

# KAIKŌURA DISTRICT COUNCIL FINANCE COMMITTEE MEETING

<b>Date:</b>	31 July 2019
<b>Time</b>	10.00am
<b>Location</b>	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:  
26 June 2019 page 2
5. Urgent Business
6. Joining the Local Government Funding Agency page 4
7. Finance Report page 10
8. Variance Report page 16
9. Loan Movement Summary page 17
10. Debtors Report page 19

**MINUTES OF THE KAIKŌURA DISTRICT COUNCIL FINANCE  
COMMITTEE HELD AT 10.00 AM ON WEDNESDAY 26 JUNE 2019, AT  
COUNCIL CHAMBERS, 96 WEST END, KAIKŌURA**

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

**IN ATTENDANCE:** A. Oosthuizen (Chief Executive), M Madden (Council Secretary)

2. **APOLOGIES:**

Nil

3. **CONFLICTS OF INTEREST.:**

Councillor Millton – Waipapa Limestone

4. **MINUTES TO BE CONFIRMED:**

Finance Committee 29 May, 2019.

Moved Mayor Gray Seconded Councillor Millton

THAT the Committee:

- (a) Confirms as a true and correct record, the circulated minutes of a meeting of the Finance Committee held on 1 May, 2019.

**UNANIMOUS**

5. **FINANCE REPORT:**

Ms Sheryl Poulson (Finance Manager) was in attendance to present the report. The finance team are working through clarifying coding between operating and capital expenditure accounts with the operations team.

The annual report update and audit opinion is delayed a week due to changes in the narrative. A debrief with the Finance Audit and Risk committee and audit director general to plan a go forward for the audit 2020 is planned. The finance manager requests that full Council be present at an extraordinary meeting 11 July 2019, 10.30am for adoption.

Moved Councillor Harnett seconded Councillor Bond

THAT the Committee:

- (a) Receives the Finance Report and Financial position of the Finance Committee as at 29 May 2019.

**UNANIMOUS**

There being no further business, the meeting concluded at 10.07am.

**NEXT MEETING**

The next scheduled meeting of the Finance Committee is on 31 July, 2019 in the Council Chambers.

CONFIRMED

\_\_\_\_\_ Chairperson

\_\_\_\_\_ Date

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

## 1 SUMMARY:

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4 This report will have been considered by the Finance, Audit & Risk Committee, prior to being considered by Council.

## 2 RECOMMENDATION

**THAT** the Council:

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

## 3 BACKGROUND

### 3.1 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 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

<b>Financial covenants</b>	<b>Lending policy covenants</b>	<b>Foundation policy covenants</b>
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

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

Once Council has approved to join the 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:

### 3.2 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.

### **3.3 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.

### **3.4 Community Implications**

There are no implications on the community.

### **3.5 Risk Management**

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

### **3.6 Health and Safety**

There are no additional health and safety measures to consider.

