

Audit and Finance Working Party
Wednesday 7 August 2019 at 12.00pm

AGENDA

Audit and Finance Working Party Agenda

Meeting to be held in the Whale Bay Room
36 Water Street, Whangārei
on Wednesday 7 August 2019, commencing at 12.00pm

Please note: working parties and working groups carry NO formal decision-making delegations from council. The purpose of the working party/group is to carry out preparatory work and discussions prior to taking matters to the full council for formal consideration and decision-making. Working party/group meetings are open to the public to attend (unless there are specific grounds under LGOIMA for the public to be excluded).

MEMBERSHIP OF THE AUDIT AND FINANCE WORKING PARTY

Chairman, Councillor David Sinclair

Independent Financial Advisor, Councillor Bill Shepherd Councillor Joce Yeoman
Mr Geoff Copstick

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1.0 APOLOGIES	
2.0 DECLARATIONS OF CONFLICTS OF INTEREST	
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3.1 Review of the 2018/19 Year-end Financial Agenda Items	3

TITLE: Review of the 2018/19 Year-end Financial Agenda Items

ID: A1224966

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

The purpose of this report is to present seven financial agenda items to the working party for review, prior to these agenda items going to Council in August.

The August council meeting is scheduled for 20 August 2019. The Deloitte audit team arrive the day before on 19 August. A full set of financial statements based upon the recommendations in the attached agenda items will be provided to the auditors on 19 August. Should any changes to the financial statements arise from council decisions made on the 20th August it may cause delays and inefficiencies to the planned audit programme.


In summary, the attached agenda items communicate, and/or seek council approval of the following:


- An operating result of \$0 after surplus PRF and IIF gains of \$1.12M are transferred to the Operating Costs Reserve.
- An expense of \$820K is incorporated in the \$0 result to represent the unlikely collection of the Resource Enterprises Loan.
- Operational carry forwards of \$72K are incorporated in the \$0 result.
- Total managed fund gains exceeded budget by \$217K. June produced gains of \$915K - the second biggest month of the year
- Community Investment fund gains of \$854K are reinvested back into the fund (budget \$993K), and no CIF gains are used as general funding.
- Property Reinvestment Fund gains of \$161K are reinvested back into the fund (budget \$272K), \$350K are used as general funding (budget \$954K) and the residual \$605K is allocated to the OCR.
- Infrastructure Investment Fund gains of \$704K (budget 809K) are used as general funding and the residual \$512K is allocated to the OCR. No reinvestment of IIF gains.
- The balance of the OCR is \$1.12M, noting the general funding required from council's managed fund portfolio in 2019/20 is forecasted to be \$2.1M.
- The statutory financial statements in the annual report will include non-cash revaluation gains of \$2.2M and transfer the impact of the reserve transfers to the balance sheet, consequently reporting a surplus for 2018-19 of \$5.7M.


Recommended actions


- That the working party supports the content and recommendations in the attached draft agenda items.
 - That the attached draft agenda items are finalised and presented to Council at the August 2019 meeting
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Attachments/Ngā tapirihanga

Attachment 1: Resource Enterprises Limited (REL) - Loan impairment (Draft Report) [↓](#) 

Attachment 2: Externally Managed Funds - 2018/19 Performance and Allocation of Gains (Draft Report) [↓](#) 

Attachment 3: Opex Carry Forwards - 2018/19 (Draft Report) [↓](#) 

Attachment 4: Draft Financial Result - 2018/19 (Draft Report) [↓](#) 

Attachment 5: Capex Carry Forwards - 2018/19 (Draft Report) [↓](#) 

Attachment 6: Special Reserves - 2018/19 (Draft Report) [↓](#) 

Attachment 7: Regional Rates Collection - 2018/19 (Draft Report) [↓](#) 

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 05 August 2019

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ITEM: 0

TITLE: Resource Enterprises Limited (REL) - Loan Impairment

ID: A1221898

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

As part of the Annual reporting process, NZ Accounting standards prescribe that council review its loan assets and make an assessment as to their collectability.

If there is evidence that the probable recoverable amount of a loan is lower than the actual loan balance, then an adjustment is required. This adjustment is called an impairment loss.

At 30 June 2019, the balance (principal and accrued interest) of the loan issued to Resource Enterprises Limited (REL) is \$819,933. This amount is due for repayment on or before 5 March 2020.

When assessing the probable recoverable amount of the REL loan, the following evidence was taken into consideration at 30 June 2019:

- At the time of writing REL has not paid their last two quarterly interest payments (\$14,348.81 due on 5 March 2019 and \$14,348.81 due on 5 June 2019)
- The REL operation at Marsden Point has not traded since May 2017 due to, among other things, the adverse impact of a significant rise in NZ log prices.
- Council is the second secured party for the REL loan, and the current market value of the REL assets is estimated to be less than the amount owed to the first secured party.

For completeness, on 30 July 2019 REL had their lease cancelled and possession of the site returned to their landlord (Marsden Maritime Holdings Limited). Technically this development occurred outside of the 2018/19 reporting period.

The probable recoverable amount of the REL loan was assessed as NIL. Thus, it is proposed that an impairment loss of \$819,933 is recorded in the 2018/19 accounts.

The impairment loss reduces the carrying amount of the REL loan to nil in councils Balance Sheet, and reduces council's 2018/19 surplus by \$819,933.

By recognising the impairment loss in 2018/19, council will avoid having to record an unbudgeted expense in 2019/20 should REL default in repaying the loan on 5 March 2020.

Recording an impairment loss adjustment **does not** discharge REL of their liability to fully repay the loan. Should REL repay the loan in full and as currently scheduled, the impairment loss will be reversed in 2019-20 and the ensuing surplus will become available to council.

The recommendation in this report has been incorporated into the \$0 operating result in the draft annual accounts.

Recommendation(s)

1. That the report 'Resource Enterprises Limited (REL) - Loan Impairment' by Simon Crabb, Finance Manager and dated 30 July 2019, be received.
2. That an impairment loss of \$819,933 is recorded in the 2018/19 accounts to reflect that the Loan to Resource Enterprises Limited has been assessed as unrecoverable.

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Background/Tuhinga

In October 2014, council agreed to provide a five-year loan of \$750,000 from the Investment and Growth Reserve (IGR) to REL to assist with the establishment of a sawmill operation at Marsden Point. The loan was drawn down by REL on 5 March 2015.

In the first two years, REL capitalised an agreed \$69,933 of interest. This amount was added to the principal amount of \$750,000 creating a loan balance of \$819,933 due for repayment on or before 5 March 2020. In accounting terminology, the loan balance of \$819,933 is referred to as its "carrying amount".

Current NZ accounting standard PBE-IPSAS 29 requires council to assess, at the end of each financial year, whether there is any objective evidence that the recoverable amount of a loan is probably less than its carrying amount. If such evidence exists, then an adjustment is required to reduce the carrying amount of the loan down to the recoverable amount – this adjustment is called an impairment loss.

As the REL operation at Marsden Point has not been trading since May 2017 due to, among other things, the adverse impact of a significant rise in the price of NZ logs, along with the fact that REL have not paid their last two interest payments; and because council is only the second secured party for the REL loan (noting the current market value of REL assets is estimated to be less than amount owed to the first secured party); and REL had their lease cancelled on 30 July 2019 (although this development occurred is outside of the 2018/19 reporting period) - the probable recoverable amount of the REL loan has been **assessed as NIL**.

It is proposed that an impairment loss of \$819,933 is booked in the 2018/19 accounts reducing the carrying amount of the REL loan to nil in council's Balance Sheet and reducing the operating surplus by \$819,333 in this year's profit and loss.

Booking an impairment loss adjustment **does not** discharge REL of their liability to fully repay the loan principal and related interest payments. Rather, it is an offsetting entry held in council's books to ensure the carrying amount of the loan presented in the annual accounts reflects the expected recoverable amount.

Recognising the impairment loss in this year's accounts will remove any surprises from next year's accounts should REL totally default on their repayment and a full write-off (removal) of the loan is required.

Should REL repay the loan in full, the impairment loss will be reversed in 2019/20 and the ensuing operating surplus will become available to council in 2019/20. The cash received from REL will be transferred to the IGR.

NZ accounting standard PBE-IPSAS 30 requires council to disclose the impairment loss in the notes of the annual financial statements to enable readers to evaluate the nature and extent of the risks arising from its loan assets. Specifically, council is required to disclose the asset class (not the specific loan) that has been impaired, the amount of the impairment, the factors considered in determining the impairment, and a description of any collateral held for the impaired loan.

