

**FINANCE AUDIT AND RISK COMMITTEE MEETING HELD AT 9.00AM
TUESDAY 30 JULY 2019 AT THE COUNCIL CHAMBERS,
LEVEL 1, 96 WEST END, KAIKOURA**

AGENDA

- 1. Apologies***
- 2. Declarations of Interest***
- 3. Matters of Importance to be raised as Urgent Business***
- 4. Confirmation of Minutes 25/06/2019*** ***page 2***
- 5. Minutes Action List*** ***page 4***
- 6. Urgent Business***
- 7. Finance Report – to 30 June 2019*** ***page 5***
- 8. LGFA report P Jones*** ***page 22***

MINUTES OF THE FINANCE AUDIT AND RISK COMMITTEE MEETING HELD AT 9:00AM ON TUESDAY 25 JUNE 2019 IN THE COUNCIL CHAMBERS, LEVEL 2, 96 WEST END, KAIKOURA

PRESENT: Councillor J Howden (Chair), Mayor W Gray, Councillor N Pablecheque, C Wilson

IN ATTENDANCE: S Poulsen (Finance Manager), N Telford, M Madden (Minutes)

APOLOGIES: A Oosthuizen

DECLARATIONS OF INTEREST:
Nil

MATTERS OF IMPORTANCE TO BE RAISED AS URGENT BUSINESS:
Nil

CONFIRMATION OF MINUTES 28/05/2019:

Moved by Mayor W Gray, seconded by C Wilson. Unanimous.

MINUTES ACTION LIST:

The FARC reviewed the action items from 29 May and requested the following additional information: Nil

URGENT BUSINESS:

Nil

FINANCE REPORT:

The Finance Manager spoke to the Finance report. Borrowings remain steady. The variance report shows substantial spend on NCTIR haul routes which is a neutral position for Council. Roading expenditure has increased. Re-coding is required for community facilities between operating expenditure and capital expenditure and a clean out of ledgers for historical items to be undertaken and project managers to self-manage budgets to job codes and cost reports.

Special funds and reserves is not reconciled. The Finance Manager does not have the resource capability to complete this with priority given to delivering the annual plan and adoption of the annual report 2018. FAR will raise this as risk with the CEO that requires urgent recruitment of a CA qualified accountant.

Councillor N Pablecheque requests from the Chair that a report be tabled by the CEO to clarify the \$500,000 loan to IWK for the landfill project to 2020.

The operating and capital expenditure activity graphs provided a visual glance. Trend lines against YTD was suggested for future reporting.

Moved the receipt of the Finance report by Councillor N Pablecheque, seconded by Mayor W Gray.

ANNUAL REPORT UPDATE:

The Finance Manager provided a verbal update. The statutory deadline to adopt the Annual Plan 2018 requires a re-write of pages 10 and 11 before finalising. A special meeting will be called in July 2019 to coincide with the audit debrief and the LGFA report from P Jones on Thursday 11 July 2019.

The Annual Report Update was received for information.

There being no further business the meeting closed at 10:00am

FINANCE AUDIT AND RISK MINUTES ACTION LIST – 25 JUNE 2019

	ACTION ITEM	ASSIGNED TO	COMPLETED BY	STATUS
1	Reconcile cash in bank to special reserves	Finance Manager	March FAR Meeting	Scheduled for completion 06/19. Resourcing for its completion will be discussed with the CEO.
2	Council consider a separate committee for Strategy, Policy and Planning and Building and Regulatory	Chair of FAR	May Council Meeting	To be considered after Council elections. Councillor Pablecheque is the appointee in the interim.
3	FAR requested a record of all loans pre earthquake and what has been paid off.	Mayor W Gray /CEO	June FAR	Immediate under resourcing risk raised by FAR and Finance Manager will be discussed with CEO.
4	Arrange a workshop with the full Council and FAR post the audit opinion.	Finance and Commercial Manager	June FAR	Audit opinion will be delivered 11 July 2019.
5	Source the previous RMA process from M Hoggard for C Wilson.	Chair of FAR	June	C Wilson and M Hoggard to discuss directly.
6	Informative report LGFA for Council. Clarify that this report is to inform about becoming a guaranteeing member.	Finance Manager	Philip Jones	Due 11 July 2019
7	A report to be tabled by the CE for - IWK loan of \$500,000 for landfill project 2020.	Chair of FAR /CEO	July FAR	

Report to:	Finance Audit and Risk
Date:	23 July 2019
Subject:	Finance Report to 30 June 2019
Prepared by:	Jerome Dufour, PwC
Input sought from:	Natalie Telford, Assistant Accountant
Authorised by:	Angela Oosthuizen, Chief Executive

1 PURPOSE AND ORIGIN:

The purpose of this report is to provide the Finance Audit and Risk with an update on the financial position of the Council as at 30 June 2019.

2 DISCUSSION:

The following provides a summary discussion on the interim financial statements and supporting data as presented in the attachments to this report. These results are subject to year-end adjustments, including adjustments for any prepayments, accruals, provisions and depreciation.

Statement of Financial Position

The Council financial position remains strong. Borrowings remain at a low of \$1.58 million at the end of June and favourable against budget. Cash on hand at 31 June is \$1.94 million. Budgeted increases in property, plant & equipment have not eventuated to the level expected due to slower progress on the earthquake rebuild.

Working Capital & Liquidity

Working capital is \$1.32 million in current assets over current liabilities.

Liquidity is 1.32:1, meaning there is \$1.32 in cash for every \$1 in amounts due to be paid.

At this point in time the council has sufficient funds to pay short term liabilities as they fall due. Historically this ratio has been trending downwards over the past few months as surplus cash reserves have been utilised to service term debt.

Statement of Comprehensive Revenue & Expense

At the end of June 2019, there was a net surplus of \$3.04 million, this is unfavourable to budget however this can be accounted for due to the timing of budgeted grants and subsidies principally for the earthquake rebuild not yet received.

Rates Revenue

Rates revenue has increased slightly over the year, \$150k up on budget. This is predominantly a result of rates remissions being less than forecast (\$60k less) and penalties applied to overdue rates are \$40k more than expected. Some of these penalties apply to Maori Freehold Land rates, and will be written off. These rates are discussed further in the Debtors Report in this agenda.

Water meter charges

Water meter charges are \$81k down on budget. This resulted from Kaikōura Urban Water meter charges to 30 June being invoiced in July 2019.

User fees & charges

Revenue from building consent fees is substantially higher than forecast; due to relatively high numbers of consents being processed, high value consents being processed (such as the hotel and other new commercial builds), and the fact that we are having consents processed externally – so the cost of consent processing is being added to the consent fee.

Grants & subsidies

The Three-Year Plan had forecast that we would spend over \$15 million in earthquake rebuild projects in the 2018/2019 financial year, and receive over \$14 million in grants to fund the work. In reality, just over \$3.31 million has been spent on earthquake-related capital projects as at the end of June, and the corresponding grants for that work is around \$1.49 million.

Roading is another area where the NZTA subsidy is less than forecast due to a lower spend in this area, both in capital and operating spend.

Interest & other revenue

Rather than set aside any available cash in term deposits to earn around 3% interest, we have instead paid down our borrowings. There are greater savings associated with a reduction in debt than can be received from investment in on call accounts or term deposits.

Other revenue includes petrol tax and infringement fees, and also includes the capital distribution we receive from the Marlborough Regional Forestry joint venture. Those distributions total \$422k for the year to date, \$85k higher than expected, and we have now paid Environment Canterbury their share of the distribution, of around \$56k.

The budget also includes \$860k as the Council's share of income from the Marlborough Regional Forestry joint venture as at the 30 June 2019. Year end results from the joint venture are still to be finalised before we can account for this income and the associated proportion of expenses.

Personnel expenses

Employee costs are \$263k less than forecast, largely due to the recruitment of engineering and other personnel being slower than predicted. Rebuild personnel expenses are also much lower than forecast.

Financing expenses

Loan interest costs are significantly lower than budgeted due to the early repayment of debt, as discussed above, but also due to loans not being drawn down yet, due to a slower than budgeted for rebuild programme.

Other expenses

This report shows that “Other Expenses” are underspent by \$2.53 million. The Variance Analysis pages in this report highlight several areas of underspend.