## **4 RELEVANT LEGISLATION:**

### **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.

### **Legislation**

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

## 5 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.

### 3.7 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.



Local Government Funding Agency – Council Debt

	Unaudited as at 31 December 2018 \$,000			Audited as at 30 June 2018 \$,000		
	Short term	Long term	Total debt	Short term	Long term	Total debt
Ashburton District Council	25,041	27,541	52,582	5,015	25,603	30,618
Auckland Council		2,099,757	2,099,757	-	2,101,357	2,101,357
Bay of Plenty Regional Council	140,719	-	140,719		-	0
Buller District Council	-	20,013	20,013	-	20,014	20,014
Canterbury Regional Council	3,004	30,103	33,107	-	30,103	30,103
Central Hawkes Bay District Council	-	2,027	2,027	-	2,027	2,027
Christchurch City Council	85,264	1,872,128	1,957,392	85,273	1,573,566	1,658,839
Far North District Council	20,015	40,157	60,172	-	40,130	40,130
Gisborne District Council	-	47,827	47,827	-	37,275	37,275
Gore District Council	6,014	11,063	17,077	6,014	11,064	17,078
Greater Wellington Regional Council	-	376,454	376,454	-	306,302	306,302
Grey District Council	-	20,393	20,393	-	20,446	20,446
Hamilton City Council	-	401,787	401,787	-	366,483	366,483
Hastings District Council	1,980	121,992	123,972	1,957	75,280	77,237
Hauraki District Council	-	49,215	49,215	-	38,156	38,156
Horizons Regional Council	-	28,095	28,095	-	20,035	20,035
Horowhenua District Council	15,022	94,879	109,901	6,008	72,868	78,876
Hurunui District Council	-	32,133	32,133	-	23,098	23,098
Hutt City Council	10,987	176,930	187,917	4,996	152,802	157,798
Kaipara District Council	5,970	44,185	50,155	4,925	40,174	45,099
Kapiti Coast District Council	2,491	220,816	223,307	-	205,754	205,754
Manawatu District Council	-	68,212	68,212	-	61,180	61,180
Marlborough District Council	27,138	73,301	100,439	17,297	63,237	80,534
Masterton District Council	-	60,257	60,257	-	52,234	52,234
Matamata-Piako District Council	2,518	27,603	30,121	-	27,599	27,599
Nelson City Council	-	70,268	70,268	-	60,239	60,239
New Plymouth District Council	-	106,534	106,534	-	74,324	74,324
Northland Regional Council	-	8,698	8,698	-	8,634	8,634
Opotiki District Council	-	5,148	5,148	-	5,163	5,163
Otorohanga District Council	-	6,104	6,104	-	6,120	6,120
Palmerston North City Council	10,028	112,403	122,431	10,028	82,317	92,345
Porirua City Council	-	61,782	61,782	-	61,754	61,754
Queenstown Lakes District Council	10,081	85,890	95,971	10,096	75,954	86,050
Rotorua District Council	2,812	180,355	183,167	-	150,266	150,266
Ruapehu District Council	3,027	9,041	12,068	-	-	0
Selwyn District Council	5,040	25,075	30,115	-	15,021	15,021
South Taranaki District Council	-	82,382	82,382	-	62,278	62,278
South Wairarapa District Council	2,001	17,631	19,632	-	17,629	17,629
Stratford District Council	-	14,572	14,572	-	4,513	4,513
Tararua District Council	2,014	17,084	19,098	2,011	15,064	17,075
Tasman District Council	25,105	151,104	176,209	10,007	109,006	119,013
Taupo District Council	-	145,520	145,520	-	125,430	125,430
Tauranga City Council	9,965	442,532	452,497	-	362,308	362,308
Thames-Coromandel District Council	15,086	45,170	60,256	-	45,175	45,175
Timaru District Council	17,573	67,343	84,916	12,524	67,331	79,855
Upper Hutt City Council	4,989	38,172	43,161	4,976	31,638	36,614
Waikato District Council	-	90,430	90,430	-	80,382	80,382
Waikato Regional Council	-	22,100	22,100	-	-	0
Waimakariri District Council	10,012	135,898	145,910	20,024	105,818	125,842
Waipa District Council	34,207	13,015	47,222	-	13,016	13,016
Wairoa District Council	1,506	3,519	5,025	-	-	0
Waitomo District Council	10,057	30,111	40,168	10,066	25,086	35,152
Wellington City Council	-	465,913	465,913	-	395,384	395,384
Western Bay Of Plenty District Council		115,522	115,522	-	105,426	105,426
Westland District Council	-	17,383	17,383	2,998	14,361	17,359
Whakatane District Council	4,008	53,237	57,245	6,011	48,220	54,231
Whanganui District Council	-	82,434	82,434	5,005	73,367	78,372
Whangarei District Council	9,972	132,543	142,515	9,971	132,516	142,487
	<u>523,646</u>	<u>8,801,781</u>	<u>9,325,427</u>	<u>235,202</u>	<u>7,740,527</u>	<u>7,975,729</u>

<b>Report to:</b>	<b>Finance Audit and Risk</b>
<b>Date:</b>	23 July 2019
<b>Subject:</b>	Finance Report to 30 June 2019
<b>Prepared by:</b>	Jerome Dufour, PwC
<b>Input sought from:</b>	Natalie Telford, Assistant Accountant
<b>Authorised by:</b>	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.
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 in 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.