Considerations

Options

No.	Option	Advantages	Disadvantages
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1	Recognise an Impairment Loss of \$819,933 in the 2018/19 Financial Statements as it is anticipated that council will not recover any of the outstanding loan balance owing from Resource Enterprises Limited.	<p>Comply with NZ Generally Accepted Accounting Principles.</p> <p>Recognise the loss in 2018/19 when it can be accommodated within councils operating surplus.</p> <p>Avoid an unbudgeted cost in 2019/20 should REL default on payment.</p>	The impairment loss reduces the surplus in the Draft Financial Statements by \$819,933, thereby removing the opportunity to allocate \$819,933 to other priorities.
2	Do not recognise an Impairment Loss of \$819,933 in the 2018/19 Financial Statements.	<p>The impairment loss will not be booked in the year end accounts and the surplus in the Draft Financial Statements will increase by \$819,933, providing an opportunity to allocate \$819,933 to other priorities.</p>	<p>Not recognising the Impairment loss is contrary to NZ Generally Accepted Accounting Principles and as such may attract comment in the 2018/19 Auditors report.</p> <p>Should REL default in repaying the loan balance next year, an unbudgeted write off expense will be recorded in the 2019/20 financial accounts.</p>

The staff's recommended option is 1

2. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's significance and engagement policy because although it involves a transaction exceeding \$750,000, it does not trigger any of the other thresholds contained in council's significance and engagement policy.

3. Policy, risk management and legislative compliance

The recommendation is consistent with council's risk management principles as it explicitly addresses the uncertainty associated with the collectability of an outstanding loan. Furthermore, the recommendation is consistent with NZ generally accepted accounting principles in such cases

4. Financial implications

Although the recommendation reduces council's operating surplus in the 2018/19 financial year, it avoids having to recognise an unbudgeted expense in 2019/20 should the REL loan need be written off. If the REL loan is not repaid in 2019/20 the cash balance of the IGR will be adversely affected and there may not be sufficient funds to meet already committed project expenditure, depending on the timing of various project funding claims. A separate and future council decision may need to be taken on how to manage this situation should it eventuate.

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Being a purely administrative matter, Community Views, Māori Impact Statement, and Implementation Issues are not applicable.”

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:

DRAFT

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ITEM: 0

TITLE: Externally Managed Investment Funds: 2018/19 Performance and Proposed Allocation of Gains

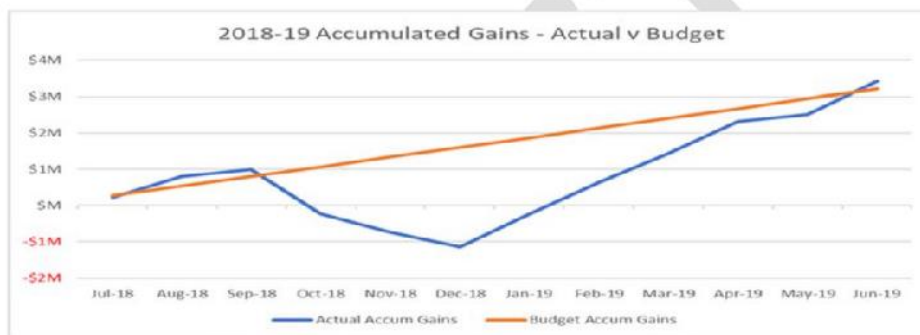
ID: A1221565

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

At 30 June 2019, council has an externally managed investment fund of \$60.3M. \$57.7M is invested in four externally managed funds and \$2.6M is invested in ANZ term deposits.

All four externally managed funds exceeded their 1 year performance objective in 2018/19 (as per the corresponding Statement of Investment Policy and Objectives), and despite a very volatile year the overall portfolio ended up generating annual gains that were \$217K greater than budget.



1 YEAR PERFORMANCE TO 30 JUNE 2019						
	Return	Objective	Budget	Gains \$,000	Budget \$,000	Var \$,000
CIF	6.3%	5.6%	7.5%	\$888	\$995	(\$106)
PRF	7.0%	6.7%	7.5%	\$1,115	\$1,227	(\$112)
IIF	6.7%	5.5%	5.75%	\$1,217	\$919	\$297
STF	5.5%	3.5%	4.75%	\$206	\$67	\$139
Total Externally Managed Fund Portfolio				\$3,425	\$3,209	\$217

As a result of the economic recovery and the operational savings secured by staff throughout the financial year, it is proposed that the gains in excess of what is required for reinvestment and general funding are transferred into the newly created Operating Costs Reserve (OCR).

The recommendations in this report have been incorporated into the operating result of \$0 in the draft annual accounts.

The proposed allocation of the gains generated from each fund in 2018/19 is presented over the page:

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ALLOCATION OF GAINS 2018-19 \$,000								
	Gains \$,000	Into CIF \$,000	Into IGR \$,000	Into PRF \$,000	Into IIF \$,000	Xfr to OCR \$,000	Gen' Funding \$,000	Total \$,000
CIF	\$888	\$854	\$34	-	-	-	-	\$888
PRF	\$1,115	-	-	\$161	-	\$605	\$350	\$1,115
IIF	\$1,217	-	-	-	-	\$513	\$704	\$1,217
STF	\$206	-	-	-	-	-	\$206	\$206
TOTAL	\$3,425	\$854	\$34	\$161	\$0	\$1,117	\$1,259	\$3,425

The purpose of the OCR is to have sufficient funding set aside in liquid assets should the budgeted revenue stream from council's managed fund portfolio not eventuate as anticipated. The general funding required from council's managed fund portfolio in 2019/20 is forecasted to be \$2.1M, thus the proposed \$1.117M allocation in 18-19 is a start and provides partial assurance. The allocation of additional surpluses to the OCR will be required in the future to fully cover the contribution the managed funds provide to council's operational expenditure.

Depreciation funding collected and earmarked for future renewal capital expenditure, and the rates collected and earmarked for future debt repayments are recommended to be transferred into the Infrastructure Investment Fund. This approach is proposed to preserve and track such funding until it is required to finance any future capital renewal expenditure or repay borrowings.

Recommendation(s)

1. That the report 'Externally Managed Investment Funds: 2018/19 Performance and Proposed Allocation of Gains' by Simon Crabb, Finance Manager and dated 30 July 2019, be received.
2. That \$854,205 of Community Investment Fund gains earned in 2018/19 is reinvested into the Community Investment Fund and \$34,000 of Community Investment Fund gains earned in 2018/19 is allocated to the Investment and Growth Reserve.
3. That \$160,669 of Property Reinvestment Fund gains earned in 2018/19 is reinvested into the Property Reinvestment Fund, and \$604,538 of Property Reinvestment Fund gains earned in 2018/19 is allocated to the Operating Costs Reserve.
4. That \$512,691 of Infrastructure Investment Fund gains earned in 2018/19 is allocated to the Operating Costs Reserve, and no Infrastructure Investment Fund gains earned in 2018/19 are reinvested back into the Infrastructure Investment Fund.
5. That \$66,826 of net depreciation funding and \$853,499 of debt repayment funding are transferred into the Infrastructure Investment Fund.
6. That \$1,117,229 of funding representing the Operating Costs Reserve is invested into NZ registered bank fixed rate term deposits with rolling maturity profiles ranging from 30 to 180 days.

Background/Tuhinga

Community Investment Fund (CIF)

The CIF generated \$888,205 of gains in 2018/19, equivalent to a return of 6.3% for the year, exceeding its Statement of Investment Policy and Objectives (SIPO) objective rate of return by 0.7%.

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Council's position when preparing the 2018/28 Long Term Plan was that \$34K of the CIF gains would be transferred to the Investment and Growth Reserve (IGR) to fund the inflation adjustment portion of the operational grant paid to Northland Inc, and the remaining gains would be reinvested back into the CIF.

After accounting for the \$34K IGR transfer - It is proposed that the remaining actual gains for 2018/19 of \$854,205 is reinvested back into the CIF.

Table One summarises the proposed CIF recommendation:

Table One		2018-19	
COMMUNITY INVESTMENT FUND		Actual	Revised Budget
OPENING BALANCE		\$14,158,124	\$14,158,124
	Gross Investment income earned from FUND	\$888,205	\$1,027,859
	Operating grant adjustment from CIF to IGR	-\$34,000	-\$34,000
	Amount of Investment income reinvested (retained) in FUND	\$854,205	\$993,859
CLOSING BALANCE		\$15,012,329	\$15,151,984

Table Two presents the closing balance of the IGR as \$1,249,403 which is greater than budget by \$1,013,751. This variance is predominantly due to the costs of four major projects not coming on line yet, and therefore not requiring funding from the reserve yet. It is anticipated that the unspent monies relating to the Twin Coast Cycle Trail, Te Hononga, Hundertwasser Art Centre and the Water Storage and Use project will be required from the IGR in the 2019/20 financial year.