The above figures may differ from the variances in the Variance Analysis pages due to those pages including all expense types (personnel, depreciation and financing expenses), whereas the above commentary is referring to “other expenses” only, as per Statement of Comprehensive Revenue & Expense.

Revenue and Expenditure Variances

In summary, revenue is under budget by \$13.12 million and expenses are under budget by \$3.24 million. Further information is provided in the Variance Analysis section of this report and the detail provided by activity in the Variance Analysis at Appendix 1.

Statement of Cash Flows

The total cash position has decreased to \$1.94 million since the last financial report to Council in May 2019, noting pending the rebuild commencing cash reserves have 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)

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

Over 46% of our revenue is sourced from grants and subsidies to 30 June 2019, with 43% in capital works; 29% in operating costs; 12% in personnel costs and 9% in loan and principal repayments.

Variance Analysis

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 trends are seen 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. 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	!	!	Funding associated with under expenditure has resulted in lower subsidies being claimed. Minor events underspent due to good weather, Incomplete bridge structure assessment.

Activity	Revenue	Expenditure	Comment
Water	✓	✓	Lower expenditure than budgeted due to EQ damage to pumps (lower electricity costs), some maintenance work not carried out because of network modelling and studies being carried out before completing works.
Sewerage	✓	✓	Planned maintenance delayed to integrate with rebuild programme.
Stormwater	✓	✓	Catchment management plans have not commenced.
Refuse & Recycling	✓	✓	Major site upgrade completed at IWK. Fixed price expense on carbon credits \$40k over budget
Community Facilities	✗	✗	The grant revenue for swimming pool has not been secured as yet. There has been substantial maintenance work undertaken in the town centre for West End car park works. This over-spend has been offset by significant savings in loan interest and overheads.
Commercial	✓	✓	Maintenance has not been carried out on the Wakatu Quay properties, minimal maintenance completed on 25 Beach Road and 34 Esplanade was not secured and closed to the standard budgeted.
Leadership and Governance	✓	✓	The Sustainability Review grant was invoiced to DIA; the Review work itself is ongoing. Local Government NZ Membership Subscriptions paid partially in advance for April 19 through March 20. To be adjusted for the prepayment portion. Reduced costs on consultant and professional fees to budget.
Building and Regulatory	✓	!	Accreditation compliance costs over budget and high workload being managed by outsourcing processing. Outsourced processing costs fully recoverable. Increased personnel expenses associated with Dog Control.
Community Services	✓	✓	
District development	✓	!	Slower progress than anticipated on District Plan Review for Natural Hazards but work is progressing. Budgeted funds set aside for Natural Hazards project significantly greater than work completed to date. Feasibility study is progressing on two major district projects. This work is fully funded by the Provincial Growth Fund with costs well down on budget
Rebuild	!	!	Slower progress than anticipated. Work is progressing and contracts for major projects are being awarded. Continual governance oversight of this programme is undertaken by the Infrastructural Rebuild Steering Group.

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)

3 FINANCIAL IMPLICATIONS AND RISKS:

Monthly monitoring and reporting on the Council financials is required as there is a risk that the Council's financial position could deteriorate with an increase in debt levels; lowered credit rating; revenue flows are lower than budgeted and expenditure is higher than projected.

4 RECOMMENDATION:

It is recommended that the Finance Report and financial position of the Council as at 30 June 2019 be received.

5 COMMUNITY OUTCOMES SUPPORTED:

The work is in support of all community outcomes.



We value, protect and enhance Kaikōura’s unique natural environment and biodiversity and sustainably manage disposal of waste.



Our community is resilient, safe and well and has their essential needs met



Our infrastructure, housing and community facilities are easily accessible, cost effective and able to withstand our natural hazards.



Our District is economically diverse, attractive to investment and provides certainty around business and employment continuity.



Our community participates in decisions and planning in a way that benefits our future.



Residents and visitors enjoy an improved quality of life in our District.

6 SIGNIFICANCE OF DECISION:

This decision is not considered significant in terms of Council’s Significance and Engagement Policy.

7 RELEVANT LEGISLATION:

The Local Government Act 2002 states that a local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region.

KEY INDICATORS

AS AT 30 JUNE 2019

OPERATING RESULT

operating surplus/(deficit)

\$3.04m

\$9,876k unfavourable v/s year-to-date budget of \$12,913k

OPERATING COSTS

costs to deliver existing levels of service

\$14.14m

\$3,240k favourable v/s year-to-date budget of \$17.38m

TOTAL EXTERNAL BORROWING

total borrowings from bank

\$1.58m

\$9,129k favourable v/s full year budget of \$10.7m

INTEREST ON DEBT

cost to service debt

\$123k

\$449k favourable v/s year-to-date budget of \$572k

CAPITAL EXPENDITURE

cost of new &/or replacement of assets

\$12.98m

\$7.0m favourable v/s year-to-date budget of \$19.9m

DEVELOPMENT CONTRIBUTIONS

received for district growth

\$20.9k

\$20.9k favourable v/s year to date budget of \$0k

LONG TERM PLAN MEASURES

DEBT AFFORDABILITY BENCHMARK

financing expenses as a % of rates

1.8%

8.2% favourable v/s council approved limit of 10.0%

EBID

earnings before interest and depreciation

\$5.20m

\$10,325k unfavourable v/s year-to-date budget of \$15.53m

BALANCED BUDGET BENCHMARK

revenue equal or greater than expenses

121%

21% favourable v/s council benchmark of 100%

BORROWINGS TO EQUITY

Term loans as a % of equity

0.96%

4.74% favourable v/s full year budget of 5.70%

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	BUDGET to year end \$	ACTUAL 30/06/2019 \$	ACTUAL 30/06/2018 \$
ASSETS			
<i><u>Current assets</u></i>			
Cash & cash equivalents	1,831,910	1,944,235	3,744,411
Trade & other receivables	3,741,509	1,920,716	2,277,548
Prepayments & inventory	98,200	119,677	152,382
<i>Total current assets</i>	5,671,618	3,984,628	6,174,340
<i><u>Non-current assets</u></i>			
Intangible assets	-	188,743	188,743
Forestry assets	2,583,334	2,279,178	2,279,178
Investment property	2,313,125	1,465,000	1,465,000
Property, plant & equipment	192,025,294	161,398,405	158,102,228
<i>Total non-current assets</i>	196,921,753	165,331,326	162,035,149
TOTAL ASSETS	202,593,371	169,315,954	168,209,489
LIABILITIES			
<i><u>Current liabilities</u></i>			
Trade & other payables	1,954,651	2,198,959	2,446,488
Employee liabilities	100,000	388,891	381,867
Borrowings – current	615,906	430,010	1,178,150
<i>Total current liabilities</i>	2,670,557	3,017,860	4,006,505
<i><u>Non-current liabilities</u></i>			
Provisions	-	471,549	471,549
Borrowings – non current	8,699,358	1,149,600	2,090,973
Other term debt	564,606	353,730	353,730
<i>Total non-current liabilities</i>	9,263,964	1,974,879	2,916,252
EQUITY			
Public equity	89,092,942	94,758,995	92,683,000
Asset revaluation reserve	83,231,984	65,120,549	65,120,549
Special funds & reserves	18,333,924	4,443,671	3,483,184
<i>Total equity</i>	190,658,850	164,323,216	161,286,733
TOTAL LIABILITIES & EQUITY	202,593,371	169,315,954	168,209,489