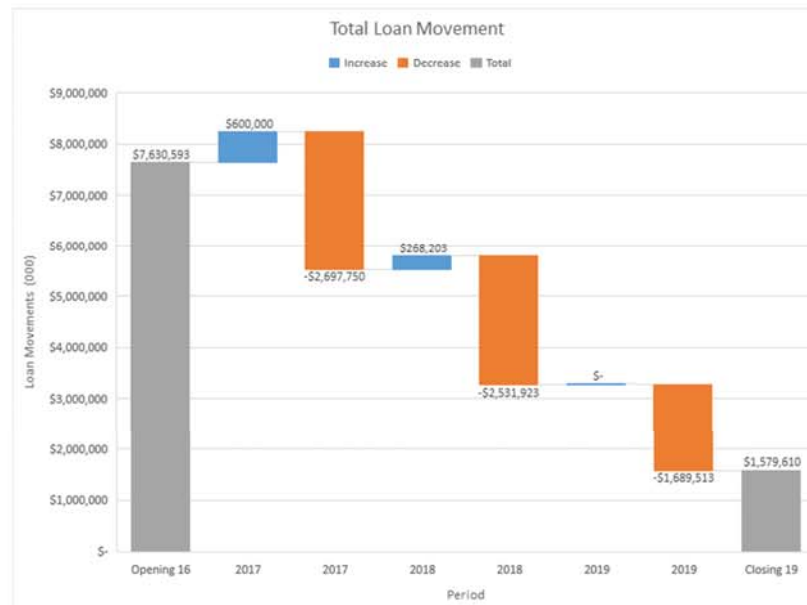
INCOME JUN-19 YEAR TO DATE	Actual	Budget	% Variance	\$ Jun Variance	\$ May Variance	U/F	Material *\$50k	Dashboard Indicator	Notes Ref	
Roading	\$2,154,145	\$2,248,755	-4.21%	-\$94,610	-\$161,220	U	Y	!	1	Funding associated with under expenditure on roading minor Events, Bridge Structures.
Water Services	\$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
<b>Gross Operating Revenue</b>	<b>\$17,180,520</b>	<b>\$30,296,216</b>	<b>-43.29%</b>	<b>\$13,115,696</b>	<b>\$11,612,604</b>					
Less Capital Subs & Grants	-\$2,474,993	\$15,717,727	25.25%							
<b>Net Operating Revenue</b>	<b>\$14,705,527</b>	<b>\$14,578,489</b>	<b>0.87%</b>	<b>\$127,038</b>						

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 Kaikōura 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	Expenditure on financial sustainability lower than anticipated. 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
	<b>\$14,064,844</b>	<b>\$17,383,563</b>	<b>-19.09%</b>	<b>-\$3,318,719</b>	<b>-\$1,666,198</b>			□		



### Loan Movement Summaries

Loan	Pre Earthquake		Post Earthquake		2017/2018		2018/2019		Closing
	2015/2016	2016/2017	2016/2017	2017/2018	2017/2018	2018/2019	2018/2019		
	Opening	Drawdowns	Repayments	Drawdowns	Repayments	Drawdowns	Repayments		
Loan reference 6611698-03105	3,059,550.00	7,167.00	- 310,717.00	- -	1,270,000.00	- -	1,221,291.87	264,708.13	
Loan reference 6611698-03107	1,189,210.00	-	- 43,200.00	- -	368,720.00	- -	347,281.55	430,008.45	
Loan reference 6611698-03110	1,456,000.00	600,000.00	- 418,000.00	268,203.00	- 893,203.00	- -	128,106.58	884,893.42	
Loan reference 6611698-03112	1,925,833.00	-	- 1,925,833.00	-	-	-	-	-	
<b>Total</b>	<b>7,630,593.00</b>	<b>607,167.00</b>	<b>- 2,697,750.00</b>	<b>268,203.00</b>	<b>- 2,531,923.00</b>	<b>- -</b>	<b>1,696,680.00</b>	<b>1,579,610.00</b>	