Table Two		2018-19	
INVESTMENT AND GROWTH RESERVE		Actual	Revised Budget
OPENING BALANCE		\$2,184,603	\$2,184,603
REDIRECTION OF NRC INVESTMENT INCOME		\$1,700,000	\$1,700,000
	Operating grant adjustment from CIF to IGR	\$34,000	\$34,000
WITHDRAWALS			
Payments to Northland Inc.			
	Payment to Northland Inc. (Baseline Operational)	-\$1,307,120	-\$1,307,120
	Payment to Northland Inc. (Extended Regional Promotion)	-\$200,000	-\$200,000
Loans Issued			
	Northland Inc. Car Loan No 4	-	-\$60,000
Project Funding			
	Twin Coast Cycle Trail	-	-\$113,734
	Extension 350	-\$200,000	-\$200,000
	Te Hononga (Kawakawa Hundertwasser Park Center)	-\$300,000	-\$500,000
	Hundertwasser Art Centre	-\$500,000	-\$1,000,000
	Demand assessment for water storage (prefeasibility)	-	-\$100,000
	Business case assessments and project investment	-\$249,200	-\$324,500
Other Deposits			
	Interest earned on I&G fund Balance	\$87,123	\$62,666
	Repayment from Northland Inc. of Car Loan Interest	\$583	\$3,610
	Repayment from Northland Inc. of Car Loan Principle	\$9,091	\$18,621
	Repayment from REL of Interest	\$24,766	\$57,396
	Investment Management and Legal Fees	-\$34,444	-\$19,890
CLOSING BALANCE		\$1,249,403	\$235,652

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Property Reinvestment Fund Reserve (PRF)

The PRF generated \$1,115,066 of gains in 2018/19, equivalent to a return of 7.0% for the year, exceeding its SIPO objective rate of return by 0.3%.

The proposed allocation of the PRF gains is presented in Table three:

TABLE THREE Proposed Allocation of Gains - PRF	2018-19	
	Actual	Budget
Total Gains earned on Fund	\$1,115,066	\$1,227,368
Gains reinvested back into fund	-\$160,669	-\$272,972
Leaves Surplus Gains still to be allocated of	\$954,397	\$954,396
allocated to Operating Costs Reserve	-\$604,538	\$0
allocated to General Funding*	-\$349,859	-\$954,396
	0	0

* general funding includes investment advisor fees, trustee and registry fees

Table Four summarises the PRF (inclusive of the proposed allocations in Table Three)

TABLE FOUR PROPERTY REINVESTMENT FUND RESERVE	2018-19	
	Actual	Budget
Opening Reserve Balance	\$18,443,917	\$22,773,000
Increase in Reserve due to Property Sales	\$1,351,010	
Decrease in Reserve due to Property purchases	-\$2,827,004	
Decrease in Reserve due to other property costs		
Repayment for Empire and Dunn street (Awanui Scheme)	\$683,363	
Kensington Project	-\$760,763	
Kaipara Service Centre Project	-\$126,986	
Other (Demolition)	-\$174,708	
	-\$379,094	
Increase in Reserve due to Reinvestment back into the Fund		
Total Gains and Interest earned on fund	\$1,115,066	\$1,227,368
Less Investment advisor fees	-\$23,253	-\$35,508
Less Trustee and registry Fees	-\$915	-\$2,000
Less Gains transferred to Operating Costs Reserve	-\$604,538	\$0
Less Gains withdrawn as general funding	-\$325,692	-\$916,888
Total Reinvestment back into Fund	\$160,669	\$272,972
PROPERTY REINVESTMENT FUND RESERVE - CLOSING BALANCE	\$16,749,498	\$23,045,972
Reconciled To Eriksens Global Investment Fund		
Fund Managers Balance 30 June 2019	\$17,858,268	\$23,045,972
less adjustments due to occur after balance date		
Operating costs reserve funding to be withdrawn	-\$604,538	
General funding to be withdrawn	-\$325,692	
Property costs to be withdrawn	-\$154,370	
Investment advisor fees to be withdrawn	-\$23,253	
Trustee and Registry Fees to be withdrawn	-\$915	
	-\$1,108,767	
PROPERTY REINVESTMENT FUND - CLOSING BALANCE	\$16,749,498	\$23,045,972

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Infrastructure Investment Fund Reserve (IIF)

The IIF generated \$1,216,540 of gains in 2018/19, equivalent to a return of 6.7% for the year, exceeding its SIPO objective rate of return by 1.2%.

The proposed allocation of the 2018/19 IIF gains is presented in Table Five.

TABLE FIVE Proposed Allocation of Gains - IIF	2018-19	
	Actual	Budget
Total Gains earned on Fund	\$1,216,540	\$919,478
Gains reinvested back into fund	\$0	-\$110,082
Leaves Surplus Gains still to be allocated of	\$1,216,540	\$809,396
allocated to Operating Costs Reserve	-\$512,691	\$0
allocated to General Funding*	-\$703,849	-\$809,396
	0	0

* general funding includes investment advisor fees and trustee and registry fees

To preserve the component of targeted rates collected and earmarked to repay external debt, it is proposed that \$853,499 is transferred into the IIF and held until the next infrastructure loan is due for repayment in August 2020. Furthermore, it is recommended that \$66,826 of net infrastructure depreciation funding collected and earmarked for future renewal capital works is transferred into the IIF.

Table Six over the page summarises the IIF (inclusive of the proposed gain allocations in Table Five)

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TABLE SIX: INFRASTRUCTURE INVESTMENT FUND RESERVE	2018-19	
	Actual	Budget
Opening Reserve Balance	\$12,129,210	\$8,859,000
Increase in Reserve		
Maturing term deposits	\$8,000,000	\$0
Bequested funds (via NEST)	\$548,786	\$0
	\$8,548,786	\$0
Decrease in reserve		
Repayment for Empire and Dunn street (Awanui Scheme)	-\$683,363	
Increase in reserve due to Reinvestment back into the Fund		
Total Gains earned on fund	\$1,216,540	\$919,478
Less Investment advisor fees	-\$23,858	-\$21,039
Less Trustee and Registry Fees	-\$4,085	-\$2,160
Less Unallocated interest costs	-\$34,689	-\$43,979
Less Gains transferred to Operating Costs Reserve	-\$512,691	\$0
Less Gains withdrawn as general funding	-\$641,216	-\$742,218
Total Reinvestment back into Fund	\$0	\$110,082
Increase due to Rates collected in 18/19 to Repay Debt		
Awanui River works	\$46,062	
Whangarei Dam	\$405,937	
Regional Flood Infrastructure	\$401,500	
	\$853,499	
Increase due to Depreciation funding collected in 18/19		
Awanui river works	\$95,963	
Kaeo - Whangaroa river works	\$3,398	
Whangarei Dam	\$63,428	
Regional Flood Infrastructure	\$0	
	\$162,789	
Decrease due to Depreciation funding allocated in 18/19		
Awanui river works	-\$95,963	
Kaeo - Whangaroa river works	\$0	
Whangarei Dam	\$0	
Regional Flood Infrastructure	\$0	
	-\$95,963	
INFRASTRUCTURE INVESTMENT FUND RESERVE - CLOSING BALANCE	\$20,914,957	\$8,969,082
Reconciled To Eriksens Global Investment Fund		
Fund Managers Balance 30 June 2019	\$21,211,173	\$8,969,082
less adjustments due to occur after balance date		
Operating costs reserve funding to be withdrawn	-\$512,691	
General funding to be withdrawn	-\$641,216	
Investment advisor & trustee fees to be withdrawn	-\$62,633	
Targeted Rates invested and held to repay Debt	\$853,499	
Net Depreciation invested	\$66,826	
	-\$296,215	\$0
INFRASTRUCTURE INVESTMENT FUND - CLOSING BALANCE	\$20,914,957	\$8,969,082

Operating Costs Reserve (OCR)

The OCR was established by council resolution to set aside funding to ensure the delivery of work programmes, employment, and ongoing day to day operations should the budgeted revenue stream from council's Managed Fund portfolio not eventuate as anticipated in the future.

Due to operational savings and an equity market recovery late in the year it is proposed that surplus gains earned in 2018/19 of \$1,117,229 are transferred into the OCR. The split between how much of the \$1,117,229 comes from the PRF and how much comes from the IIF is based on the proportion of

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budgeted gains that were required in the 2018/19 budget as general funding. That is, the PRF contributes 64% and the IIF 36%.

To ensure the cash holdings representing the OCR has the lowest feasible risk setting and is held in appropriate durations to ensure liquidity, it is proposed that the \$1,117,229 is invested in 6 equal sums, as rolling term deposits at a NZ registered trading bank with maturity dates ranging from 30 days to 180 days.

Table Seven summarises the proposed OCR.