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

FOR THE PERIOD ENDED 30 JUNE 2019

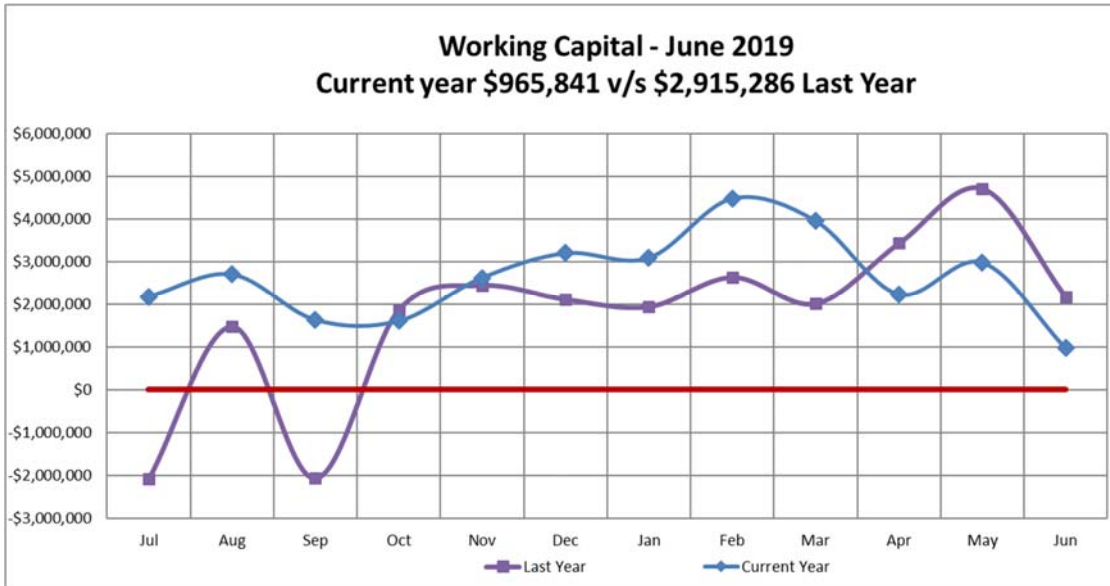
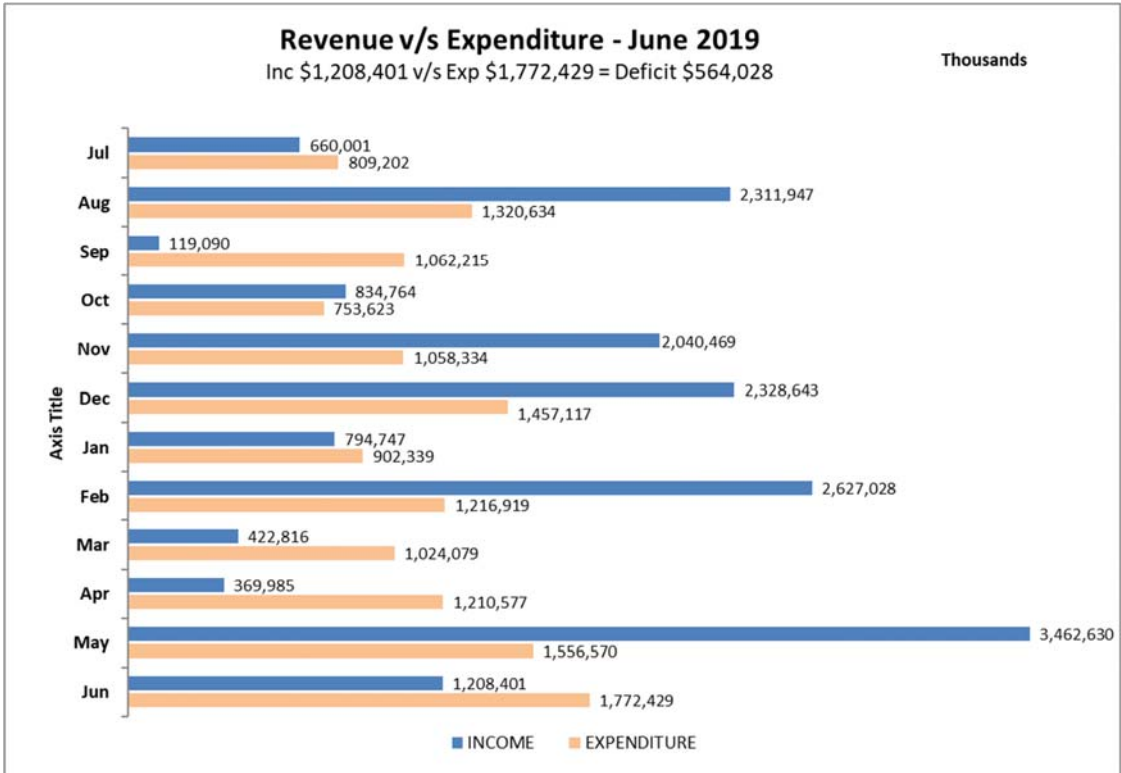
	BUDGET 2019 \$	ACTUAL YTD 30/06/2019 \$	BUDGET YTD 30/06/2019 \$	VARIANCE 30/06/2018 \$
REVENUE				
Rates revenue	6,852,010	7,001,555	6,852,010	149,545
Water meter charges	130,000	49,336	130,000	(80,664)
User fees & charges	1,381,874	1,625,695	1,254,874	370,821
Grants & subsidies	20,697,800	7,938,705	20,697,800	(12,759,095)
Development contributions	-	20,891	0	20,891
Interest revenue	75,423	43,508	75,423	(31,915)
Other revenue ¹	1,286,109	500,830	1,286,109	(785,279)
Total revenue	30,423,216	17,180,520	30,296,216	(13,115,696)
EXPENSES				
Personnel	3,704,845	3,442,075	3,704,845	(262,770)
Depreciation	2,042,510	2,042,556	2,042,510	46
Financing expenses	571,843	123,223	571,843	(448,620)
Other expenses	11,191,365	8,536,184	11,064,365	(2,528,181)
Total expenses	17,510,563	14,144,037	17,383,563	(3,239,526)
Operating surplus/(deficit)	12,912,653	3,036,483	12,912,653	(9,876,170)
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	3,036,483	12,912,653	(9,876,170)

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

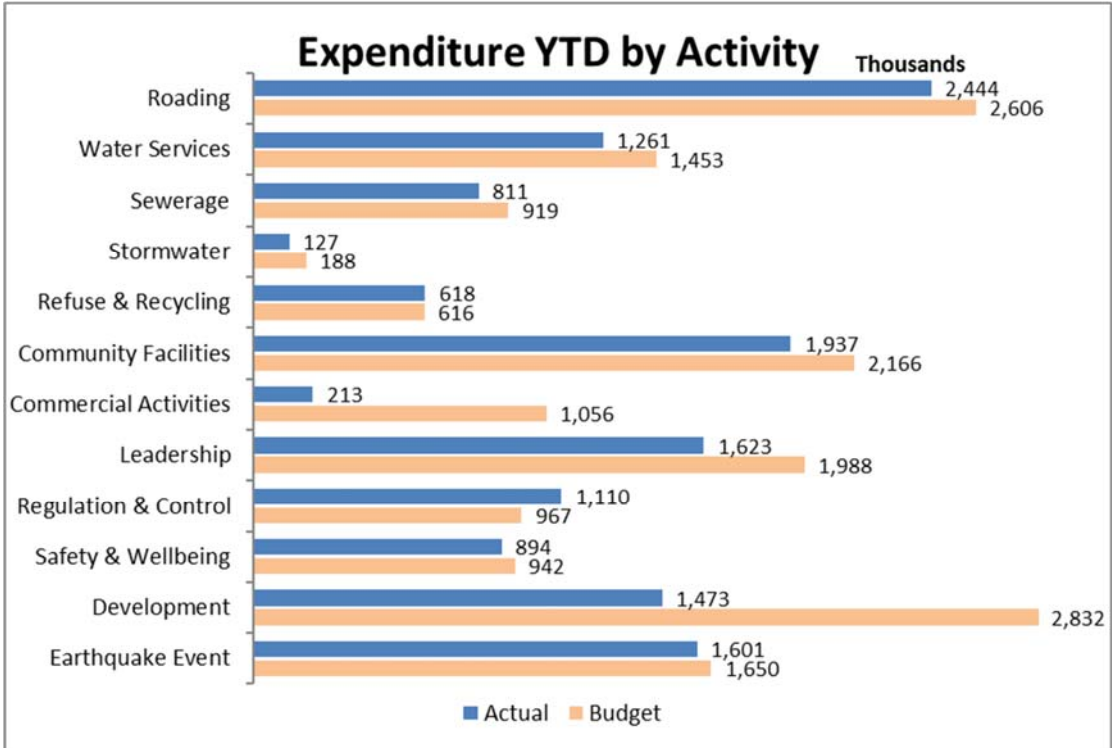
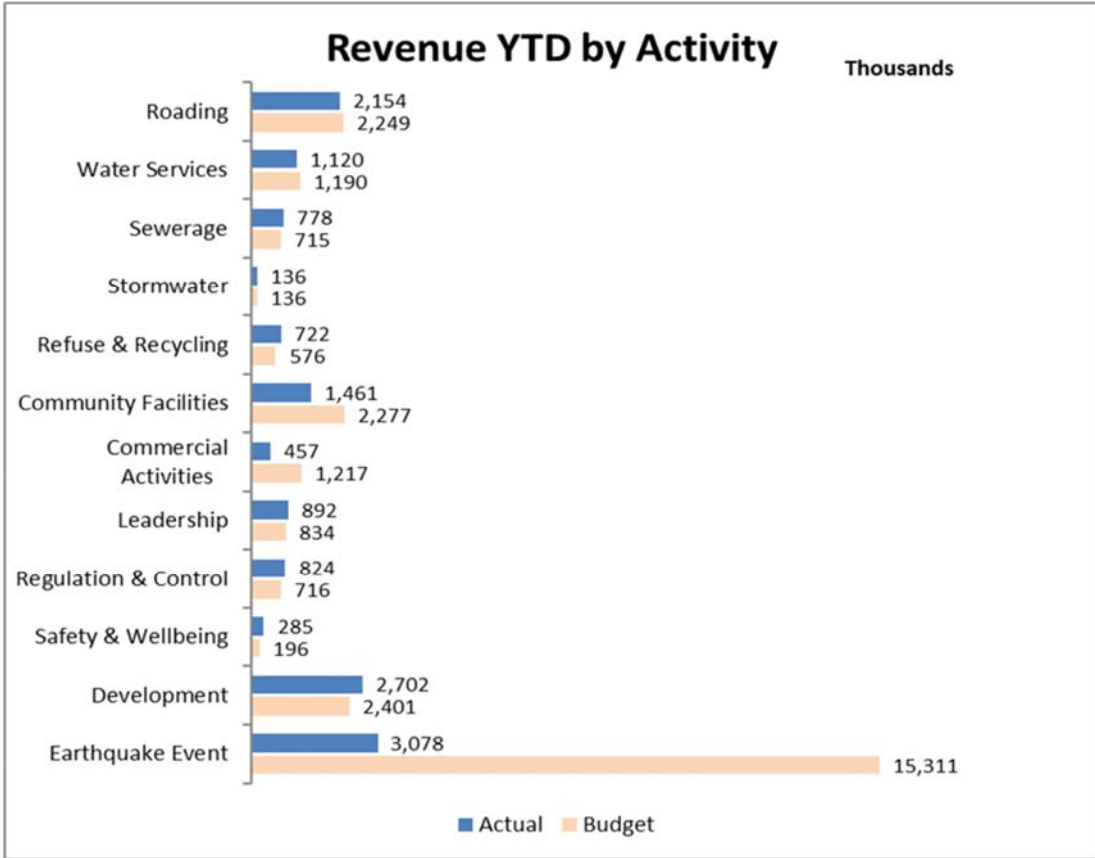
STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2019