Loan reference 6611698-03105	Purpose	2015/2016	2016/2017		2017/2018		2018/2019		Closing
		Opening	Drawdowns	Repayments	Drawdowns	Repayments	Drawdowns	Repayments	
Civic Centre # 5 (2014)	Civic Centre	227,390.00	-	-	11,717.00	-	-	95,893.00	20,908.00
Footpath Loan (2016)	Increase level of service	150,000.00	-	-	-	-	-	66,710.00	14,545.00
Glen Alton Bridge Loan 1998	Replace bridge - now destroyed in EQ	101,000.00	-	-	73,000.00	-	-	-	-
Civic Centre # 4 Loan (2014)	Civic Centre	243,160.00	-	-	-	-	-	108,114.00	23,573.00
East Coast Water Loan 2009	Increase level of service	26,000.00	-	-	-	-	-	11,560.45	2,520.55
South Bay water loan (2017)	Replace reticulation	-	7,167.00	-	-	-	-	7,167.00	-
Stormwater # 4 2011		-	-	-	-	-	-	10.00	10.00
Water Supply # 5 (2008)	New reservoir	220,000.00	-	-	-	-	-	97,816.74	21,327.26
Airport Hangar Loan 2011	Airport	41,000.00	-	-	-	-	-	18,229.00	3,975.00
West End # 3 Pt 2 Loan 2008	Town upgrade	140,000.00	-	-	-	-	-	7,650.87	1,668.13
Memorial Hall Loan 2001	Hall upgrade	20,000.00	-	-	-	-	-	-	-
Sewer # 10 Loan 2001	Replace reticulation	170,000.00	-	-	-	-	-	75,585.81	16,480.19
Leachate Control Loan 2000	New leachate system	51,000.00	-	-	-	-	-	-	-
Sewer # 11 Loan 2010	Replace reticulation	187,000.00	-	-	-	-	-	137,019.30	29,874.70
Sewer # 12 Loan 2011	Replace reticulation	121,000.00	-	-	-	-	-	90,445.02	19,719.98
Footpath & Streetlight Loan 2004	Increase level of service	290,000.00	-	-	-	-	-	173,402.56	37,807.44
Footpath & Streetlight Loan 2004	Increase level of service	100,000.00	-	-	-	-	-	-	-
New Wharf Loan 2004	Harbour - renew the North Wharf	480,000.00	-	-	-	-	-	213,418.72	46,532.28
Water Supply # 3 Pt 2 Loan 2002	Replace reticulation	116,000.00	-	-	-	-	-	51,575.79	11,245.21
West End # 3 Pt 1 Loan 2008	Town upgrade	150,000.00	-	-	-	-	-	66,693.61	14,541.39
Pensioner Flats Loan 2008	Pensioner flats	193,000.00	-	-	193,000.00	-	-	-	-
District Plan # 3 Loan 2008	Complete district plan	33,000.00	-	-	33,000.00	-	-	-	-
<b>Total 03105</b>		<b>3,059,550.00</b>	<b>7,167.00</b>	<b>-</b>	<b>310,717.00</b>	<b>-</b>	<b>-</b>	<b>1,221,291.87</b>	<b>264,708.13</b>

Loan reference 6611698-03107	Purpose	2015/2016	2016/2017		2017/2018		2018/2019		Closing
		Opening	Drawdowns	Repayments	Drawdowns	Repayments	Drawdowns	Repayments	
Civic Centre # 3 Loan (2014)	Civic Centre	359,030.00	-	-	17,310.00	-	-	104,435.00	129,313.00
Civic Centre # 2 Loan (2014)	Civic Centre	359,290.00	-	-	16,930.00	-	-	104,630.00	129,556.00
Civic Centre # 1 Loan (2014)	Civic Centre	470,890.00	-	-	8,960.00	-	-	138,216.55	171,139.45
<b>Total 03107</b>		<b>1,189,210.00</b>	<b>-</b>	<b>-</b>	<b>43,200.00</b>	<b>-</b>	<b>-</b>	<b>347,281.55</b>	<b>430,008.45</b>

