

KAIKOURA DISTRICT COUNCIL

FINANCE COMMITTEE MEETING

Date:	1 May 2019
Time	9:45am
Location	COUNCIL CHAMBERS, 96 WEST END, KAIKOURA.

AGENDA

1. Apologies
2. Declarations of Interest
3. Matters of Importance to be raised as Urgent Business
4. Minutes to be Confirmed;
28 March 2019 page 2
5. Urgent Business
6. Finance Report page 4
7. Variance Report page 14

MINUTES OF THE KAIKŌURA DISTRICT COUNCIL FINANCE MEETING HELD AT 9:38AM ON THURSDAY 28 MARCH 2019, AT COUNCIL CHAMBERS, 96 WEST END, KAIKŌURA

PRESENT: Councillor J Howden (Chair), Mayor W Gray, Councillors N Pablecheque, C Mackle, D Millton, T Blunt, C Harnett, L Bond.

DECLARATIONS OF INTEREST:
Councillor Millton – Waipapa Limestone

CONFIRMATION OF MINUTES:
30 January 2019 and 27 February 2019.

Moved by Councillor Howden, seconded by Councillor Bond and resolved that the Finances Committee Minutes of 30 January 2019 and 27 February 2019, be confirmed as a true and accurate record. Unanimous.

URGENT BUSINESS:

The Finance Audit and Risk Committee (FAR) spent a lot of time discussing the Annual Report and which Audit New Zealand have delayed re the qualification on Inland Road. Member of Parliament - Stuart Smith was advised which resulted in receiving a response the next day advising there would be an update.

The update was received which included a 48 page report from Audit Technical on Inland Road. Kaikōura District Council qualified in 2017 in relation to Inland Road however there will be no qualification this year. The only qualification that will stand is around the KPI's. All Inland Road issues have now been cleared therefore we should be in a position to adopt the Annual Report.

From a reputational point of view we look good with only one qualification however we now have an issue with Audit NZ's ability. Council spent money on PJ and Associates to get to this end result which should not have been required. Feedback needs to be provided to Audit NZ. Council incurred costs over and above what was required which needs to be brought to their attention.

FINANCE REPORT:

The Finance and Commercial manager was in attendance to present this report and take the report as being read.

This report is similar to previous months with key indicators showing a lot of green which is good. The red mainly relates to the rebuild and the delays around this.

The financial result for end of February was very positive, putting us in a great position right now.

We are aware that the rebuild had been slow hence why debt is lower. Debt profile going forward is gradual and it was anticipated that the roads would be complete prior to the funding expiring.

Facilities repairs are commencing albeit at a slower pace and still tracking on the Financial and Corporate Sustainability review which was being fully funded by the Department of Internal Affairs however the District Plan review was a bit slower.

There was a lot of work for the Annual Plan around building and regulatory costs as well as work being done to make sure allocated budget is spent as per the Three Year Plan. Any unspent emergency road funds will be carried across to the next year.

Big expenses were not expected until at least May therefore any savings are about timing. This is what we are right now.

Still working on monthly reporting as we know we can do better. It was hoped to get budget holders to include their financial reporting at the end of their monthly reports.

[Finance Report received for information.](#)

[There being no further business the Finance Committee finished at 10:02am](#)

To:	Council
Date:	1 May 2019
Subject:	Finance Report
Prepared by:	Paul Numan, Finance & Commercial Manager
Authorised by:	Angela Oosthuizen, Chief Executive

Statement of Financial Position

1. The Council financial position remains positive and until we incur the budgeted financial commitments from the rebuild programme - all available cash continues to be applied to repayment of borrowings – which ensures we gain the greatest financial return.
2. Accordingly this has resulted in our total borrowings at \$1.61 million at the end of February and favourable against budget.
3. Cash on hand at 31 March is \$3.7 million.

Working Capital & Liquidity

4. Working capital finished in March with \$3.96 million in assets over liabilities.
5. Liquidity is 4.16:1, meaning there is \$4.16 in cash for every \$1 in amounts due to be paid.

Statement of Comprehensive Revenue & Expense

6. At the end of March 2019, there is a net surplus of \$2.54m and although unfavourable against budget this is due to the timing in the receipt of grants and subsidies principally for the earthquake rebuild.
7. Operating costs are \$1,964m favourable against the annual plan year to date budget – noting Financing expenses remain low as the Council to date has not been required to raise loans to the extent that had been expected. Personnel, and other expenses also remain lower than budget.

Revenue and Expenditure Variances

8. Revenue is under budget by \$10.05m and Expenses are under budget by \$1.964m with further detail provided by activity at Appendix 1.

Statement of Cash Flows

9. The total cash position has decreased by \$65K since the last financial report to Council in March 2019 noting pending the rebuild commencing surplus cash has been used to repay debt. This is a cash management measure, saving over 5% interest expense, instead of earning less than 3% on term deposits.