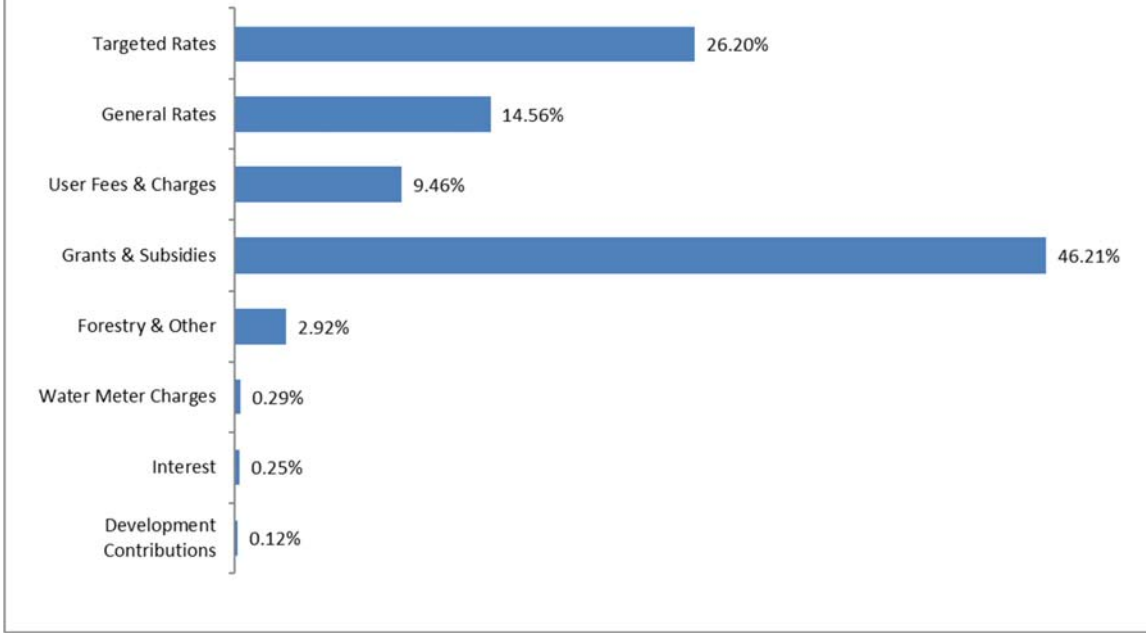
	BUDGET to year end \$	ACTUAL 30/06/2019 \$
OPERATING ACTIVITIES		
Receipts from rates	6,852,012	6,901,506
Interest received	75,423	43,508
Receipts from other revenue	7,042,777	8,070,802
Payments to employees & suppliers	(14,290,016)	(11,758,306)
Interest paid	(571,846)	(123,223)
Goods & services tax (net)	-	14,257
Net Cash from Operating Activities	(891,650)	3,148,543
INVESTING ACTIVITIES		
Grants received for capital work	15,717,727	2,474,993
Purchase of investment property	(200,000)	-
Sale of forestry	-	-
Purchase of property, plant & equipment	(19,746,078)	(5,734,199)
Purchase of forestry assets	-	-
Purchase of intangible assets	-	-
Payment into term deposits	-	-
Net Cash from Investing Activities	(4,288,351)	(3,259,206)
FINANCING ACTIVITIES		
Proceeds from borrowing	2,323,108	-
Repayment of borrowings	(396,501)	(1,689,513)
Net Cash from Finance Activities	1,926,607	(1,689,513)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(3,193,395)	(1,800,176)
OPENING CASH	5,025,305	3,744,411
CLOSING CASH BALANCE	1,831,910	1,944,235



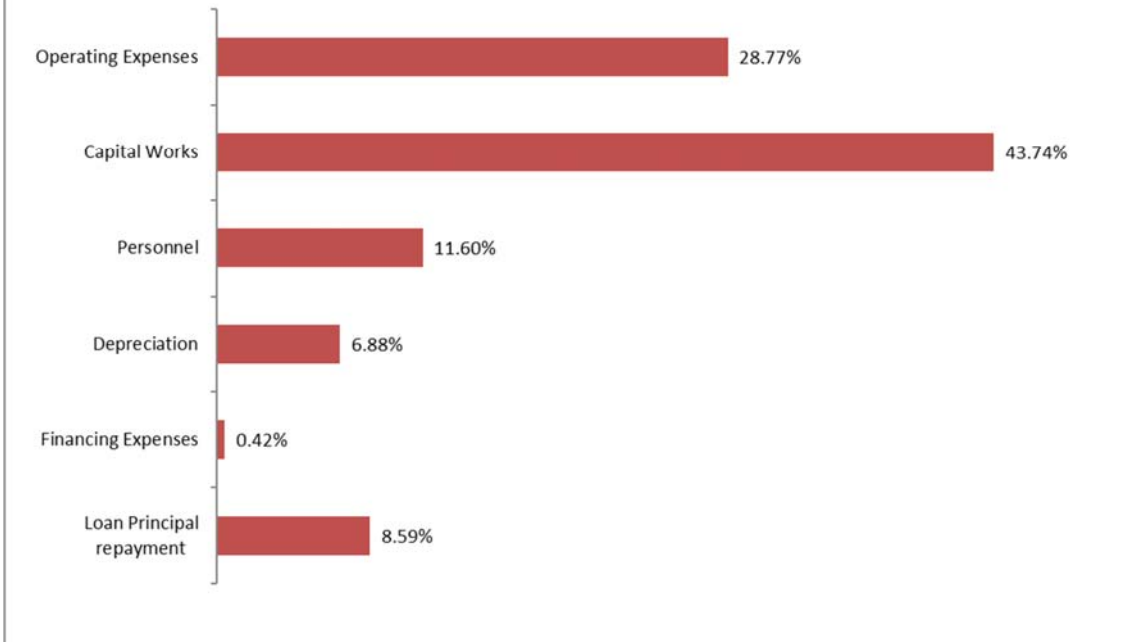
Working capital is calculated by subtracting current liabilities from current assets, and is an indicator of our ability to pay our commitments to suppliers when payments fall due. Please refer to the Finance Report narrative for more information.