Loan reference 6611698-03110	Purpose	2015/2016	2016/2017		2017/2018		2018/2019		Closing
		Opening	Drawdowns	Repayments	Drawdowns	Repayments	Drawdowns	Repayments	
South Bay water loan (2017)	Replace reticulation	-	300,000.00	-	-	-	-	21,626.00	112,210.00
Airport Terminal Loan 2009	Airport	-	207,167.00	-	-	-	-	17,194.32	121,162.68
Airport Terminal Loan 2009	Airport	386,000.00	-	-	83,000.00	-	-	-	-
Sewer # 15 Loan (2014)	Replace reticulation	400,000.00	-	-	35,000.00	-	-	20,712.60	145,954.40
Sewer # 14 Loan 2013	Replace reticulation	300,000.00	300,000.00	-	300,000.00	-	-	17,024.00	119,963.00
Harbour # 2 Loan 2013	Harbour - South Bay Rock Protection works	370,000.00	-	-	-	-	-	20,996.28	147,953.72
Earthquake (Harbour) Loan 2017	Harbour EQ	-	-	-	268,203.00	-	-	30,553.38	237,649.62
<b>Total 03110</b>	<b>Purpose</b>	<b>1,456,000.00</b>	<b>600,000.00</b>	<b>-</b>	<b>418,000.00</b>	<b>268,203.00</b>	<b>-</b>	<b>128,106.58</b>	<b>884,893.42</b>

Loan reference 6611698-03112	Purpose	2015/2016	2016/2017		2017/2018		2018/2019		Closing
		Opening	Drawdowns	Repayments	Drawdowns	Repayments	Drawdowns	Repayments	
Hospital Loan # 4 (2016)		170,000.00	-	-	170,000.00	-	-	-	-
Hospital Loan # 1 (2015)		520,833.00	-	-	520,833.00	-	-	-	-
Hospital Loan # 2 (2015)		735,000.00	-	-	735,000.00	-	-	-	-
Hospital Loan # 3 (2015)		500,000.00	-	-	500,000.00	-	-	-	-
		<b>1,925,833.00</b>	<b>-</b>	<b>-</b>	<b>1,925,833.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Report to:</b>	<b>FINANCE, AUDIT AND RISK COMMITTEE &amp; COUNCIL COMMITTEE</b>
<b>Date:</b>	22 July 2019
<b>Subject:</b>	DEBTORS REPORT
<b>Prepared by:</b>	Jerome Dufour, PwC
<b>Input sought from:</b>	Natalie Telford, Assistant Accountant
<b>Authorised by:</b>	Angela Oosthuizen, Chief Executive

## 1 PURPOSE AND ORIGIN:

- 1.1 This new report was first introduced in January for the Finance, Audit & Risk Committee, and the intention was that it would be provided on a monthly basis, this has now been requested quarterly. This report has been compiled two months since the last report to align the quarterly reporting with the Council's year end.
- 1.2 This report shows the balances and age of trade receivables (sundry debtors, plus rates and water billing). Both reports are as at 30 June 2019.

## 2 BACKGROUND:

- 2.1 Rates and sundry debtors make up approximately \$8 million worth of Council revenue, so it is essential that these revenues are managed to ensure prompt payment by debtors.
- 2.2 Kaikōura DC has a particularly high take-up of payment by direct debit, at over 70% of ratepayers using this method of payment. Direct debit is preferred because it ensures the correct amount is paid on the due date, and helps plan our cash flows.
- 2.3 There are variances between trade & other receivables included in the Statement of Financial position and the totals considered in this report. This is due to this report not considering year-end adjustments including provisions for doubtful debts or debtor accruals.