Budget Performance (Revenue YTD and Expenditure YTD by Activity)

10. These are graphic representations of the Statement of Activity Performance and you can see at a glance how activities are performing against budget and in comparison with each other. They also highlight the extent to which the earthquake efforts are dwarfing our normal activities.

Revenue & Expenditure Types YTD – by Category

11. Over 44% of our revenue is sourced from grants and subsidies to 31 March, with 41% in operating costs; 17% in capital works; 18% in personnel costs and 12% in loan and principal repayments.

Variance Analysis

12. Revenue mainly from Grants and Crown subsidies anticipated to below that budgeted due to slow progress on the infrastructural rebuild and community facility projects. Similar trend in expenditure in these areas. Income from the provincial growth fund for the feasibility on major district projects is favourable (grant not budgeted) and work is progressing to timeline. Contract management is ongoing to ensure the roading programme is delivered. Seasonality of the roading programme is a factor. Slower than anticipated progress on the Natural Hazards Chapter of the District Plan Review. This will result in lower expenditure to budget. However work is progressing albeit slower.

Activity	Revenue	Expenditure	Comment
Roading	!	!	Lower revenue and expenditure due to seasonality of work. Ongoing contract management to ensure programme delivered
Water	✓	✓	
Sewerage	✓	✓	
Stormwater	✓	✓	
Refuse & Recycling	✓	✓	Higher capital grants due to WMINZ contribution. Major sites upgrade undertaken at IWK.
Community Facilities	×	×	Slower progress on Community facilities projects. Memorial Hall upgrade scheduled for April. Pool working group meeting to agree a path forwards on the swimming pool. Continued to work with the Scout Hall user forum to progress project and funding application to be submitted for earthquake damage.
Commercial	✓	✓	
Leadership and Governance	✓	✓	Continuing work progressing on Annual Plan and Sustainability Reviews.
Building and Regulatory	✓	!	Accreditation compliance costs over budget and high workload being managed by outsourcing processing. Outsourced processing costs fully recoverable.
Community Services	✓	✓	
District development	✓	!	Slower progress than anticipated on District Plan Review for natural Hazards but work is progressing. Implementation of work on Natural Hazards occurring and resource costs within budget. Feasibility study in progressing on the major district projects. This work is fully funded by the Provincial Growth Fund
Rebuild	!	!	Slower progress than anticipated. Work is progressing and contracts for major projects are being awarded. Continual governance o oversight of this programme in undertaken by the Infrastructural Rebuild Steering Group.

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

Author: Finance and Commercial Manager
Endorsed by the 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.)

FINANCIAL STATEMENT MEASURES

OPERATING RESULT

operating surplus/(deficit)

