	(72,698)	479,967	542,280
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	241,657	(895,110)	(991,846)
OPENING CASH	2,909,790	2,045,665	3,317,574
CLOSING CASH BALANCE	3,151,447	1,150,555	2,325,728

CAPITAL EXPENDITURE

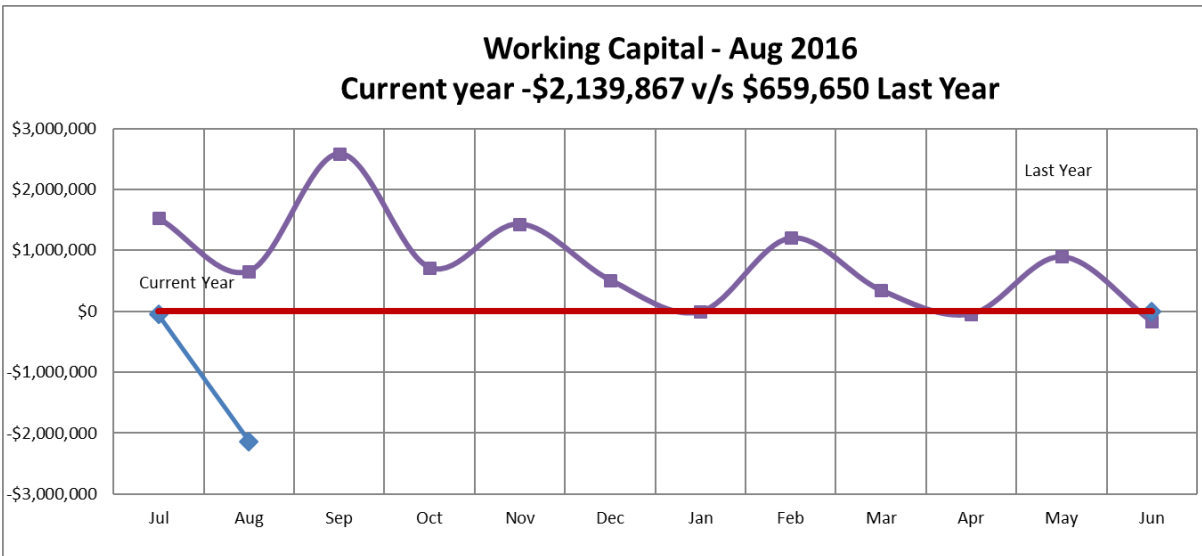
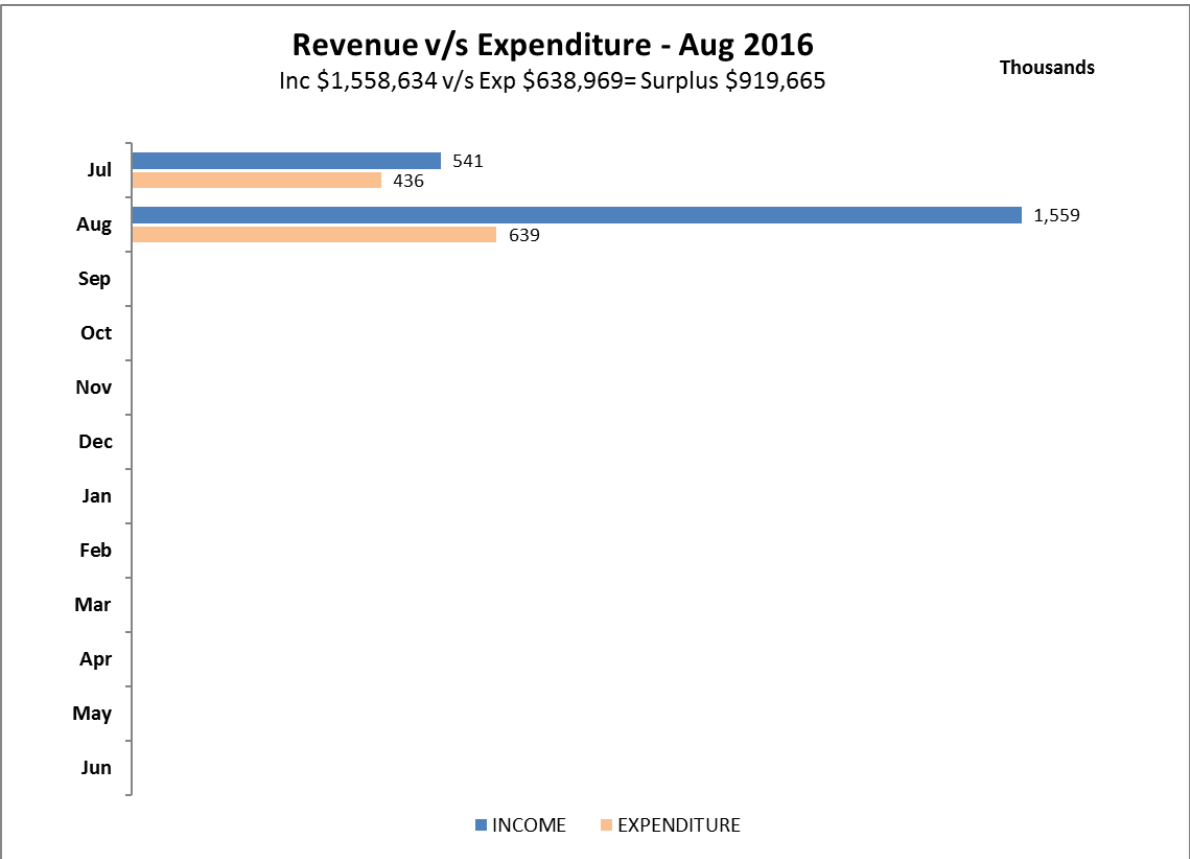
2016/2017

Project	Carried forward from 2015/16	Budget \$	Actual Spent \$	Percent complete	Date scheduled	Projected cost to complete	Status	Comments	On track?
ROADING									
Bridge replacement		90,000	-					Carry overs yet to be confirmed (if any)	
Reseals		100,000	-					Carry overs yet to be confirmed (if any)	
West End aesthetics		100,000	-					Design yet to be developed	
Unsealed road renewals		60,000	4,200	7%	Ongoing				Yes
Drainage renewals		50,000	8,988	18%					