TABLE SEVEN: OPERATING COSTS RESERVE	2018-19	
	Actual	Budget
Opening Reserve Balance	\$0	\$0
Increase in Reserve		
Transfer from the Property Reinvestment Fund Reserve (54%)	\$604,538	\$0
Transfer from the Infrastructure Investment Fund Reserve (46%)	\$512,691	\$0
	\$1,117,229	\$0
OPERATING COSTS RESERVE - CLOSING BALANCE	\$1,117,229	\$0
Reconciled To Investment Assets		
Investment assets held at 30 June 2019	\$0	\$0
Adjustments due to occur after balance date		
Term deposit (30 day) investment	\$186,205	
Term deposit (60 day) investment	\$186,205	
Term deposit (90 day) investment	\$186,205	
Term deposit (120 day) investment	\$186,205	
Term deposit (150 day) investment	\$186,205	
Term deposit (180 day) investment	\$186,204	
	\$1,117,229	\$0
TOTAL OPERATING COSTS RESERVE INVESTMENT	\$1,117,229	\$0

Considerations

Options

No.	Option	Advantages	Disadvantages
1	Reinvest the gains derived from the CIF and PRF in accordance with the presented recommendations. And Allocate the surplus gains (after deducting the general funding requirement) to the Operating Costs Reserve.	Build the capital base of the CIF and PRF to protect their future spending power. Establishing an investment representing the Operating Costs Reserve promotes assurance and stability over the delivery of council's mission, work programmes, employment, and day to day operations.	There are no managed funds gains available to fund additional work programmes or projects. The returns associated with term deposits are typically lower than the returns generated if the funding remained in managed funds

ID: A1221565

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2	<p>Reinvest the gains derived from the CIF, PRF in accordance with the presented recommendations.</p> <p>And</p> <p>Do not allocate the surplus gains to the Operating Costs Reserve.</p>	<p>Build the capital base of the CIF and PRF to protect their future spending power.</p> <p>Release funding that can be directed to fund additional work programmes or projects</p>	<p>There are no managed fund gains available to fund additional work programmes or projects</p> <p>Remain at risk to a volatile economy and its implications on council's managed fund returns and the detrimental impact on a funding source relied upon to fund work programmes.</p>
3	<p>Do not reinvest any gains derived from the CIF and PRF.</p> <p>And</p> <p>Do not allocate the surplus gains to the Operating Costs Reserve.</p>	<p>Provide potential funding for additional work programmes/or projects</p>	<p>The future spending power of the CIF and PRF is reduced and at risk of becoming eroded by inflation.</p> <p>Remain at risk to a volatile economy and its implications on council's managed fund returns and detrimental impact on a funding source relied upon to fund work programmes.</p>

The staff's recommended option is 1.

2. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance because it is part of council's day-to-day activities and is in accordance with the approved Treasury Management Policy.

3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy, and the 2018–28 Long Term Plan, both of which were approved in accordance with council's decision-making requirements of sections 76–82 of the Local Government Act 2002. The activities detailed in this report are also in accordance with council's Operating Costs Reserve Policy.

4. Financial implications

Investment strategies carry different risk profiles and are subject to different return volatilities. The returns from managed funds can fluctuate over a given time and period and historical returns do not necessarily form the basis for forecasted returns

Maintaining an Operating Costs Reserve that can be called upon if council's Managed Fund portfolio does not generate its budgeted revenue stream provides financial stability by ensuring there is funding available, in liquid and relative risk-free assets, to continue the delivery of the planned work programmes.

ID: A1221565

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Council Meeting
20 August 2019

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Being a purely administrative matter, Community Views, Māori Impact Statement, and Implementation Issues are not applicable.

Attachments/Ngā tapirihanga

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:

DRAFT

ID: A1221565

9

Council Meeting
20 August 2019

ITEM:

TITLE: Request for Approval to Carry Forward Operational Budget from the 2018/19 Financial Year into the 2019/20 Financial Year

ID: A1220587

From: Vincent McColl, Financial Accountant and Simon Crabb, Finance Manager

Executive Summary

Unspent 2018/19 operational budget of \$72,070 is proposed to be carried forward into the 2018/19 financial year to fund the completion of operational projects. The recommendations in this report have been incorporated into the draft operating result of \$0.

Recommendations

1. That the report 'Request for Approval to Carry Forward Operational Budget from the 2018/19 Financial Year into the 2019/20 Financial Year' by Vincent McColl, Financial Accountant and Simon Crabb, Finance Manager and dated 31 July 2019, be received.
2. That council approves the operational expenditure carry forwards from the 2018/19 financial year into the 2019/20 financial year of:
 - a. \$16,900 for Iwi environmental management plans
 - b. \$10,170 for the Water Street mural
 - c. \$35,000 for Freshwater NPS implementation
 - d. \$10,000 for the digital asset management project

Background

As with previous years, carry forwards of unspent 2018/19 operational budgets are required to enable the completion of the various operational in the 2019/20 financial year.

Following the 30 June 2019 year-end senior management review, four projects totalling \$72,070 were identified as requiring unspent 2018-19 operational budgets to be carried forward as funding in 2019/20.

The total of \$72,070 has been incorporated into the draft operating result. The projects requiring this funding are explained over the page:

Description	2018-19 Spent \$	2018-19 Budget \$	2018-19 Budget Unspent \$	Amount to Carry forward \$
Iwi Environment Management Plans	59	23,900	23,841	16,900
Water Street Mural	59,175	79,933	20,758	10,170
Freshwater NPS implementation	4,785	50,000	45,215	35,000
Digital Asset Management Project	12,487	35,000	22,513	10,000

ID: A1220587

1

Council Meeting
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- \$16,900 for Iwi environmental management plans. Nga Tirairaka O Ngati Hine Trust, Roma Marae, and Te Rora Whatu Ora Trust have Iwi management plans that are in various stage of milestone delivery. Delays due to resourcing in both Council and grant recipients have meant that these milestone payments are delayed until 2019/20.
- \$10,170 for the Water Street mural which is in progress and is estimated to take a further four to six weeks. Payments have been made upon artist engagement and the balance is to be paid on completion of mural expected late August.
- \$35,000 for the Freshwater NPS implementation which was delayed due to availability of the contractor. This project includes assessment and modelling in relation to setting lake water quality objectives and limits, methods for meeting objectives, and prioritising non-regulatory initiatives in lake catchments.
- \$10,000 for the Digital Asset Management Project which was set aside as an operational saving. A digital asset management solution is imperative as the volume of digital assets, photos for example, grows and presents issues both around storage and accessibility. Proposing carrying forward the 2018/19 budget to allow the project to proceed.

Considerations

1. Options

No.	Option	Advantages	Disadvantages
1	Approve carry forward of all requested unspent operational budgets	Allows the completion of 2018/19 projects	Reduces retained earnings though at budgeted levels.
2	Approve no unspent operational budget carry forwards	Retains more surplus in the 2018/19 financial year.	Projects from the 2018/19 financial year do not get finished or 2019/20 programmes must be deferred to allow for 2018/19 work already contracted.
3	Approve some of the unspent operational budget carry forwards	Some projects will go ahead.	Some projects will not go ahead. Some of 2019/20 programmes might be deferred to allow for 2018/19 work already contracted.

The staff's recommended option is option 1 to maintain all contractual work programmes.

2. Significance and engagement

ID: A1220587

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Council Meeting
20 August 2019

ITEM:

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's significance and engagement policy because it is part of council's day to day activities.

3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with the 2017/18 Annual Plan and 2018–28 Long Term Plan, both of which were approved in accordance with council's decision making requirements of sections 76–82 of the Local Government Act 2002.

Other considerations

4. Financial implications

In arriving at the draft operating result of \$0, \$72,070 has been incorporated to represent the proposed operational carry forwards..

Being a purely administrative matter, community views, implementation issues and Māori impact statement are not applicable.

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 14 August 2018

ID: A1220587

3

Council Meeting
20 August 2019

ITEM: 0

TITLE: Draft Financial Result to 30 June 2019

ID: A1221361

From: Vincent McColl, Financial Accountant

Executive summary/Whakarāpopototanga

The purpose of this report is to present the draft financial result for the year ending 30 June 2019 for councillors' information. The draft result of \$0 is provisional. There may be further adjustments and amendments as the year-end reconciliations are reviewed by senior staff and the statutory financial statements (including notes) for the draft Annual Report are prepared. There may also be amendments arising from council decisions. Deloitte is scheduled to commence their three-week on-site audit on 19 August 2019.

This result excludes \$2.2M of non-cash revaluation gains to investment properties, forestry assets and other financial assets. Taking these non-cash revaluation gains into account and the movements in the special reserves, the statutory financial statements within the annual report will present a total Comprehensive Revenue and Expense of approximately \$5.7M.

For the Draft Operating Result for Council refer to **attachment one**.

Recommendation

That the report 'Draft Financial Result to 30 June 2019' by Vincent McColl, Financial Accountant and dated 31 July 2019, be received.

Background/Tuhinga

Financial results

The provisional Net Surplus after Transfers to and from Special Reserves and excluding non-cash items is **\$0** compared to a budgeted surplus of \$29K.