Revenue YTD by Category



Expenditure YTD by Category



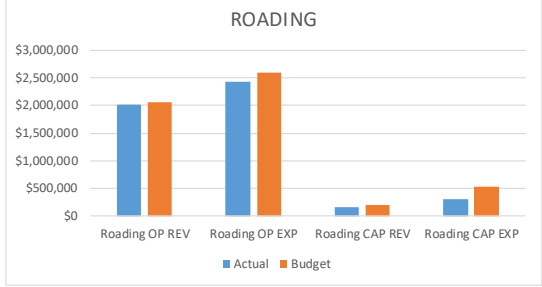
INCOME JUN-19 YEAR TO DATE	Actual	Budget	% Variance	\$ Jun Variance	\$ May Variance	U/F	Material *\$50k	Dashboard Indicator	Notes Ref
Roading	\$2,154,145	\$2,248,755	-4.21%	-\$94,610	-\$161,220	U	Y	!	1 Funding associated with under expenditure on roading minor Events, Bridge Structures.
Water Services	\$1,119,563	\$1,190,182	-5.93%	-\$70,619	-\$17,431	U	Y	✓	2 Kaikoura Urban Water Meter charges Invoiced in July FY 20 this requires an end of year adjustment for \$70k.
Sewerage	\$777,870	\$715,464	8.72%	\$62,406	\$46,043	F	Y	✓	3 Sewerage pan charges higher than anticipated
Stormwater	\$136,404	\$136,010	0.29%	\$394	\$402	F	N	✓	4 Negligible - no explanation required
Refuse & Recycling	\$721,576	\$576,117	25.25%	\$145,459	\$145,612	F	Y	✓	5 Capital Grants from WMINZ higher. Works completed at IWK.
Community Facilities	\$1,461,033	\$2,276,971	-35.83%	-\$815,938	-\$774,831	U	Y	✗	6 Grants not yet received for Harbour, Scout Hall, Swimming pool - Harbour claim for grant in progress; other projects not yet commenced
Commercial Activities	\$456,945	\$1,216,623	-62.44%	-\$759,678	\$42,032	U	Y	✓	7 Distribution for Marlborough Regional Forest reconciliation required when final accounts are received for the joint venture FY 2019
Leadership & Governance	\$891,599	\$833,704	6.94%	\$57,895	\$204,430	F	Y	✓	8 DIA Sustainability reporting to be paid in June 2019 (\$920k) - any residual balance will need to be preserved in a reserve. DIA Grant funding received for Communications Officer.
Building and Regulatory	\$823,707	\$715,910	15.06%	\$107,797	\$89,054	F	Y	✓	9 Higher user Fees for Building Control offsetting end processing.
Community Services	\$285,336	\$196,432	45.26%	\$88,904	\$90,429	F	Y	✓	10 Timing of grants received for: Earthquake Outreach Support, Family Violence Coordinator, Earthquake Recovery Support
District Development	\$2,701,734	\$2,401,429	12.51%	\$300,305	\$282,123	F	Y	✓	11 MBIE Grant funding for Provincial Growth Fund Feasibility studies not budgeted
Earthquake Event	\$3,078,018	\$15,311,441	0.00%	\$12,233,423	\$11,654,072	U	Y	!	12 Slower than anticipated Rebuild programme impacting claiming of grants. See Rebuild Report
Interest	\$43,392	\$75,423	-42.47%	-\$32,031	-\$25,828	U	N	✓	13 Interest over budgeted
Rates	\$2,529,198	\$2,401,755	5.31%	\$127,443	\$120,652	F	Y	✓	14 Rates remissions lower than expected
Gross Operating Revenue	\$17,180,520	\$30,296,216	-43.29%	\$13,115,696	\$11,612,604				
Less Capital Subs & Grants	-\$2,474,993	\$15,717,727	25.25%						
Net Operating Revenue	\$14,705,527	\$14,578,489	0.87%	\$127,038					

EXPENDITURE JUN-19 YEAR TO DATE	Actual	Budget	% Variance	\$ Jun Variance	\$ May Variance	U/F	Material *\$50k	Dashboard Indicator	Notes Ref
Roading	\$2,437,617	\$2,605,779	-6.45%	-\$168,162	-\$397,851	F	Y	!	15 Minor events underspent due to good weather, incomplete bridge structure assessment, traffic services maintenance offset with pavement maintenance.
Water Services	\$1,255,317	\$1,453,037	-13.61%	-\$197,720	-\$288,414	F	Y	✓	16 Electricity lower than budgeted due to EQ damage to pumps; Some maintenance work not carried out because of network modelling and studies thus lower than budgeted, Interest and overheads lower than budgeted. Lower expenditure mainly in Kaikoura Urban,
Sewerage	\$811,000	\$919,397	-11.79%	-\$108,397	-\$155,604	F	Y	✓	17 Electricity Lower than budgeted due to EQ damage to pumps; Interest & overheads lower than budgeted; Planned maintenance delayed to integrate with Rebuild
Stormwater	\$127,062	\$187,871	-32.37%	-\$60,809	-\$62,435	F	Y	✓	18 Consultancy Lower than budgeted due to rebuild investment on EQ; Maintenance lower than budgeted due to rebuild investment on EQ; Overheads lower than budgeted
Refuse & Recycling	\$618,034	\$616,122	0.31%	\$1,912	\$33,999	U	N	✓	19 Negligible - no explanation required
Community Facilities	\$1,928,266	\$2,166,412	-10.99%	-\$238,146	-\$177,222	F	Y	✗	20 Lower interest & overheads under budget; Consultancy under budget; Maintenance over budget - finance to action review coding
Commercial Activities	\$213,047	\$1,056,064	-79.83%	-\$843,017	-\$33,326	F	Y	✓	21 Distribution for Marlborough Regional Forest reconciliation required when final accounts are received for the joint venture FY 2019
Leadership & Governance	\$1,619,801	\$1,988,447	-18.54%	-\$368,646	-\$374,778	F	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. Recruitment costs for Rebuild Manager permanent - no budget was provided for this.
Building and Regulatory	\$1,108,392	\$967,373	14.58%	\$141,019	\$49,113	U	Y	!	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	\$889,493	\$941,610	-5.53%	-\$52,117	-\$106,690	F	Y	!	24 Administration and office expenses lower than budgeted offset against lower than budgeted overhead recovery
District Development	\$1,425,642	\$2,831,677	-49.65%	-\$1,406,035	-\$82,028	F	Y	!	25 Consultant expenditure on PGF funded by grant from the PGF, District Plan standard RMA process now being used, had planned to use SPP (streamline plan process) Natural Hazards project has not yet commenced
Earthquake Event	\$1,600,237	\$1,649,774	0.00%	-\$49,537	-\$101,884	F	N	!	26 Rebuild slower than anticipated - see rebuild report.
Bad Debt	\$30,935	\$0	0.00%	\$30,935	\$30,922	U	N	✓	27 Bad Debt written off and Collection fees
	\$14,064,844	\$17,383,563	-19.09%	-\$3,318,719	-\$1,666,198			□	