\$2.54m

\$8,090k unfavourable v/s year-to-date budget of \$10,625k

OPERATING COSTS

costs to deliver existing levels of service

\$9.60m

\$1,964k favourable v/s year-to-date budget of \$11.57m

TOTAL EXTERNAL BORROWING

total borrowings from bank

\$1.61m

\$9,096k favourable v/s full year budget of \$10.7m

INTEREST ON DEBT

cost to service debt

\$100k

\$328k favourable v/s year-to-date budget of \$429k

CAPITAL EXPENDITURE

cost of new &/or replacement of assets

\$2.23m

\$12.6m favourable v/s year-to-date budget of \$14.9m

DEVELOPMENT CONTRIBUTIONS

received for district growth

\$13.1k

\$13.1k favourable v/s year to date budget of \$0k

LONG TERM PLAN MEASURES

DEBT AFFORDABILITY BENCHMARK

financing expenses as a % of rates

1.9%

8.1% favourable v/s council approved limit of 10.0%

EBID

earnings before interest and depreciation

\$4.17m

\$8,419k unfavourable v/s year-to-date budget of \$12.59m

BALANCED BUDGET BENCHMARK

revenue equal or greater than expenses

126%

26% favourable v/s council benchmark of 100%

BORROWINGS TO EQUITY

Term loans as a % of equity

0.98%

4.71% favourable v/s full year budget of 5.70%

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	BUDGET to year end \$	ACTUAL 31/03/2019 \$	ACTUAL 31/03/2018 \$
ASSETS			
<i>Current assets</i>			
Cash & cash equivalents	1,831,910	3,679,003	4,042,439
Trade & other receivables	3,741,509	797,419	1,909,051
Prepayments & inventory	98,200	119,677	1,808
Total current assets	5,671,618	4,596,099	5,953,298
<i>Non-current assets</i>			
Intangible assets	-	188,743	248,177
Forestry assets	2,583,334	2,279,178	2,055,502
Investment property	2,313,125	1,465,000	1,860,000
Property, plant & equipment	192,025,294	158,841,865	152,806,610
Total non-current assets	196,921,753	162,774,786	156,970,289
TOTAL ASSETS	202,593,371	167,370,885	162,923,588
LIABILITIES			
<i>Current liabilities</i>			
Trade & other payables	1,954,651	810,293	1,188,094
Employee liabilities	100,000	265,074	223,996
Borrowings – current	615,906	-436,356	2,518,867
Total current liabilities	2,670,557	639,011	3,930,957
<i>Non-current liabilities</i>			
Provisions	-	471,549	471,612
Borrowings – non current	8,699,358	2,048,620	3,720,290
Other term debt	564,606	353,730	334,521
Total non-current liabilities	9,263,964	2,873,898	4,526,422
EQUITY			
Public equity	89,092,942	94,007,431	90,897,640
Asset revaluation reserve	83,231,984	65,406,874	59,086,740
Special funds & reserves	18,333,924	4,443,671	4,481,829
Total equity	190,658,850	163,857,975	154,466,208
TOTAL LIABILITIES & EQUITY	202,593,371	167,370,885	162,923,588

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

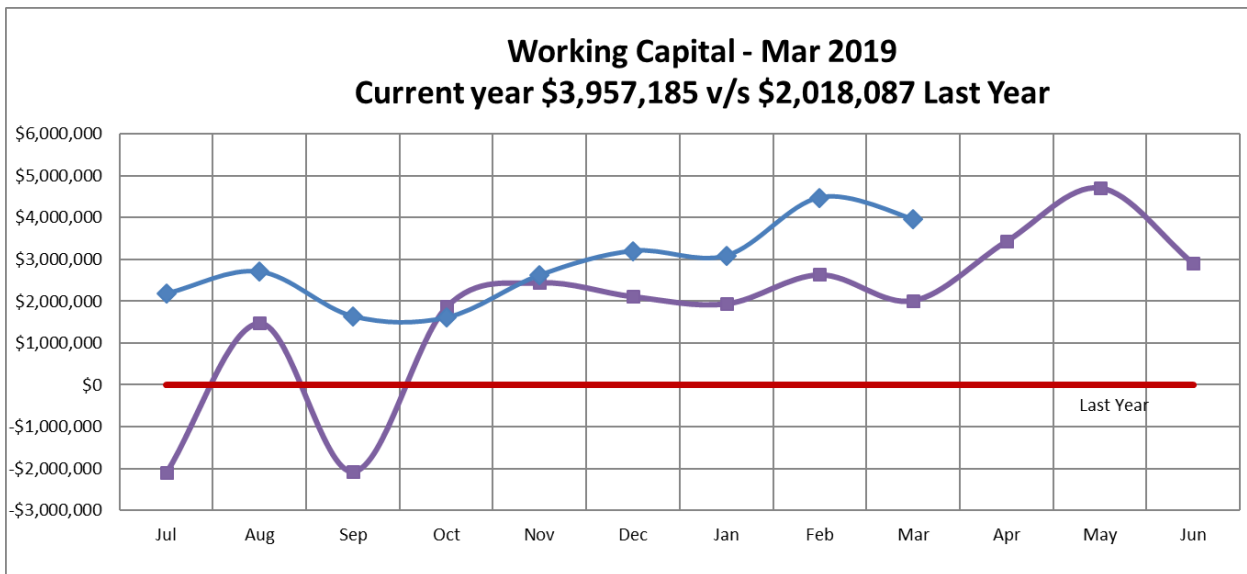
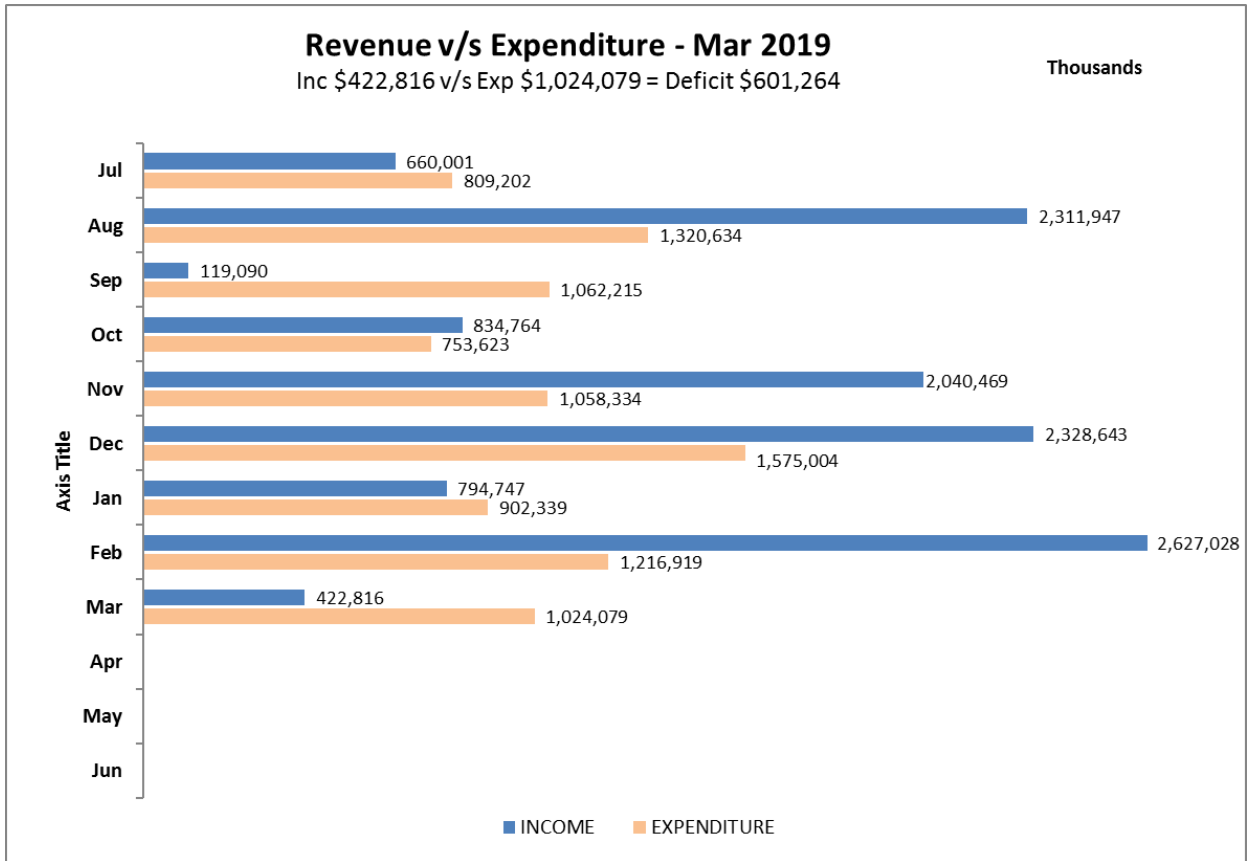
FOR THE PERIOD ENDED 31 MARCH 2019