## 3 ANALYSIS OF SUNDRY DEBTORS

- 3.1 At the end of June, there was a total \$1.611 million owing to KDC from sundry debtors, which is significantly impacted by three sundry debtors, NZTA, NCTIR & ECAN who have current balances of \$742k, \$419k & \$305k respectively.
- 3.2 Analysis by category shows sundry debtors are the biggest group, at \$1.55 million, and property leases are second biggest at \$42k. Other categories have negligible balances.
- 3.3 Aged debtors by one month are currently showing negative due to a number of credits being issued. The most material of these is to the NZTA of \$131k.
- 3.4 Sundry debtor days are a very healthy 17.6 days, however this is affected by the significant credits owing and payable in one month.
- 3.5 The following is an analysis of the range of debtors:

Range	Number of debtors	Total value of balance due
> \$50,000	3	\$1,463,568
\$20,000 - \$49,999	2	\$78,003
\$10,000 - \$19,999	2	\$28,352
\$1,000 - \$9,999	10	\$28,578
Nil to \$999	83	\$22,070
Account in credit	36	-\$10,037
	<b>136</b>	<b>\$1,610,534</b>

#### **4 ANALYSIS OF RATES & WATER BILLING DEBTORS**

- 4.1 At the end of June, \$740k was owing in rates. This is comparable with other years. The last rates instalment for 2018/2019 financial year was due 20 June 2019.
- 4.2 The age summary shows that some of this debt is as old as 2012 rating year. It is usual for there to be rates owing of up to seven years old, due to Maori land rates being written off at the end of that period. Maori land is defined in the Local Government Rating Act (2002) as land whose beneficial ownership has been determined by a freehold order issued by the Maori Land Court. Maori land rates are often written off after six years due to difficulties identifying land owners.
- 4.3 Maori land rates have been written off for the 2009, 2010 and 2011 years since the last Debtors Report was presented.
- 4.4 The weighted average days for rates to be paid is currently 561.1 days – this is still impacted by the Maori land rates.
- 4.5 Approximately \$18k worth of water billing invoices remain unpaid at 30 June 2019.
- 4.6 Of the water billing debtors, 19 debtors have overdue balances (older than January 2019) totaling \$5k.