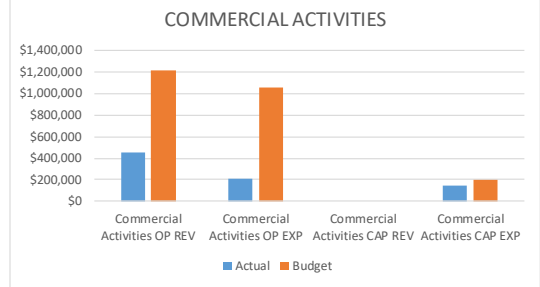
\$	CAPITAL PROJECTS JUN-19	Budget 2019	Actual 2019	Act v/s Bud	\$ Variance	Commentary
J00003	South Bay Harbour-Gen Capex		5,607		-5,607	
J00004	Office Furniture & Equipment	14,000		0%	14,000	Finalisation of assets to be completed at year end
J00005	Footpath Renewals	50,000		0%	50,000	Deferred due to Ultra Fast Broadband
J00006	IT Equipment	25,000	17,478	70%	7,522	
J00008	Vehicle Purchase	15,000	40,589	271%	-25,589	
J00009	Plant & Equipment	18,894		0%	18,894	
J00010	Book Purchases	25,668	15,197	59%	10,471	On Track
J00011	Non-Book Purchases		2,452		-2,452	On Track part of Book purchased budget
J00014	Council Office/Museum/Library		12,119		-12,119	Necessary works not budgeted
J00017	Sewerage Generators/Equipment		3,623		-3,623	
J00019	Streetlights	26,780	12,248	46%	14,532	
J00027	Urban Water- Reticulation	209,200	7,931	4%	201,269	
J00030	Ocean Ridge - Facilities	1,400		0%	1,400	
J00032	East Coast - Facilities		12,096		-12,096	
J00034	Kincaid Water - Facilities	27,806		0%	27,806	
J00036	Fernleigh Water - Facilities	6,000		0%	6,000	
J00038	Peketa Water - Facilities	3,600	383	11%	3,217	
J00040	Oaro Water - Facilities	6,719		0%	6,719	
J00042	Sewerage - Facilities	20,000		0%	20,000	
J00044	Stormwater - Facilities	10,000		0%	10,000	
J00052	West End Aesthetics		-		0	
J00055	New Recycling Station		48,797		-48,797	
J00056	New Public Toilets		8,474		-8,474	Mill Road
J00059	Airport Runway Resealing	26,800		0%	26,800	Carry over - not needed until at least 21/22
J00060	Computer Software	15,000		0%	15,000	
J00063	Resource Recovery Centre Imprv		332,933		-332,933	Completed Government grant carried forward
J00065	Undergrounding of Power Cables	125,000		0%	125,000	
J00066	UV Treatment (Kaikoura Urban)	6,000		0%	6,000	
J00067	Post EQ Waste	310,640		0%	310,640	
J00068	Aftercare	7,904		0%	7,904	
J00071	SCADA UPGRADE		83,670		-83,670	
J00072	New Pump Mackles Bore		34,791		-34,791	
J00074	Asset Management System		9,800		-9,800	
J00076	Land purchase - 1802 SHway 1		236,091		-236,091	Natural Hazards Project
J00211	Unsealed Pavement Renewals 211	63,000	88,142	140%	-25,142	Currently being managed with contractor (Downer)
J00212	Sealed Pavement Renewals 212	105,000	99,378	95%	5,622	Currently being managed with contractor (Downer)
J00213	Kerb & Channel Renewals 213	53,000	44,566	84%	8,434	Currently being managed with contractor (Downer)
J00222	Traffic Service Renewals 222	12,000	51,152	426%	-39,152	Currently being managed with contractor (Downer)
J00341	Minor Improvements 341	100,000		0%	100,000	
J04412	CF Cuddon Building	200,000	146,617	73%	53,383	
J04416	CF Memorial Centre	750,000	236,344	32%	513,656	
J04417	CF Tennis Courts	30,000		0%	30,000	Runanga written confirmation under way. Work will also require DIA and in-kind resourcing, carry over to 19/20 FY
J04418	CF Drill Hall	225,000		0%	225,000	Current plan is \$20k KDC-funded make safe; 19/20 \$69k DIA EQ funded; 19/20 balance in kind + local funds + DIA
J04420	CF Swimming Pool	700,000	16,062	2%	683,938	Pool project team to advise
J04422	CF Walkways and Cycleways	100,000		0%	100,000	Investigations and in-kind work negotiations under way. C/O to 19/20
J04423	CF Public Toilet upgrade		171		-171	
J04425	CF Airport Terminal		34,357		-34,357	
J04426	CF Jimmy Armer's Public Toilet	160,000	159,212	100%	788	On Track
J04427	CF Gooches Beach Public Toilet	30,000		0%	30,000	Work done by inhouse resources (Woody and Co) and IWK. May need journal(s)
J04428	CF South Bay Public Toilet	21,500	893	4%	20,608	
J04429	CF Moa Point Public Toilets	21,500	511	2%	20,989	
J04430	CF Harbour	300,000		0%	300,000	Offset from Government fund shortfall
J04431	CF Pensioner Flats	98,000	41,070	42%	56,930	
J04435	CF Wakatu Quay	150,000		0%	150,000	Deferred
J04436	CF Airport Hangars	190,000	17,852	9%	172,148	Subject to outcome of dispute
J04437	CF Point Kean Public Toilets	21,500		0%	21,500	
J04438	CF West End Public Toilet	21,500	12,373	58%	9,127	On Track
	BAU Programme	4,303,411	1,832,981	43%	2,470,430	
	EQ Programme	15,642,668	3,288,859	21%	12,353,809	Slower than programmed start to major construction/expenditure phase. Completion of works in 2019-2020.
	TOTAL	19,946,079	5,121,840	26%	16,973,009	

JUNE 19 ACTIVITY - OPEX AND CAPEX

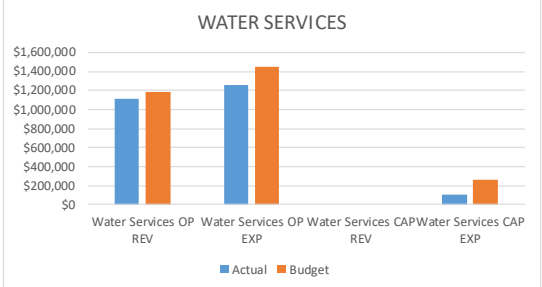
ROADING	Actual	Budget	Actual % of Budget	\$ Jun Variance
Roading OP REV	\$2,007,322	\$2,060,308	97.43%	\$52,986
Roading OP EXP	\$2,437,617	\$2,605,779	93.55%	\$168,162
Roading CAP REV	\$146,823	\$188,447	77.91%	\$41,624
Roading CAP EXP	\$295,487	\$534,780	55.25%	\$239,293



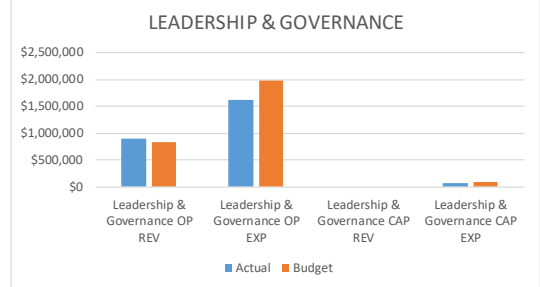
COMMERCIAL ACTIVITIES	Actual	Budget	Actual % of Budget	\$ Jun Variance
Commercial Activities OP REV	\$456,945	\$1,216,623	37.56%	\$759,678
Commercial Activities OP EXP	\$213,047	\$1,056,064	20.17%	\$843,017
Commercial Activities CAP REV	\$0	\$0	0.00%	\$0
Commercial Activities CAP EXP	\$146,617	\$200,000	73.31%	\$53,383



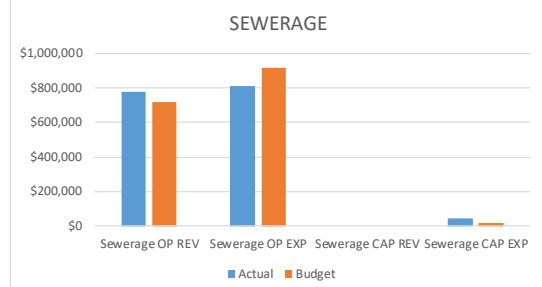
WATER SERVICES	Actual	Budget	Actual % of Budget	\$ Jun Variance
Water Services OP REV	\$1,119,563	\$1,190,182	94.07%	\$70,619
Water Services OP EXP	\$1,255,317	\$1,453,037	86.39%	\$197,720
Water Services CAP REV	\$0	\$0	0.00%	\$0
Water Services CAP EXP	\$101,984	\$260,725	39.12%	\$158,741