	BUDGET 2019 \$	ACTUAL YTD 31/03/2019 \$	BUDGET YTD 31/03/2019 \$	VARIANCE 31/03/2019 \$
REVENUE				
Rates revenue	6,852,010	5,281,172	5,139,015	142,157
Water meter charges	130,000	45,187	65,000	(19,813)
User fees & charges	1,381,874	1,046,489	961,351	85,138
Grants & subsidies	20,697,800	5,404,647	15,642,340	(10,237,693)
Development contributions	-	13,057	0	13,057
Interest revenue	75,423	31,084	56,565	(25,481)
Other revenue ¹	1,286,109	317,868	329,915	(12,047)
Total revenue	30,423,216	12,139,504	22,194,186	(10,054,682)
EXPENSES				
Personnel	3,704,845	2,415,095	2,784,648	(369,553)
Depreciation	2,042,510	1,531,917	1,531,917	0
Financing expenses	571,843	100,463	428,877	(328,414)
Other expenses	11,191,365	5,556,987	6,823,394	(1,266,407)
Total expenses	17,510,563	9,604,462	11,568,836	(1,964,374)
Operating surplus/(deficit)	12,912,653	2,535,043	10,625,350	(8,090,307)
OTHER COMPREHENSIVE REVENUE				
Gains/(losses) on revaluation	-	-	-	-
Vested assets	-	-	-	-
ECAN share of MRF profit/loss	-	-	-	-
Total other comprehensive revenue	-	-	-	-
TOTAL COMPREHENSIVE REVENUE	12,912,653	2,535,043	10,625,350	(8,090,307)