# Analysis of Sundry Debtors

At 30 June 2019

## Average Debtor Days

**17.61**

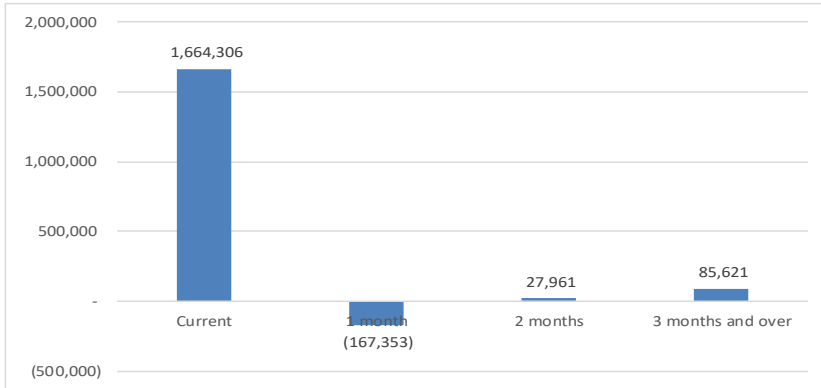
## Bank Balance

**\$ 1,944,297**

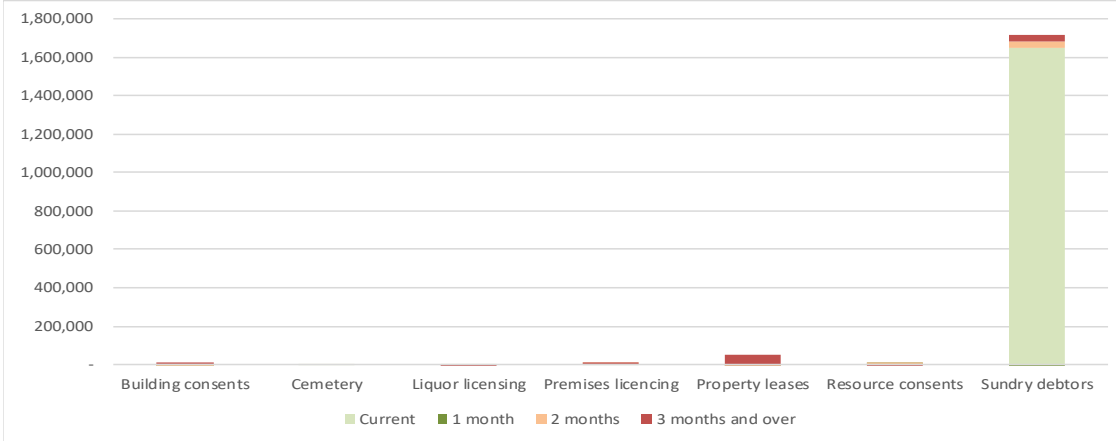
## Total Debtors Due

**\$ 1,610,534**

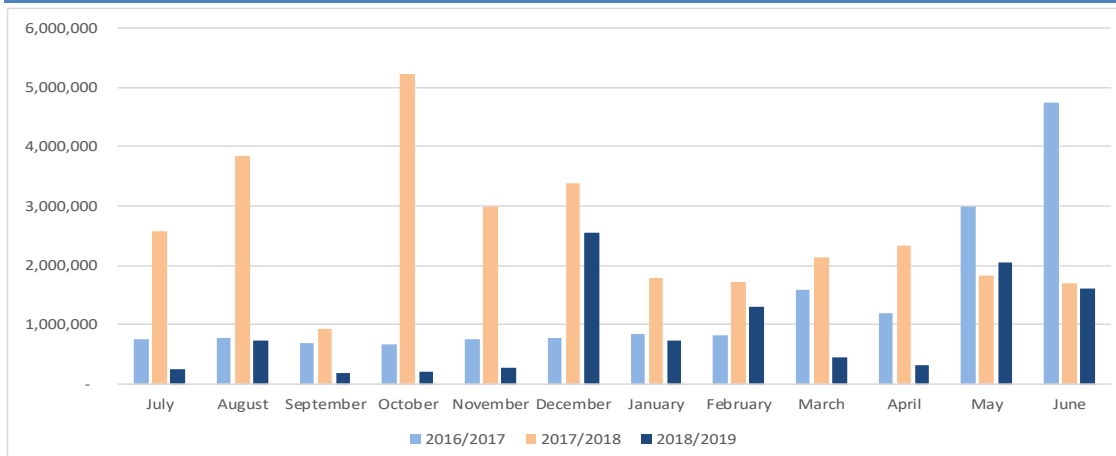
## Age Summary



## Trade Debtors by Category



## Debtor Balances



## Bad Debts written off

**\$ 22,417**

## Number of Debtors by Category

Building consents	Cemetery	Licenses Food/Liquor	Property Leases	Resource consents	Sundry Debtors
10	1	36	14	15	74