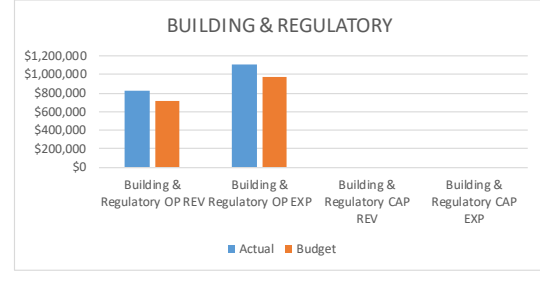
LEADERSHIP & GOVERNANCE	Actual	Budget	Actual % of Budget	\$ Jun Variance
Leadership & Governance OP REV	\$891,599	\$833,704	106.94%	-\$57,895
Leadership & Governance OP EXP	\$1,619,801	\$1,988,447	81.46%	\$368,646
Leadership & Governance CAP REV	\$0	\$0	0.00%	\$0
Leadership & Governance CAP EXP	\$67,867	\$87,894	77.21%	\$20,027



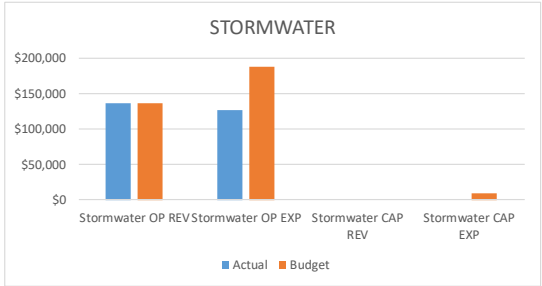
SEWERAGE	Actual	Budget	Actual % of Budget	\$ Jun Variance
Sewerage OP REV	\$777,870	\$715,464	108.72%	-\$62,406
Sewerage OP EXP	\$811,000	\$919,397	88.21%	\$108,397
Sewerage CAP REV	\$0	\$0	0.00%	\$0
Sewerage CAP EXP	\$40,510	\$20,000	202.55%	-\$20,510



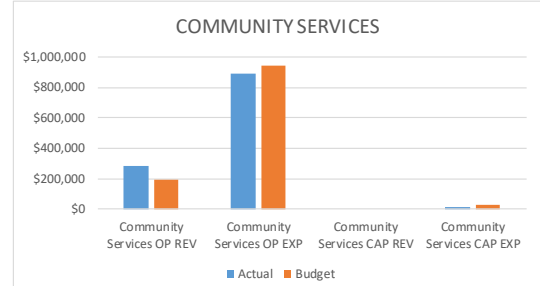
BUILDING & REGULATORY	Actual	Budget	Actual % of Budget	\$ Jun Variance
Building & Regulatory OP REV	\$823,707	\$715,910	115.06%	-\$107,797
Building & Regulatory OP EXP	\$1,108,392	\$967,373	114.58%	-\$141,019
Building & Regulatory CAP REV	\$0	\$0	0.00%	\$0
Building & Regulatory CAP EXP	\$0	\$0	0.00%	\$0



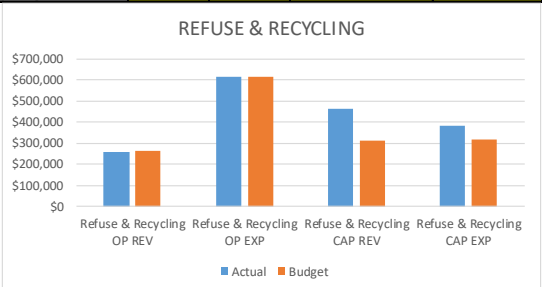
STORMWATER	Actual	Budget	Actual % of Budget	\$ Jun Variance
Stormwater OP REV	\$136,404	\$136,010	100.29%	-\$394
Stormwater OP EXP	\$127,062	\$187,871	67.63%	\$60,809
Stormwater CAP REV	\$0	\$0	0.00%	\$0
Stormwater CAP EXP	\$0	\$10,000	0.00%	\$10,000



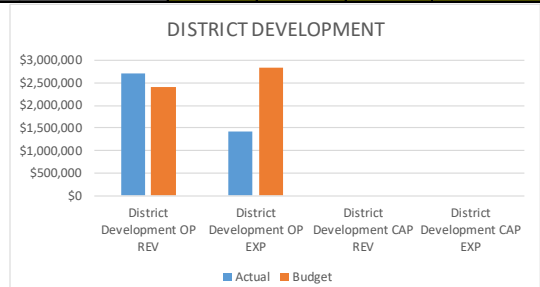
COMMUNITY SERVICES	Actual	Budget	Actual % of Budget	\$ Jun Variance
Community Services OP REV	\$285,336	\$196,432	145.26%	-\$88,904
Community Services OP EXP	\$889,493	\$941,610	94.47%	\$52,117
Community Services CAP REV	\$0	\$0	0.00%	\$0
Community Services CAP EXP	\$17,649	\$25,668	68.76%	\$8,019



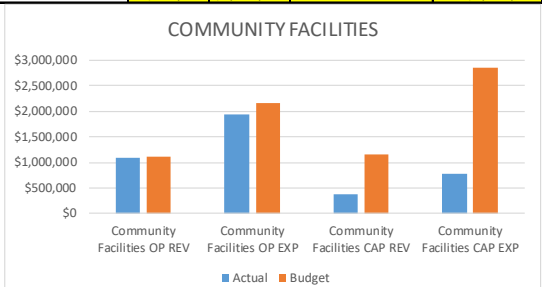
REFUSE & RECYCLING	Actual	Budget	Actual % of Budget	\$ Jun Variance
Refuse & Recycling OP REV	\$258,267	\$265,477	97.28%	\$7,210
Refuse & Recycling OP EXP	\$618,034	\$616,122	100.31%	-\$1,912
Refuse & Recycling CAP REV	\$463,309	\$310,640	149.15%	-\$152,669
Refuse & Recycling CAP EXP	\$381,730	\$318,544	119.84%	-\$63,186



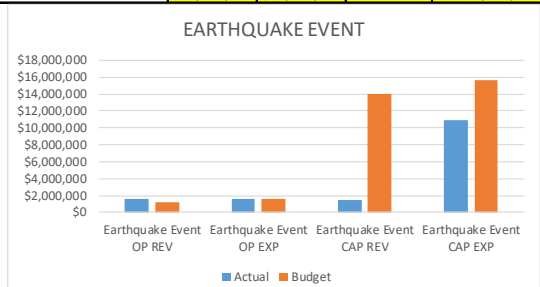
DISTRICT DEVELOPMENT	Actual	Budget	Actual % of Budget	\$ Jun Variance
District Development OP REV	\$2,701,734	\$2,401,429	112.51%	-\$300,305
District Development OP EXP	\$1,425,642	\$2,831,677	50.35%	\$1,406,035
District Development CAP REV	\$0	\$0	0.00%	\$0
District Development CAP EXP	\$0	\$0	0.00%	\$0



COMMUNITY FACILITIES	Actual	Budget	Actual % of Budget	\$ Jun Variance
Community Facilities OP REV	\$1,086,033	\$1,121,971	96.80%	\$35,938
Community Facilities OP EXP	\$1,928,266	\$2,166,412	89.01%	\$238,146
Community Facilities CAP REV	\$375,000	\$1,155,000	32.47%	\$780,000
Community Facilities CAP EXP	\$781,137	\$2,845,800	27.45%	\$2,064,663



EARTHQUAKE EVENT	Actual	Budget	Actual % of Budget	\$ Jun Variance
Earthquake Event OP REV	\$1,588,157	\$1,247,801	127.28%	-\$340,356
Earthquake Event OP EXP	\$1,600,237	\$1,649,774	97.00%	\$49,537
Earthquake Event CAP REV	\$1,489,861	\$14,063,640	10.59%	\$12,573,779
Earthquake Event CAP EXP	\$10,930,811	\$15,642,668	69.88%	\$4,711,857



Report to:	Audit & Risk Committee	File #
Date:	18 July 2019	
Subject:	Joining the Local Government Funding Agency	
Prepared by:	Philip Jones, P J & Associates	
Input sought from:	Sheryl Poulsen, Finance Manager	
Authorised by:	Angela Oosthuizen, Chief Executive	

1 SUMMARY:

- 1.1 This issues in this report will be considered by Council following the Audit & risk committee meeting; however, it is important that the Committee considers the issues raised in this report and make its recommendations to Council for their consideration.
- 1.2 Council needs to formally resolve to join the Local Government Funding Agency (LGFA), having undertaken consultation through the 2019/20 Annual Plan process, the Council needs to formally resolve to join or not join the LGFA. If the Council resolves to join the LGFA, it then needs to consider whether it is a guarantor or non-guarantor.
- 1.3 The savings after the one-off costs are approximately 1.5% pa of the current financing costs, with a further 0.1% saving in financing costs if Council was a guarantor borrower.
- 1.4 If Council was required to make a payment as a guarantor, then because of its size, the estimated percentage payable to contribute would be 0.11% of the total call required.