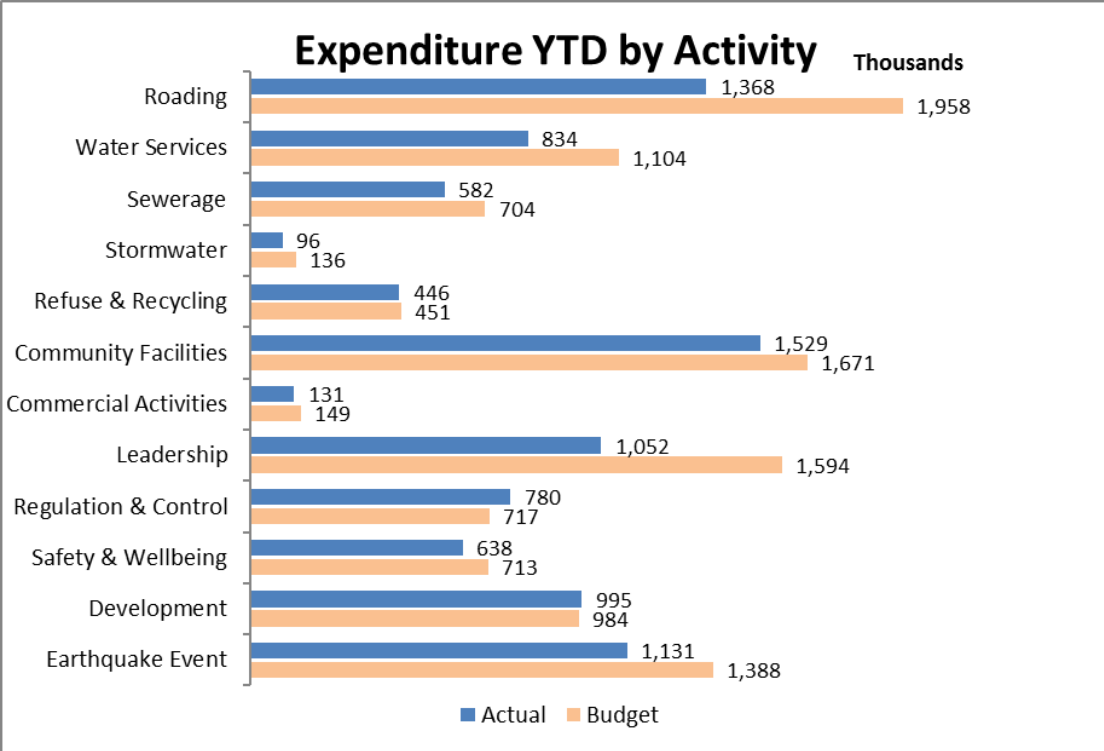
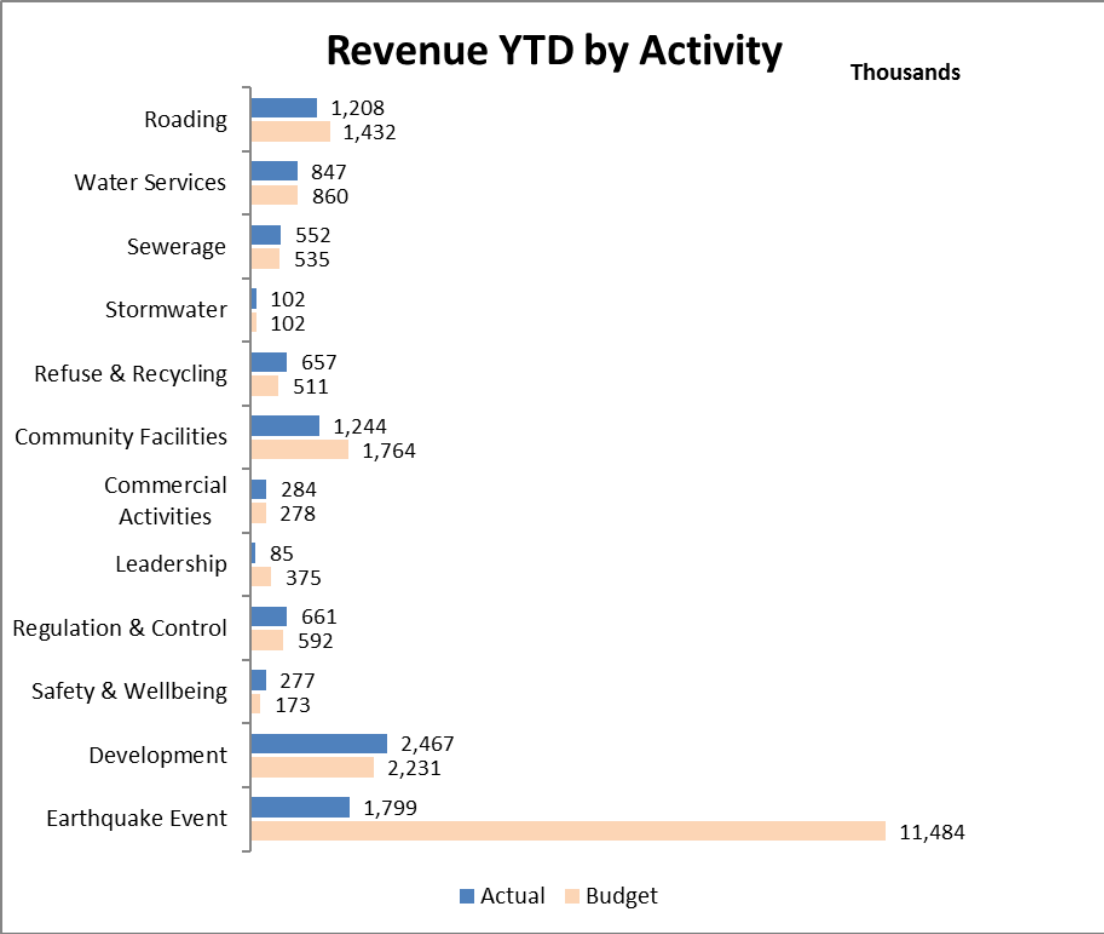
¹ Other Revenue includes Marlborough Regional Forestry joint venture revenue, penalties on overdue leases, and petrol tax.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 MARCH 2019