Pavement rehabilitation		101,923	-					Carry overs yet to be confirmed (if any)	
Traffic service renewals		10,844	8,538	79%					
Minor work improvements		50,000	-						
Footpath renewals	500,000	-	301,421	60%		\$200,000	In progress	Carried over from 2015/2016	Yes
Streetlights		26,156	-						
WATER SUPPLIES									
South Bay water	80,000	220,000	300,190	100%	Completed		Completed	Final work completed in July 2016, total budget \$300k	Yes
Kaikoura pipe renewals		80,000	575	1%					
Kincaid renewals		20,000	-					Unspent funds accumulate in Kincaid rural water fund	
Oaro water treatment		4,000	-						
Peketa water		16,000	-					No capital work planned	
SEWERAGE									
Pump station renewals		-	1,022						
Oxidation pond fencing and resource consent		90,000	-						
STORMWATER									
Renewals		25,000	30,308	121%					
Upgrades & improvements		25,000	-						
REFUSE & RECYCLING									
New recycling bins		15,000	-						
Landfill capping & aftercare		7,500	-		As required		Not required	Unspent funds accumulate in aftercare fund	
COMMUNITY PROPERTIES									
Library books and lending items		26,000	650	2%	Delayed			Delayed while the library is closed	
South Bay harbour rock removal	50,000	250,000	25,823	9%	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
Airport runway reseal		50,000	-					Airport operators have requested work be done either before or after the tourist season peaks	

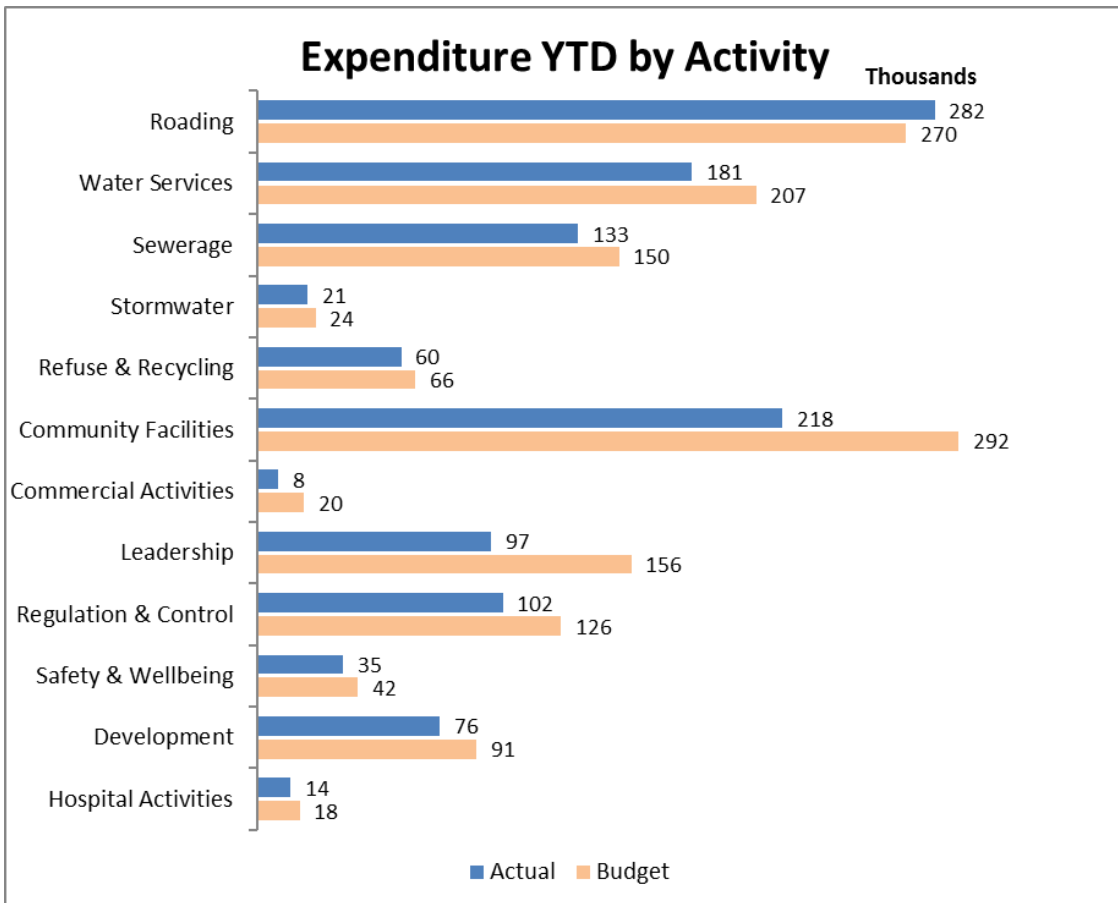
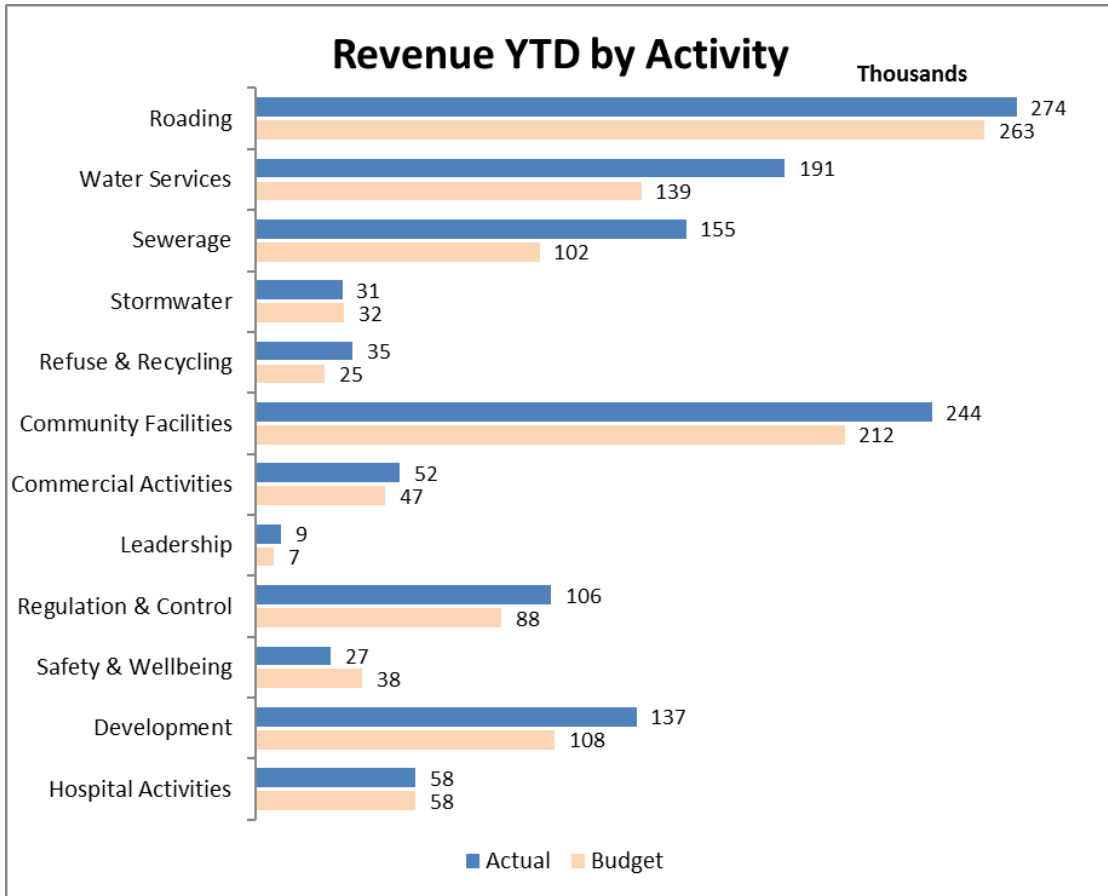
Project	Carried forward from 2015/16	Budget \$	Actual Spent \$	Percent complete	Date scheduled	Projected cost to complete	Status	Comments	On track?