The main variances to the **revised budget** presented in attachment one are explained below:

Revenue

- **User Fees and Sundry** has a favourable variance (better than budget) of **\$177K or 4%** which is due to higher than budgeted consent application and transfer fees of \$82K, consent monitoring fees of \$227K. This is partially offset by lower than budgeted bus fare revenue of (\$177K).
- **Grants and Subsidies** has an unfavourable balance (worse than budget) of **(\$110K) or (2%)**. This variance is predominantly due to lower than budgeted NZTA and WDC subsidies due to delayed work (Whangarei rural trials and Whangarei terminus upgrades) of (\$481K). This is partially offset by unbudgeted grants for the Hill Country Boost project of \$364K.
- **Interest Income** has an unfavourable balance (worse than budget) of **(\$40K) or (6%)**. This variance is predominantly due to managing cashflow tightly leading to lower bank interest earned but higher Short Term Fund gains.
- **Other Revenue** has an unfavourable variance (worse than budget) of **(\$177K) or (2%)** which is due to lower than budgeted Marsden Maritime Holdings Limited dividends of (\$110K), lower

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than budgeted commercial property rent of (\$43K) (2% variance of the total commercial rent budget), and lower than budgeted forestry harvest income of (\$35K).

- **Other gains** has a favourable variance (better than budget) of **\$147K or 5%** which is primarily due to more than budgeted gains on the externally managed funds of \$217K; the details of which are the subject of agenda item 6.1. partially offsetting this is the loss on disposal of various assets totalling (\$70K).

Expense

- **Personnel Costs – Salaries** has a favourable variance (expenditure less than budget) of **\$472K or 3%** due to delays in filling LTP roles and savings from holding some vacancies earlier in the year.
- **Personnel Costs – Other** has an unfavourable variance (expenditure exceeding budget) of **(\$204K) or (25%)** predominantly due to an increase in annual and flexi leave balances of (\$84K), unbudgeted redundancy payments of (\$45K), and higher than budgeted overtime of (\$28K).
- **Other Expenditure** has a favourable variance (expenditure less than budget) of **\$2.38M or 8%**. This consists of many variances across all council activities including lower than budgeted Northland Inc grants of \$945K, lower than budgeted transport contracts (Whangarei rural trials and Whangarei terminus upgrade) of \$863K, lower than budgeted sports facilities grants of \$642K, lower than budgeted expenditure on Freshwater Improvement Fund Projects of \$332K, lower than budgeted LIDAR costs of \$220K, lower than budgeted lab testing contract costs of \$212K, lower than budgeted stop bank and river clearance works of \$50K, lower than budgeted advertising and promotions costs of \$109K, lower than budgeted S17A review consultant costs of \$103K, lower than budgeted natural hazards consultants of \$148K, lower than budgeted forestry harvest costs of \$88K, and lower than budgeted non contestable grants of \$59K.

This is offset with unbudgeted impairments of the REL Loan of (\$820K), more than budgeted legal fees for environmental incidents and consent applications of (\$147K), unbudgeted costs for the Hill Country Boost Project of (\$265K), and higher than budgeted costs for the Infrastructure as a Service contract of (\$198K).

The net transfer to the Special Reserves is \$2.7M greater than budget (more funds transferred into the reserves) predominantly due to the transfer of \$1.12M to the operational cost reserve, lower Investment and Growth reserve movements for the Northland Inc Projects of \$945K, and unbudgeted transfers to the sporting facilities reserve of \$621K. Further detail on the Special Reserves is provided in agenda item 6.8.

The draft 2018/19 Annual Report will be provided to the Audit and Finance Working Party on 12 September with the final Annual Report to be provided to Council on 25 September 2019 for adoption. The Annual Report will provide detailed funding impact statements by activity group and full detailed explanations of any material variance.

Capital Expenditure

Total capital expenditure for the year was \$6.86M which is \$65K less than the \$6.93M revised annual budget. A detailed breakdown of capital expenditure variances and proposed carry forwards is provided in agenda item 6.7.

Attachments/Ngā tapirihanga

Attachment 1: Draft Operating Statement for Council

ID: A1221361

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Council Meeting
20 August 2019

ITEM: 0

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date:

DRAFT

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DRAFT Operating Statement for Council

Attachment One

For the year ended 30 June 2019

	DRAFT Council 30- Jun-19	Revised Budget 30-Jun-19	Variance	Variance %
Total Council				
Revenue				
Rates	27,200,801	27,169,583	31,218	0%
User Fees and Sundry	4,472,489	4,295,582	176,907	4%
Grants and Subsidies	4,900,365	5,010,757	(110,392)	-2%
Interest Income	668,897	709,334	(40,437)	-6%
Other Revenue	7,528,903	7,706,674	(177,771)	-2%
Other Gains	3,355,717	3,208,659	147,058	5%
Total Revenue	48,127,172	48,100,589	26,583	-
Expenditure by Type				
Expenditure				
Personnel Costs - Salaries	14,923,669	15,396,082	472,413	3%
Personnel Costs - Other	1,011,022	807,290	(203,732)	-25%
Other Expenditure on Activities	26,131,012	28,515,866	2,384,854	8%
Depreciation and Amortisation	1,628,731	1,626,194	(2,537)	0%
Finance Costs	902,849	897,712	(5,137)	-1%
Total Expenditure	44,597,283	47,243,145	2,645,862	-
Net (Cost)/Surplus before transfer from/(to) Special Reserves	3,529,889	857,445	2,672,444	-
Transfers from/(to) Special Reserves				
Transfers from/(to) Land Management	96,954	233,756	(136,802)	-59%
Transfers from/(to) Awanui River	(43,562)	(178,471)	134,909	-76%
Transfers from/(to) Awanui River FIR	(316,116)	(354,232)	38,116	-11%
Transfers from/(to) Kaihu River	38,500	10,174	28,326	278%
Transfers from/(to) Kaeo River Reserve	(37,826)	12,681	(50,507)	-398%
Transfers from/(to) Kaeo River FIR	(20,811)	(21,430)	619	-3%
Transfers from/(to) Whangarei Urban River Reserve	(405,938)	(407,055)	1,117	0%
Transfers from/(to) Whangarei Urban River FIR	(60,007)	(60,404)	397	-1%
Transfers from/(to) Waipapa/Kerikeri River Reserve	(2,293)	12,607	(14,900)	-118%
Transfers from/(to) Hatea River Reserve	(46,714)	52,348	(99,062)	-189%
Transfers from/(to) Flood Infrastructure Reserve	(523,933)	(559,419)	35,486	-6%
Transfers from/(to) Whangarei Heads Pest Reserve	546	-	546	-
Transfers from/(to) Infrastructure Facilities Reserve	(281,710)	(175,200)	(106,510)	61%
Transfers from/(to) Investment and Growth Reserve	944,291	1,911,277	(966,986)	-51%
Transfers from/(to) Recreational Facilities Reserve	27,518	27,518	(0)	0%
Transfers from/(to) Sporting Facilities Reserve	(621,192)	-	(621,192)	-
Transfers from/(to) Property Reinvestment Fund Reserve	(48,776)	(239,362)	190,586	-80%
Transfers from/(to) Infrastructure Investment Fund Reserve	-	(110,082)	110,082	-100%
Transfers from/(to) Community Investment Reserve	(854,205)	(960,502)	106,297	-11%
Transfers from/(to) Forest Income Equalisation Reserve	(508,766)	(375,613)	(133,153)	35%
Transfers from/(to) Approved Carry Forwards General Funds	86,915	164,835	(77,920)	-47%
Transfers from/(to) Kaitaia Bus Reserve	38,412	-	38,412	-
Transfers from/(to) Whangarei Bus Reserve	(70,441)	-	(70,441)	-
Transfers from/(to) Mid North Bus Reserve	87,768	-	87,768	-
Transfers from/(to) Far North Bus Reserve	(152,453)	-	(152,453)	-
Transfers from/(to) LIDAR Reserve	180,244	222,306	(42,062)	-19%
Transfers from/(to) Emergency Services Reserve	90,967	(34,453)	125,420	-364%
Transfers from/(to) Capital Subsidy Reserve	(10,032)	-	(10,032)	-
Net (Cost)/Surplus before transfer to Operating Costs Reserve	1,117,229	28,724	1,088,505	3790%
Transfers from/(to) Operating Costs Reserve	(1,117,229)	-	(1,117,229)	-
Net (Cost)/Surplus after transfer from/(to) Special Reserves and excluding Non Cash Revaluation Gains	(0)	28,724	(28,724)	-100%

Council Meeting
20 August 2019

ITEM:

TITLE: Request for Approval to Carry Forward Capital Expenditure Budget from the 2018/19 Financial Year into the 2019/20 Financial Year

ID: A1220677

From: Vincent McColl, Financial Accountant

Executive Summary

The purpose of this report is to seek council approval to carry forward \$1.1M of unspent capital budget from the 2018/19 financial year into the 2019/20 financial year. Of this \$550,000 is targeted rate funded and \$298,082 is Property Reinvestment Fund (PRF) funded.

Recommendations

1. That the report 'Request for Approval to Carry Forward Capital Expenditure Budget from the 2018/19 Financial Year into the 2019/20 Financial Year' by Vincent McColl, Financial Accountant and dated 31 July 2019, be received.
2. That council approves the carry forward of \$1.1M capital expenditure budget from the 2018/19 financial year into the 2019/20 financial year.

Background

Staff have carried out a final review on any ongoing capital projects and associated Capital Expenditure (Capex) carry forwards for council consideration and approval.