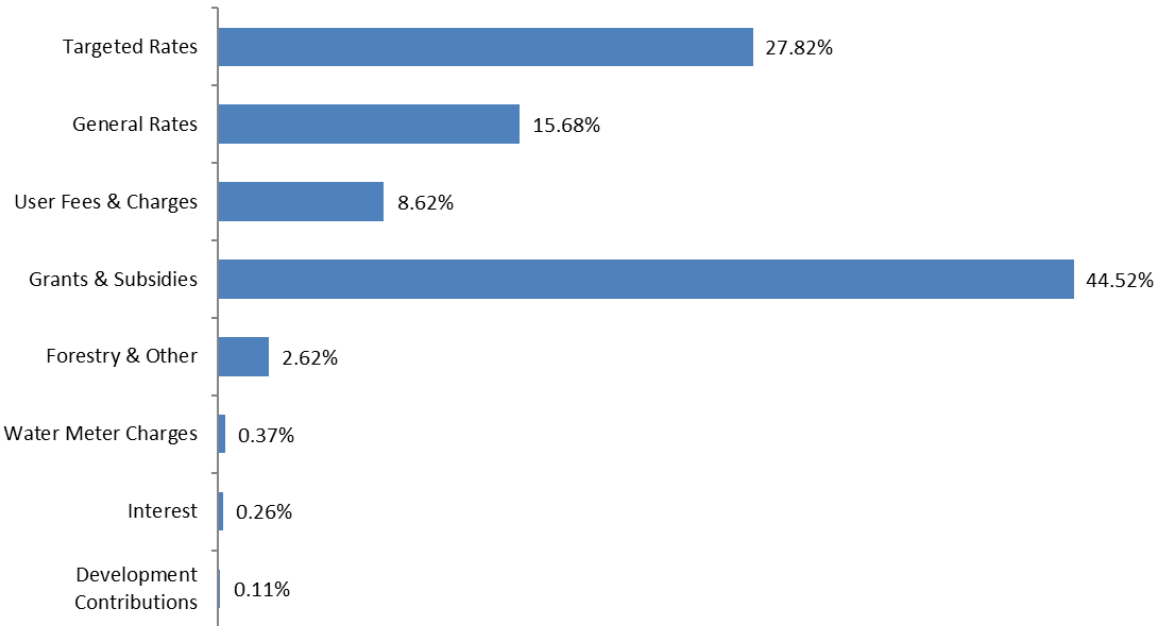
	BUDGET to year end \$	ACTUAL 31/03/2019 \$
OPERATING ACTIVITIES		
Receipts from rates	6,852,012	5,225,291
Interest received	75,423	31,084
Receipts from other revenue	7,042,777	6,299,787
Payments to employees & suppliers	(14,290,016)	(9,083,482)
Interest paid	(571,846)	(100,463)
Goods & services tax (net)	-	(20,356)
Net Cash from Operating Activities	(891,650)	2,351,860
INVESTING ACTIVITIES		
Grants received for capital work	15,717,727	1,870,411
Purchase of investment property	(200,000)	-
Sale of forestry	-	-
Purchase of property, plant & equipment	(19,746,078)	(2,630,820)
Purchase of forestry assets	-	-
Purchase of intangible assets	-	-
Payment into term deposits	-	-
Net Cash from Investing Activities	(4,288,351)	(760,409)
FINANCING ACTIVITIES		
Proceeds from borrowing	2,323,108	-
Repayment of borrowings	(396,501)	(1,656,859)
Net Cash from Finance Activities	1,926,607	(1,656,859)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(3,193,395)	(65,407)
OPENING CASH	5,025,305	3,744,410
CLOSING CASH BALANCE	1,831,910	3,679,003