2 RECOMMENDATION

THAT the Committee:

- (a) **Receives** the report.
- (b) Recommends to Council to join the Local Government Funding Agency as a guarantor, or
- (c) Recommends to Council to join the Local Government Funding Agency as a non-guarantor

3 BACKGROUND

1.5 The Local Government Funding Agency

The Council consulted with the community **as part of the 2019/20 Annual Plan** with the intention of becoming a non-guarantor borrower of the New Zealand Local Government Funding Agency Ltd (LGFA) scheme. This is expected to save \$100,000 in costs this year. The LGFA is designed to allow local authorities to borrow at better interest rates than would normally be available.

There are one off up-front costs associated with joining the LGFA of approximately \$19,000 and annual ongoing costs of approximately \$4,000 for documentation.

As the LGFA is a council-controlled trading organisation (CCTO) established by a group of local authorities and the Crown, the Council was required to consult the community before joining the LGFA. There is no requirement for a local authority to consult whether they are a

guarantor or non-guarantor. Council is not proposing to acquire shares in the LGFA. However, borrowing under the LGFA Scheme will require Council to acquire some capital notes issued by the LGFA. In some circumstances these could be converted into shares in the LGFA.

Different benefits apply depending on the level of participation. The options are:

- Participate in the LGFA scheme as a Principal Shareholding Local Authority
- Participate in the LGFA scheme as a Guaranteeing Local Authority, but not a Principal Shareholding Local Authority
- Participate in the LGFA scheme, but not as a Principal Shareholding Local Authority or as a Guaranteeing Local Authority
- Not participate in the LGFA scheme

As at 30 June 2019 the Council's borrowings total \$1.58M (\$3.2m, 2018) with an average cost of borrowing of 4.95% (4.79% 2018) annually. Debt levels are expected to increase to approximately \$8.8m over the year as the infrastructure and community facilities rebuild progresses.

Most local authorities borrowing from LGFA become Guaranteeing Members, entering into guarantees in favour of LGFA and other local authorities, however this is not compulsory. Councils that are not guaranteeing members do not to take on this risk but can only borrow up to \$20,000,000 and must pay a higher interest rate. Based on the current rates from LGFA if Council was to be guaranteeing member, then for every \$1m borrowed, Council would save \$1,000.

While in the Annual plan consultation process, Council proposed not to be a Guaranteeing Member because of the risks to Council, in reality the risk is low because of the following factors:

1. Before the Local Government Funding Agency (LGFA) lends to a Council, they must be a member (not every Council has been accepted as a member) and they are subject to detailed credit analysis which continues while the Council is a member of LGFA. To reduce the risk of default, LGFA monitors each Councils' performance against the LGFA's borrowing covenants. (see table 1 below)
2. It must be noted of the 26 LGFA councils that have a credit rating have a range from A+ to AA. These are the larger borrowers from LGFA, and by the larger borrowers having a strong credit rating by independent agencies reduces the risk of default.
3. If a council or a group of councils were in default then the following would occur before a call was made by LGFA.
 - The first call to recover the amount of default would be made by the Debenture Trust Deed holder to set a targeted rate on all properties of the Council(s) to recover the amount in default. This would be a matter of timing for the LGFA as it would only have the fund the amount of default until the rates were collected.

- If those rates were insufficient to meet the outstanding amount, then the LGFA would use its own equity, similar to a bank when a bank has a bad debt. The LGFA has the following sources of liquidity and additional capital:
 - \$1 Billion standby facility from NZ Government
 - Issuance of additional LGFA Bills and Bonds
 - Uncalled capital of \$20 million from 30 shareholders
- Liquid Assets (see table 2 below)
- Conversion of Borrower notes into equity

If and only if this was unable to generate the required amount, then the LGFA would call on its guarantee, however the Council guarantee is limited to the proportion rate income to the total rates of all Council that are guarantors of LGFA. The Council's share would 0.11% of the amount required. As schedule of LGFA debt as at 31 December 2018 is included in appendix 1. Based on 0.11% the Council's share, for every \$1m required would be approximately \$11,000.

The single largest Council – Auckland Council is limited to a maximum of 40% of the LGFA total Local Authorities assets.

Table 1

Financial covenants	Lending policy covenants	Foundation policy covenants
Net Debt/Total revenue	<175%	<250%
Net Interest/Total revenue	<20%	<20%
Net Interest/Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Non-compliance with the financial covenants will either preclude a council from borrowing from the LGFA or in the case of existing council borrowers trigger an event of review. An event of default will occur if (among other things) a council fails to meet an interest or principal payment (subject to grace periods). An event of default will enable the LGFA to accelerate all loans to the defaulting council.

Table 2

Liquidity position of LGFA as at 31 May 2018	NZ\$ Million
Cash and Cash equivalents	\$24.5
Deposits and Marketable securities	\$371.3
NZ Debt Management Office facility	\$800
Total	\$1,195.8

Once Council has approved the to join LGFA, then the Council needs to formally apply to LGFA to become a member. Once the application is received LGFA's Board will consider the application. Historical and forecast future compliance with LGFA's financial covenants will form part of the consideration although any other material issues relevant to a council's credit worthiness will also be taken into account.

Once confirmation that the LGFA have approved the Council's membership, before borrowing from the LGFA, the Council will need to complete the following:

1.6 Treasury Policy

The council will need to amend its Treasury Policy which includes its Liability management and Investment policies to ensure that they are consistent with joining LGFA. This will involve:

- Amending the liability policy to allow the Council to borrow from LGFA.
- Amending the investment policy to incorporate ability to invest in LGFA Borrower Notes. It may also include the ability to invest in LGFA bonds and LGFA commercial paper.
- There may also be other parts of the Treasury Policy that requiring amending such as counterparty credit risk, ability to subscribe in LGFA equity, ability to subscribe in LGFA subordinated debt and ability to provide a charge over the council's rates.

The level of amendment will be dependent upon whether the Council is a, guarantor or non-guarantor. There is no requirement for the Council to consult on its amendment, but the amended policy must be adopted by Council.

1.7 Debenture Trust Deed

The Council needs to have a debenture trust deed in place and appoint a trustee in regard to the debenture trust deed. The debenture trust deed would need to reflect whether the Council was a guarantor or non-guarantor borrower.

There are a number of other documents that the Council will need to have drafted and signed including:

- Accession Deed to the Multi-Issue Deed
- Accession Deed to the Notes Subscription Agreement
- Chief Executive Certificate relating to the accession documents
- Officers Certificate

The Council will then need to issue a Security Stock Certificate.

These documents will need to be prepared by an appointed legal advisor. Staff will obtain quotes from two legal advisors who are familiar with these requirements before they are engaged.

1.8 Community Implications

There are no implications on the community.

1.9 Risk Management

The risks of joining the LGFA as a guaranteeing member are stated in this report.

1.10 Health and Safety

There are no additional health and safety measures to consider.

4 RELEVANT LEGISLATION:

1.11 Policy

As noted above, if Council joins the LGFA, then the Council would need to amend its Treasury policy, however this does not require consultation.

1.12 Legislation

The proposed decision is compliant with legislation including (but not limited to) the Local Government Act (2002).

1.13 Community Outcomes Supported

The work does not directly affect, but is in support of, all community outcomes.



We value, protect and enhance Kaikōura's unique natural environment and biodiversity and sustainably manage disposal of waste.



Our community is resilient, safe and well and has their essential needs met



Our infrastructure, housing and community facilities are easily accessible, cost effective and able to withstand our natural hazards.



Our District is economically diverse, attractive to investment and provides certainty around business and employment continuity.



Our community participates in decisions and planning in a way that benefits our future.



Residents and visitors enjoy an improved quality of life in our District.

1.14 Delegations

If there are any changes to Chief Executives delegations to implement borrowing from the LGFA, these will be considered when the Treasury policy is amended by Council.