As part of the budget process finance staff ensure that all Capex is adequately funded via depreciation over the expected useful life of each asset class.

Following the 30 June 2019 year-end senior management review, which was based upon the actual Capex incurred and the review of ongoing requirements, a total of \$1,098,212 is proposed to be carried forward into 2019/20. This is made up of general capex of \$250,130, targeted rates funded capex of \$550,000, and PRF funded capex of \$298,082.

2018/19 Actual and Budgeted Capital Expenditure

The revised capital expenditure budget for 2018/19 is \$6,930,723. The total actual capital expenditure incurred in 2018/19 is \$6,865,575, resulting in an underspend of \$65,148. Of this \$2,827,004 relates to unbudgeted commercial property transactions that are funded from the Property Reinvestment Fund. For a breakdown of this please refer to **Attachment One**.

2019/20 Budgeted Capital Expenditure and Proposed Carry Forwards

The original 2019/20 capital expenditure budget is \$16,735,201, and by adding the total requested 2018/19 carry forwards of \$1,098,212, this budget will increase to \$17,833,413. The detail of the original 2019/20 capital expenditure programme and the proposed capital carry forwards are presented in **Attachment Two**.

ID: A1220677

1

Council Meeting
20 August 2019

ITEM:

Explanations to proposed capital carry forward expenditure for 2018/19

Land and Biodiversity: Proposed capital expenditure carry forward \$580,000

Approval of \$580,000 capital carry forward expenditure is sought:

- \$30,000 towards the Flyger Road nursery expansion. The work is expected to be completed in the 2019/20 financial year and is being funded from money unspent in the unmanned terrain vehicle capex.
- \$550,000 for the Woods Road floodwall. This is funded by the flood infrastructure targeted rate and is expected to be completed by September.

CEO and Property: Proposed capital expenditure carry forward \$518,212

Approval of \$518,212 capital carry forward expenditure is sought:

- \$220,130 for the Water Street building reconfiguration which was delayed in order to save drawing down from the short-term fund while the externally managed funds were performing poorly. A carry forward is requested to complete the work.
- \$298,082 for the Kaipara Service Centre. This work has not gone ahead in 2018/19 as initially anticipated and is requested to be added to the 2019/20 budget for this project. This is to be funded from the PRF.

\$300,000 of rating software capital expenditure was opted not to be carried forward as subsequent to the carry forward being approved in prior financial years the IT environment has changed and the cost will now be recognised as operational expenditure instead.

Considerations

1. Options

No.	Option	Advantages	Disadvantages
1	Approve carry forward of all requested capital carry forwards	Allows the completion of the 2018/19 capital programme.	Reduces retained earnings at budgeted levels.
2	Approve none of the Capex carry forwards	Retains more earnings for other capital projects.	Projects underway or delayed won't get the required funding to be completed.
3	Approve some of the Capex carry forwards	Some of the capital projects get to be completed.	Some of the capital projects don't get completed.

The staff's recommended option is Option 1. This maintains the unspent capital programme budget from 2018/19 allowing projects that are underway and delayed to be completed.

2. Significance and engagement

ID: A1220677

2

Council Meeting
20 August 2019

ITEM:

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's Significance and Engagement Policy because it is part of council's day to day activities.

3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with the 2017/18 Annual Plan and 2018–28 Long Term Plan, both of which were approved in accordance with council's decision making requirements of sections 76–82 of the Local Government Act 2002.

Other Considerations

4. Financial implications

\$1,098,212 of capital carried forward from the 2018/19 financial year to the 2019/20 financial year, with \$550,000 of it being funded from targeted rates and \$298,082 being funded from the PRF.

Being a purely administrative matter, community views, implementation issues and Māori impact statement are not applicable.

Attachment 1: 2018/19 Actual and Budgeted Capital Expenditure

Attachment 2: 2019/20 Budgeted Capital Expenditure and Proposed Carry Forwards

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 14 August 2018

ID: A1220677

3

Capital Expenditure Reporting June 2019 Year to Date				
Activity	YEAR TO DATE			Carry Forward Proposed
	Provisional 2018-19 Actual	2018-19 Revised Capital Expenditure Budget	Variance	
Environmental Services	1,192,482	2,276,626	1,084,144	580,000
Regulatory Services	563,769	573,425	9,656	-
Governance and Engagement	15,210	30,012	14,802	-
Customer Services and Community Resilience	351,340	286,472	-64,868	-
Corporate Excellence	666,951	1,148,969	482,018	-
CEO and Property	4,075,823	2,615,219	-1,460,604	518,212
GRAND TOTAL FOR COUNCIL	6,865,575	6,930,723	65,148	1,098,212

ATTACHMENT 1

	2018-19 Provisional Actual Capital Expenditure	2018-19 Revised Capital Expenditure Budget	Variance	Carry Forward Proposed	Comments
Environmental Services					
Wireless Pest Control Sensor Network	26,700	27,000	300		
Riparian Planner Initiative	-	34,717	34,717		
Pest Control Monitoring Equipment	21,774	23,000	1,226		
Biodiversity Field Equipment	3,418	4,000	582		
Land Managment Software Projects	13,627	15,000	1,373		
Farm Planning tools - mobile devices	4,877	5,000	123		
Unmanned Terrain Vehicle	-	30,000	30,000	30,000	To be transferred to nursery capex
Flyger Road Nursery Expansion	82,951	80,256	(2,695)		
Survey Equipment	11,782	13,916	2,134		
Kerikeri River flood reduction by-pass	-	15,000	15,000		
Awanui River Renewal	-	51,000	51,000		
Awanui River Stopbank Relocation	150,000	150,000	-		
FIR Capex Subsidy Programme	861,550	987,737	126,187		
FIR Capex Subsidy Programme - Panguru	-	40,000	40,000		
FIR Capex Subsidy Programme - Whangarei	15,803	800,000	784,197	550,000	Targeted rate funded
Total Environmental Services	1,192,482	2,276,626	1,084,144	580,000	
Regulatory Services					
Data Loggers for Air Quality stations	11,825	19,000	7,175		
Digital data collection of water clarity	-	10,000	10,000		
Mobile Devices - SOE	6,777	7,200	423		
Tableau - SOE	5,138	10,960	5,822		
Water Quality Sondes	2,086	5,130	3,044		
Misc SOE Plant and Equipment	22,953	11,336	(11,617)		
KiEco Biological Database	22,000	20,000	(2,000)		
Water quality meters and sondes	86,478	80,000	(6,478)		
Safety System Corrections	100,594	92,308	(8,286)		
Awanui Flood Scheme Emergency Preparedness	28,160	28,256	96		
Water Level Stations - Far North	-	30,000	30,000		
Water Level stations - Various	4,885	7,500	2,615		
ADCP Flow tracker	-	20,000	20,000		
ADCP Instream Real-time Flow Device	54,135	-	(54,135)		Offset with underspends in other Hydro capex
ADCP M5	33,366	35,000	1,634		
Hydrometric Equipment	119,773	130,000	10,227		
Hydro Satellite Units	27,665	30,000	2,335		
Sediments Monitoring Equipment	35,482	35,985	503		
Cellphones - Hydro	2,452	750	(1,702)		
Total Regulatory Services	563,769	573,425	9,656	-	
Governance and Engagement					
Display Systems (Banners etc)	7,243	11,712	4,470		
E-Schools Gazebo and Flags	4,340	5,800	1,460		
Mobile Devices	2,258	5,000	2,742		
Cameras and equipment (e.g. show trailer)	1,369	7,500	6,131		
Total Governance and Engagement	15,210	30,012	14,802	-	
Customer Services and Community Resilience					
AIS System	-	10,582	10,582		
Tutukaka Beacon Replacements	28,390	28,390	-		
Bungy Mooring System Trial	-	15,000	15,000		

	2018-19 Provisional Actual Capital Expenditure	2018-19 Revised Capital Expenditure Budget	Variance	Carry Forward Proposed	Comments
Karetu Replacement Engines	58,062	30,000	(28,062)		
Cellphones - Maritime	1,003	477	(526)		
Radar for Ruawai	4,481	3,500	(981)		
Thermal Imaging for Waikare	37,604	52,000	14,396		
Waverider buoy	145,824	93,512	(52,312)		
Regional Integrated Ticketing Information System	15,434	13,602	(1,832)		
Phone/Contact System Upgrade	1,320	4,409	3,089		
Kaitaia Customer Service Centre	25,177	35,000	9,823		
Waikare Mechanical Upgrade	34,046	-	(34,046)		
Total Customer Services and Community Resilience	351,340	286,472	- 64,868	-	
Corporate Excellence					
Rating Software	-	300,000	300,000		
Historical Aerial Photography	-	22,250	22,250		Incurred as Opex
Business Intelligence Implementation	-	50,000	50,000		Incurred as Opex
IT - Replacement Programme	96,408	117,000	20,592		
New Staff Desktop Setup	92,147	75,684	(16,463)		
Vehicle Replacement Programme	454,074	503,985	49,911		
Furniture/Desk set up	24,321	80,050	55,729		
Total Corporate Excellence	666,951	1,148,969	482,018	-	
CEO and Property					
Storage Facility 26 Union East St	6,581	-	6,581		
Investment Property Purchases	2,827,004	-	(2,827,004)		
Investment Property Capital Expenditure	23,830	-	(23,830)		
Capital Works Kensington Development	721,216	1,745,133	1,023,917		
MPRL Property Capital Expenditure	151,299	-	(151,299)		
Capital Works Kaipara Customer Service	-	298,082	298,082	298,082	
Water St Building Reconfiguration	316,874	537,004	220,130	220,130	
Union East St Shelving and Racking	29,019	35,000	5,981		
Total CEO and Property	4,075,823	2,615,219	(1,460,604)	518,212	
TOTAL	6,865,575	6,930,723	65,148	1,098,212	