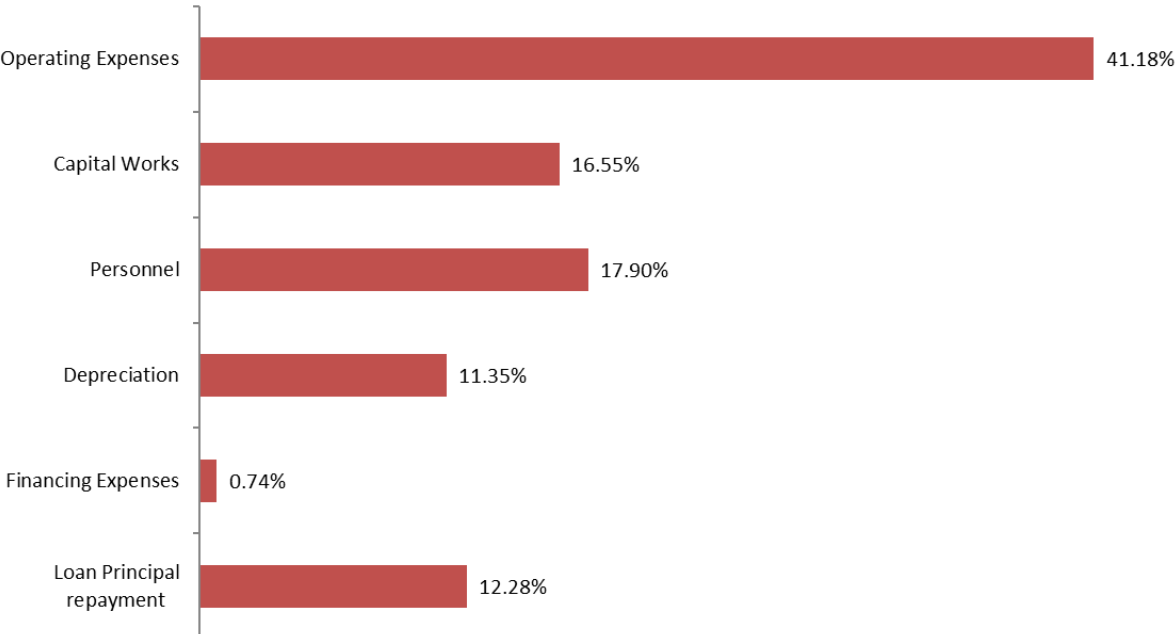
Working capital is calculated by subtracting current liabilities from current assets, and is an indicator of our ability to pay our commitments to suppliers when payments fall due. Please refer to the Finance Report narrative for more information.



Revenue YTD by Category



Expenditure YTD by Category



INCOME
YEAR TO DATE

	Actual	Budget	% Variance	\$ Mar Variance	\$ Feb Variance	U/F	T/P	Material	Projected Variance	Dashboard Indicator	Notes Ref	
Roading	\$1,208,043	\$1,432,097	-15.65%	-\$224,054	-\$211,160	U	T	Y		!	1	Funding associated with under expenditure on Roothing, principally NCTIR Haul Routes, Minor Events, Bridges and Traffic Services has resulted in lower subsidy being received.
Water Services	\$847,348	\$860,144	-1.49%	-\$12,796	-\$72,652	U	P	N	-\$30,000	✓	2	Income from commercial water meters reduced due to out of use buildings and reduction in demand.
Sewerage	\$551,953	\$535,140	3.14%	\$16,813	\$12,971	F	P	N	\$40,000	✓	3	Sewerage pan charges higher than anticipated
Stormwater	\$101,995	\$101,754	0.24%	\$241	\$47	F		N		✓	4	Negligible - no explanation required
Refuse & Recycling	\$657,018	\$510,898	28.60%	\$146,120	\$176,361	F	P	Y		✓	5	Capital Grants from WMINZ higher. Works completed at IWK.
Community Facilities	\$1,243,886	\$1,763,664	-29.47%	-\$519,778	-\$711,817	U	P	Y	-\$480,000	✗	6	Grants not yet received for Harbour, Scout Hall, Swimming pool - Harbour claim for grant in progress; other projects not yet commenced
Commercial Activities	\$284,245	\$277,799	2.32%	\$6,446	\$19,334	F		N		✓	7	Negligible - no explanation required
Leadership & Governance	\$84,570	\$375,281	-77.46%	-\$290,711	-\$30,600	U	P	Y	\$43,000	!	8	DIA Grant funding not claimed for financial Sustainability. Drawdown being progressed with the DIA. DIA Grant funding received for Communications Officer (\$43k)
Building and Regulatory	\$660,620	\$591,653	11.66%	\$68,967	\$41,993	F	T	Y		✓	9	Higher user Fees for Building Control offsetting against lower Infringement fees and costs to be recovered. To be monitored.
Community Services	\$276,774	\$173,464	59.56%	\$103,310	\$109,902	F	P	Y	\$95,000	✓	10	Timing of grants received for: Earthquake Outreach Support, Family Violence Coordinator, Earthquake Recovery Support
District Development	\$2,466,897	\$2,230,824	10.58%	\$236,073	\$221,884	F	P	Y	\$250,000	✓	11	MBIE Grant funding for Provincial Growth Fund Feasibility studies not budgeted
Earthquake Event	\$1,799,468	\$11,483,586	0.00%	-\$9,684,118	-\$7,586,943	U	P	Y	-\$12,185,000	!	12	Slower than anticipated Rebuild programme impacting claiming of grants. See Rebuild Report
Interest	\$30,990	\$56,565	-45.21%	-\$25,575	-\$21,267	U	T	Y	-\$40,000	✓	13	Interest over budgeted
Rates	\$1,925,697	\$1,801,317	6.90%	\$124,380	\$120,866	F	P	Y	\$120,000	✓	14	Rates remissions and penalties lower than expected
Gross Operating Revenue	\$12,139,504	\$22,194,186	-45.30%	-\$10,054,682	-\$7,931,081				-\$12,187,000			
Less Capital Subs & Grants	-\$1,870,411	-\$11,835,944	-84.20%									
Net Operating Revenue	\$10,269,093	\$10,358,242	-0.86%	-\$89,149								