# Analysis of Rates & Water Billing Debtors

At 30 June 2019

## Average Debtor Days

**561.1**

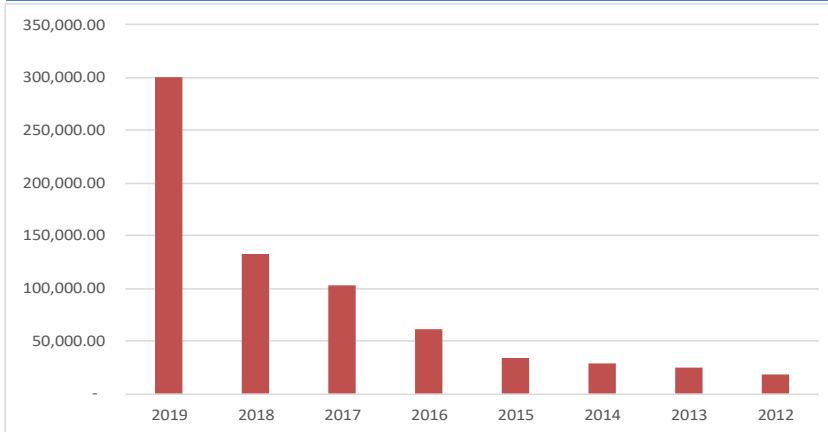
## Bank Balance

**\$ 1,944,297**

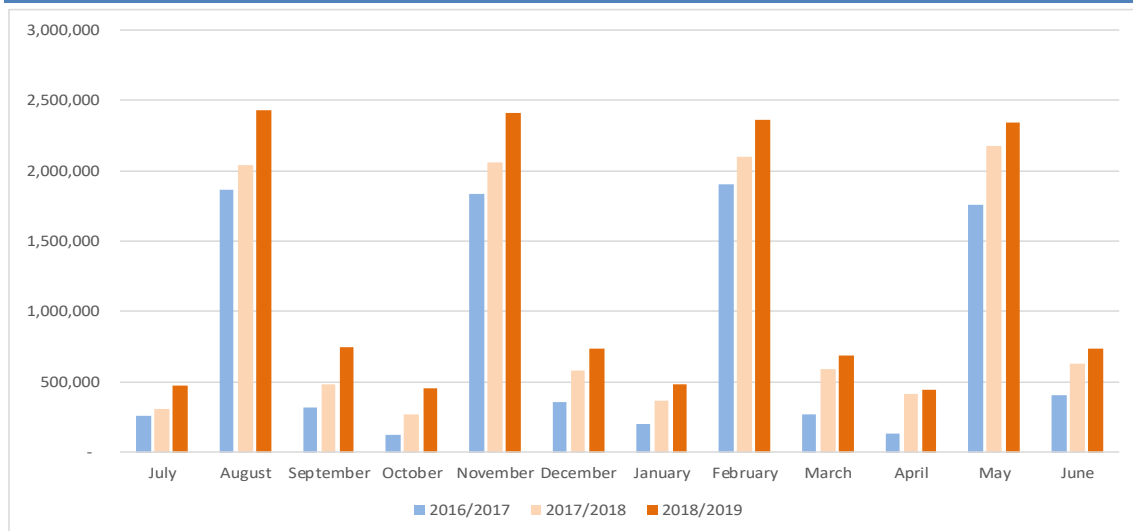
## Total Rates Due

**\$ 740,900**

## Age Summary - Rates outstanding from current and prior years



## Rates Debtor Balances



## Number of Debtors

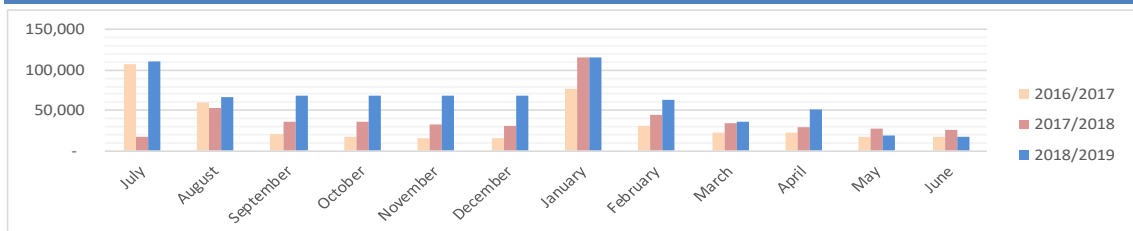
**Rates Debtors  
956**

**Water billing  
27**

## Rates revenue by type (year to date)

	Rates revenue	Penalties applied	Write offs & adjustments	Remissions	Water billing	Total
	\$6915	\$140	-\$16	-\$37	\$49	\$7051
	98.1%	2.0%	-0.2%	-0.5%	0.7%	100.0%

## Water Billing Debtor Balances



## 5 FINANCIAL IMPLICATIONS AND RISKS:

- 5.1 Rates debtors are low risk, as there is a large number of debtors with relatively low balances owing. Local authority rates are an enforceable debt.

## 6 RECOMMENDATION:

- 6.1 This report is for information only.

## 7 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.

## 8 SIGNIFICANCE OF DECISION:

- 8.1 No decision is required.

## 9 RELEVANT LEGISLATION:

- 9.1 Various, including the Local Government (Rating) Act 2002

## 10 COMMUNITY VIEWS:

- 10.1 No community views were sought in relation to this report.