Proposed Revised 2019-20 Capital Expenditure Budget

ATTACHMENT 2

Environmental Services

	2019-20 Annual Plan Budget	Proposed Carry forwards from 2018- 19	2019-20 Proposed Revised Capital Budget
Wireless Pest Control Sensor Network	14,308		14,308
Pest Control Monitoring Equipment	23,506		23,506
Biodiversity Field Equipment	2,044		2,044
Land Managment Software Projects	5,110		5,110
Flyger Road Nursery Expansion	41,289	30,000	71,289
Survey Equipment	11,753		11,753
Far North Nursery	306,600		306,600
Kerikeri River flood reduction by-pass	15,330		15,330
Awanui River Renewal	95,963		95,963
FIR Capex Subsidy Programme - Awanui	1,131,500		1,131,500
Kaeo River Flood Protection FIR Programme (TR)	12,000		12,000
Awanui River Flood Protection FIR Programme (TR)	256,500		256,500
Whangarei River Flood Protection FIR Programme (TR)	45,000	550,000	595,000
	1,960,902	580,000	2,540,902

Regulatory Services

Data Loggers for Air Quality stations	9,709		9,709
Water Quality Sondes	24,937		24,937
Misc SOE Plant and Equipment	17,655		17,655
Water Level stations - Various	15,330		15,330
Coastal Monitoring Bores	40,880		40,880
Hydrometric Equipment	132,860		132,860
Hydro Satellite Units	30,660		30,660
Sediments Monitoring Equipment	31,667		31,667
Soil Moisture Sensors	102,200		102,200
Pumppro replacement	22,800		22,800
Flow measuring boat - Hydro	15,000		15,000
Water Level Stations - Far North	30,000		30,000
Water Level stations - Various	2,615		2,615
ADCP Flow tracker	20,000		20,000
	496,312	0	496,312

Customer Services and Community Resilience

Electronic Navigation System	23,840		23,840
Waikare Mechanical Upgrade	100,000		100,000
	123,840	0	123,840

Corporate Excellence

T1 Consolidation of HR, H&S and SaaS	262,654		262,654
IT - Replacement Programme	143,080		143,080
New Staff Desktop Setup	37,201		37,201
Council Chambers IT Upgrade	70,000		70,000

Vehicle Replacement Programme
Vehicle Programme - Additional
Furniture/Desk set up

CEO and Property

Capital Works Kensington Development
Capital Works Kaipara Customer Service
Water St Building Reconfiguration
Flyger Road subdivision
Water St Building Reconfiguration

Total Council Capital Expenditure

2019-20 Annual Plan Budget	Proposed Carry forwards from 2018- 19	2019-20 Proposed Revised Capital Budget
316,207		316,207
122,640		122,640
73,380		73,380
1,025,161	0	1,025,161
9,688,460		9,688,460
3,149,256	298,082	3,447,338
	220,130	220,130
61,320		61,320
229,950		229,950
13,128,986	518,212	13,647,198
16,735,201	1,098,212	17,833,413

Council Meeting
20 August 2019

ITEM:

TITLE: Special Reserves at 30 June 2019

ID: A1220735

From: Vincent McColl, Financial Accountant

Executive Summary

At 30 June 2019, council has \$30.9M of special reserves set aside to cover expenditure on specific projects and work programmes.

This report provides a breakdown of the special reserves held by council, including their purpose and balance as at 30 June 2019.

Recommendation

That the report 'Special Reserves at 30 June 2019' by Vincent McColl, Financial Accountant and dated 31 July 2019, be received.

Background

The equity in council's balance sheet represents the communities' interest in council and is measured by the value of total assets less total liabilities. Equity is classified into a number of general and special reserves to enable a clearer identification of the specified uses for which various funds have been assigned.

A general reserve does not have a specific purpose, whereas a special reserve holds funds that are set aside to cover expenditure on specific projects. In addition special reserves may facilitate the funding of works of an inter-generational nature, capital expenditure in particular, over the most appropriate time period.

The special reserves and their respective balances (surplus/(deficit)) in place at the end of the 2018/19 financial year are as follows:

Land Management Reserve	267,060
Awanui River Reserve	(841,807)
Kaihu River Reserve	32,365
Whangaroa Kaeo Rivers Reserve	175,643
Whangārei Urban Rivers Reserve	(9,078,138)
Infrastructure Facilities Reserve (Marsden Point Rail Link)	(2,532,452)
Property Reinvestment Fund Reserve	16,749,497
Equalisation Reserve	1,463,086
Hātea River Reserve	222,331
Investment and Growth Reserve	1,249,404
Approved Carry Forwards Reserve	72,070
Kerikeri-Waipapa Rivers Reserve	455,491
Infrastructure Investment Fund Reserve	20,914,957

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Whangārei Transport Reserve	(74,129)
Emergency Services Reserve	57,769
LIDAR Project Reserve	366,690
Flood Infrastructure Reserve	(537,068)
Kaeo River FIR Reserve	20,811
Awanui River FIR Reserve	(133,858)
Whangarei River FIR Reserve	55,266
Far North Transport Reserve	152,453
Capital Subsidy Reserve (Ticketing System)	77,049
Operating costs Reserve	1,117,229
Regional Sporting Facilities Reserve	621,192
Total Special Reserves	30,872,912

Some special reserves earn, or are charged interest depending on their closing balance being in deficit or surplus. Our current protocol is for reserves in surplus of \$50,000 or greater earn interest at 5% (as budgeted in the Long Term Plan (LTP)). Reserves in deficit are either charged at the corresponding external borrowing rate or at the internal rate of 7.0% (as budgeted in the LTP).

A description of the purpose of each reserve, the transfers from and/or to the reserve for the year, and the closing balance of each reserve as at 30 June 2019 is provided below.

Land Management Reserve

The Land Management Reserve was created to allow council to set aside unutilised Land Management rates for the purpose of funding projects in future years. In addition, the Land Management Reserve can be utilised to fund emergency events such as remedial storm expenditure on a case by case basis, thereby reducing the need for borrowing in the event of an emergency.

The operational reserve movements of (\$96,954) from the Land Management Reserve constitute funding contributions towards Freshwater Improvement Fund projects. The capital reserve movement relate to funding for the Awanui Emergency Preparedness project. This produces a closing balance of \$267,060.

Land Management Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	370,094	233,580
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(96,954)	(233,756)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	(6,080)	-
Closing Balance as at 30 June 2019	267,060	(176)

In 2019/20 \$136,802 is expected to come from this reserve for Freshwater Improvement Fund projects leaving an estimated reserve balance at 30 June 2020 of \$136,338.

Awanui River Reserve

The Awanui River Reserve was created to hold any targeted Awanui River Management rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of the Awanui River Flood Management Scheme.

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In the 2018/19 financial year the Awanui River Management project had an operating surplus of \$43,562. Capital expenditure of \$150,000 was incurred with \$95,963 of depreciation funding transferred from the Infrastructure Investment Fund (IIF) producing a closing book and cash reserve deficit of (\$745,843).

Awanui River Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	(735,368)	(773,404)
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	43,562	178,471
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	(150,000)	(201,000)
	(841,807)	(795,933)
Depreciation funding utilised	95,963	201,000
Closing Balance as at 30 June 2019	(745,843)	(594,933)
Accumulated depreciation funding not utilised and held in IIF	-	-
Closing cash balance as at 30 June 2019	(745,843)	(594,933)

Awanui Flood Infrastructure Rate (FIR) Reserve

The Awanui FIR Reserve was created to hold any targeted Awanui FIR rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of the Awanui River Flood Management Scheme. The Awanui FIR reserve incorporates 30% of any related capital works with the other 70% being attributed to the Flood Infrastructure Rate reserve.

In the 2018/19 financial year the Awanui FIR project had an operating surplus of \$316,116. Capital expenditure of \$449,974 was incurred producing a closing reserve deficit of (\$133,858).

Awanui FIR Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	-	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	316,116	354,232
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	(449,974)	
Closing Balance as at 30 June 2019	(133,858)	354,232

Whangaroa Kaeo Rivers Reserve

The Whangaroa Kaeo Rivers Reserve was created to hold any targeted Whangaroa Kaeo Rivers Management rates collected and unspent in any given year to cover any future funding shortfalls of river works required as part of the Whangaroa Kaeo Rivers Flood Management scheme.