EXPENDITURE
YEAR TO DATE

	Actual	Budget	% Variance	\$ Mar Variance	\$ Feb Variance	U/F	T/P	Material	Projected Variance	Dashboard Indicator	Notes Ref	
Roading	\$1,368,291	\$1,958,341	-30.13%	-\$590,050	-\$476,093	F	T	Y		!	15	Maintenance lower than budgeted -seasonality of roading programme; NCTIR Haul Routes lower than budgeted, Interest expense lower than budgeted. Ongoing contract management to ensure delivery.
Water Services	\$833,749	\$1,104,145	-24.49%	-\$270,396	-\$160,980	F	T	Y		✓	16	Electricity lower than budgeted; Maintenance lower than budgeted, Interest and overheads lower than budgeted. Lower expenditure mainly in Kaikōura Urban
Sewerage	\$581,862	\$703,952	-17.34%	-\$122,090	-\$74,661	F	T	Y		✓	17	Electricity Lower than budgeted; Interest & overheads lower than budgeted; Planned maintenance delayed to integrate with Rebuild
Stormwater	\$95,754	\$135,929	-29.56%	-\$40,175	-\$12,097	F	T	Y		✓	18	Consultancy Lower than budgeted; Maintenance lower than budgeted; Overheads lower than budgeted
Refuse & Recycling	\$446,420	\$450,749	-0.96%	-\$4,329	\$7,852	F		N		✓	19	Negligible - no explanation required
Community Facilities	\$1,528,576	\$1,670,540	-8.50%	-\$141,964	\$82,714	F	P	Y	-\$250,000	✗	20	Lower interest & overheads under budget; Consultancy under budget; Maintenance over budget
Commercial Activities	\$130,781	\$149,418	-12.47%	-\$18,637	-\$7,215	F		N		✓	21	Negligible - no explanation required
Leadership & Governance	\$1,052,321	\$1,593,894	-33.98%	-\$541,573	-\$383,991	F	T	Y		!	22	Timing delay in commencing financial sustainability review. Contract and consulting expenses to be monitored as project progresses. Personnel expenses under budget. Interest and costs recovered under budget
Building and Regulatory	\$779,587	\$716,582	8.79%	\$63,005	\$37,210	U	P	Y	\$60,000	!	23	Higher compliance costs continue to be a factor - accreditation; Outsourced processing costs to meet workload demand incurred but these will be fully recoverable.
Community Services	\$637,706	\$713,233	-10.59%	-\$75,527	-\$57,664	F	P	Y		!	24	Lower operating costs overall due to no training and illness in the library
District Development	\$994,700	\$984,324	1.05%	\$10,376	\$207,531	U	P	N	-\$90,000	!	25	Consultant expenditure on PGF funded by grant from the PGF, District Plan slower than anticipated.
Earthquake Event	\$1,130,805	\$1,387,729	0.00%	-\$256,924	-\$336,881	F	P	Y	\$345,000	!	26	Rebuild slower than anticipated - see rebuild report.
Bad Debt	\$23,909	\$0	0.00%	\$23,909	\$23,909	U	P	N	-\$24,000	✓	27	Bad Debt written off (\$22K)/ Collection fees (\$1.6)
	\$9,604,462	\$11,568,836	-16.98%	-\$1,964,374	-\$1,150,367				\$41,000			

REVENUE LESS EXPENSES	\$664,632	-\$1,210,594	-154.90%	\$1,875,226
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Net Position	Actual	Budget	% Variance	\$ Mar Variance
Roading	-\$160,248	-\$526,244	-69.55%	\$365,996
Water Services	\$13,600	-\$244,001	-105.57%	\$257,601
Sewerage	-\$29,909	-\$168,812	-82.28%	\$138,903
Stormwater	\$6,241	-\$34,175	-118.26%	\$40,416
Refuse & Recycling	\$210,599	\$60,149	250.13%	\$150,450
Community Facilities	-\$284,691	\$93,124	-405.71%	-\$377,815
Commercial Activities	\$153,464	\$128,381	19.54%	\$25,083
Leadership & Governance	-\$967,751	-\$1,218,613	-20.59%	\$250,862
Building and Regulatory	-\$118,968	-\$124,929	-4.77%	\$5,961
Community Services	-\$360,932	-\$539,769	-33.13%	\$178,837
District Development	\$1,472,197	\$1,246,500	18.11%	\$225,697
Earthquake Event	\$668,663	\$10,095,857	-93.38%	-\$9,427,194