New public toilets		30,000	-				On hold	Carried over from the 2014/2015 financial year, pending approval of a location and seeking alternative funding	
West End security CCTV		26,000	22,388	86%	Sept 2016	4,000	In progress	Progressing well	Yes
Swimming pool		50,000							
Civic Centre	4,900,000	1,000,000	6,393,964	108%	October 2016			Carried over from previous years. See separate report for more information.	
Memorial Hall fireproofing curtains	5,000	-						Carried over from 2014/2015.	
COMMERCIAL ACTIVITIES									
Forest pruning & thinning		4,464							
LEADERSHIP & GOVERNANCE									
Office furniture & equipment		10,000						Will be used once in the new building	
Computer equipment		20,000						Will be used once in the new building	
Ozone FBI reporting tool		20,000	10,000	50%	Oct 2016	10,000	In progress	The software licence has been purchased, and implementation has commenced	Yes
Vehicle replacement		20,000							
TOTAL	5,535,000	2,597,887	7,108,065	87%					

Major variances:

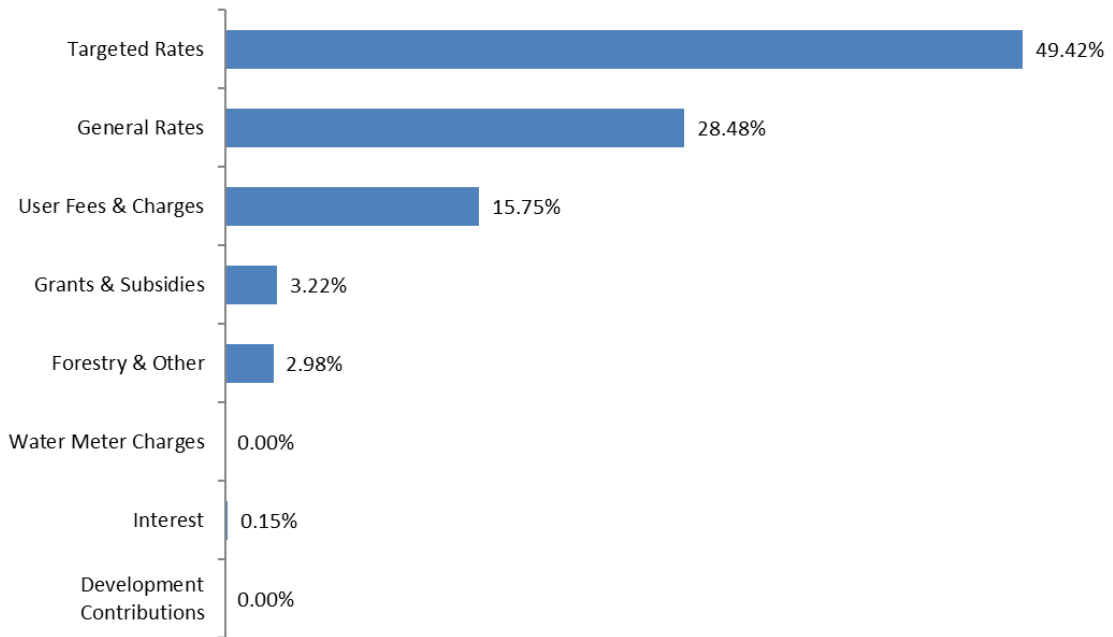
- The Civic Centre actual spent amount now includes only those costs which have been capitalised to date. Impairment losses, extra labour and scaffold hire, and other non-capital costs related to the failure of the insulation product in the roof have been eliminated from the total shown.
- South Bay 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 \$3.1M 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