In the 2018/19 financial year there was an operating surplus of \$37,826 resulting in a closing reserve balance of \$175,643. Unused accumulated depreciation of \$20,755 is held in the IIF resulting in a closing cash balance of \$196,398.

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Whangaroa Kaeo Rivers Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	137,817	42,787
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	37,826	(12,681)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
	175,643	30,106
Depreciation funding utilised	-	-
Closing Balance as at 30 June 2019	175,643	30,106
Accumulated depreciation funding not utilised and held in IIF	20,755	-
Closing cash Balance as at 30 June 2019	196,398	30,106

Kaeo Flood Infrastructure Rate (FIR) Reserve

The Kaeo FIR Reserve was created to hold any targeted Kaeo FIR rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of the Kaeo River Flood Management Scheme. The Kaeo FIR reserve incorporates 30% of any related capital works with the other 70% being attributed to the Flood Infrastructure Rate reserve.

In the 2018/19 financial year the Kaeo FIR project had an operating surplus of \$20,811 producing a closing reserve surplus of \$20,811.

Kaeo FIR Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	-	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	20,811	21,430
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	20,811	21,430

Whangārei Urban Rivers Reserve

The Whangārei Urban Rivers Reserve was created in the 2011/12 year to hold any targeted Whangārei Urban Rivers Management rates collected and unspent in any given year to cover any future funding shortfalls of river works required as part of the Whangārei urban rivers management scheme

The operating surplus of \$405,938 has been transferred to the reserve. This produces a deficit/overdrawn balance of (\$9,078.138). Adding the unused accumulated depreciation held in the IIF gives a cash balance of (\$8,892,300).

Whangārei Urban River Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	(9,484,076)	(9,571,405)
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	405,938	407,055
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
	(9,078,138)	(9,164,350)
Depreciation funding utilised	-	-
Closing Balance as at 30 June 2019	(9,078,138)	(9,164,350)
Accumulated depreciation funding not utilised and held in IIF	185,838	-
Closing cash Balance as at 30 June 2019	(8,892,300)	(9,164,350)

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Whangarei FIR Reserve

The Whangarei Flood Infrastructure Rate (FIR) Reserve was created to hold any targeted Whangarei FIR rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of the Whangarei River Flood Management Scheme. The Whangarei FIR reserve incorporates 30% of any related capital works with the other 70% being attributed to the Flood Infrastructure Rate reserve.

In the 2018/19 financial year the Kaeo FIR project had an operating surplus of \$60,007 and capital expenditure of \$4,741 producing a closing reserve surplus of \$55,266.

Whangarei FIR Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	-	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	60,007	60,404
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	(4,741)	-
Closing Balance as at 30 June 2019	55,266	60,404

Infrastructure Investment Fund (IIF) Reserve

The IIF Reserve was established to stabilise the impact of irregular large infrastructure projects on council's income and capital requirements. It will help to spread the costs of such projects. The fund is also intended to provide more flexibility around when such large capital intensive projects can commence.

The balance of the reserve reflects the balance of funds held in the IIF. During the 2018/19 year no gains are proposed to be reinvested. The IIF Reserve holds \$206,593 of unutilised accumulated depreciation and \$1,922,340 of capital repayments collected and held to repay external borrowings.

Infrastructure Investment Fund Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	12,129,209	8,859,000
Infrastructure asset depreciation transferred 2018/19	162,789	
Depreciation utilised for capital expenditure 2018/19	(95,963)	
Increase in Reserve due to proposed reinvestment of gains	-	110,082
Increase in Reserve due to bequested NEST funds	548,786	
Increase in Reserve due to reinvestment of term deposits	8,000,000	
Increase in Reserve due to targeted rates held to repay debt	853,499	
Decrease in Reserve transfer of Empire and Dunn to Awanui Scheme	(683,363)	
Closing Balance as at 30 June 2019	20,914,957	8,969,082

Accumulated depreciation balance in IIF by asset	Actual
Awanui River	-
Whangaroa Kaeo Rivers	20,755
Whangarei Urban Rivers	185,838
Total	206,593

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Targeted rates held to repay debt	Actual
Awanui River	91,551
Whangarei Urban Rivers	1,429,289
Regional Flood Infrastructure	401,500
Total	1,922,340

Kaihu River Reserve

The Kaihu River Reserve was created to hold any targeted Kaihu River Management rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of the Kaihu River Flood Management Scheme.

In the 2018/19 financial year there was an operating deficit of \$38,500 transferred to the reserve producing a closing balance of \$32,365.

Kaihu River Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	70,865	69,450
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(38,500)	(10,174)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	32,365	59,276

Kerikeri-Waipapa Rivers Reserve

The Kerikeri-Waipapa Rivers Reserve is set up to hold any targeted Kerikeri-Waipapa rates collected and unspent in any given year to cover any future funding shortfalls of river works required as part of the flood risk reduction project for the Kerikeri-Waipapa area.

The Kerikeri-Waipapa targeted rate was discontinued in 2018/19 resulting in an operating surplus of (\$2,293) which has been transferred from the reserve producing a closing balance of \$455,491. This surplus reserve is planned to be utilised on the Flood mitigation for the Waipapa industrial estate and Waitotara Drive stopbanking work commencing in the 2019/20.

Kerikeri Waipapa Rivers Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	453,198	443,592
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	2,293	(12,607)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	(15,000)
Closing Balance as at 30 June 2019	455,491	415,985

Flood Infrastructure Rate (FIR) Reserve

The FIR Reserve was created to hold any targeted regional FIR rates collected and unspent in any given year to cover any future funding shortfalls for river works required as part of Northland Flood Infrastructure Schemes. The FIR reserve incorporates 70% of any related capital works with the other 30% being attributed to the Awanui FIR, Whangarei FIR, or Kaeo FIR reserves depending on the particular project.

In the 2018/19 financial year the FIR reserve had an operating surplus of \$523,933 and \$1,061,001 of capital expenditure producing a closing reserve deficit of \$537,068.

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Flood Infrastructure Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	-	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	523,933	559,419
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	(1,061,001)	(1,878,970)
Closing Balance as at 30 June 2019	(537,068)	(1,319,551)

Infrastructure Facilities Reserve

The Infrastructure Facilities Reserve was created to set aside any targeted Regional Infrastructure rates collected and not fully utilised in any given year for the purpose of funding future infrastructure projects. This reserve consists of the cost of capital, holding costs, and council's share of the net costs for the designation asset associated with the Marsden Point Rail Link (MPRL) Joint Venture project.

In 2018/19 \$281,710 has been transferred into the reserve producing a closing balance of (\$2,532,452) overdrawn.

Infrastructure Facilities Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	(2,814,162)	(3,346,214)
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	281,710	175,200
Closing Balance as at 30 June 2019	(2,532,452)	(3,171,014)

Recreational Facilities Reserve

During the 2018/19 year council paid a grant of \$27,518 towards toll stadium lighting upgrades to clear off the surplus recreational facilities rates received.

Recreational Facilities Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	27,518	27,518
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(27,518)	(27,518)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	(0)	(0)

Property Reinvestment Fund Reserve

The Property Reinvestment Fund (PRF) Reserve was created to enable proceeds from property sales to be set aside for reinvestment at a future date. This reserve represents the balance investments held in the PRF.

During 2018/19 this reserve recognised \$2,034,363 of property sale proceeds, \$2,827,004 of property purchases, and \$1,062,447 of commercial developments. In addition, it is proposed that \$160,669 of PRF gains are reinvested generating a closing balance of \$16,749,498.

Property Reinvestment Fund Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	18,443,917	22,773,000
Increase in Reserve due to proposed reinvestment of gains	160,669	272,972
Decrease in Reserve throughout 2018/19 due to commercial developments	(1,062,447)	
Increase in Reserve throughout 2018/19 due to property sale proceeds	2,034,363	
Decrease in Reserve throughout 2018/19 due to property purchases	(2,827,004)	-
Closing Balance as at 30 June 2019	16,749,498	23,045,972

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Council Meeting
20 August 2019

ITEM:

Equalisation Reserve

The Equalisation Reserve was created to set aside council's forestry net income arising in any harvesting year. This reserve is intended to provide future funding of council's general activities by allowing council to use these funds for any council activity to smooth future rating increases. It is further intended that this fund be used to fund the cost of forestry operations in non-harvesting years.

A total of \$524,689 net forestry income was transferred to the equalisation fund and funding of \$15,922 was utilised for Rogan case costs. These movements resulted in a closing balance of \$1,463,086.

Equalisation fund Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	954,319	845,516
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	508,766	375,613
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	1,463,086	1,221,129

Hātea River Reserve

The Hātea River Reserve was created to set aside a component of the council's Services Rate (\$1.50+GST) specifically levied across the Whangārei constituency to ensure funding is immediately available in the event dredging of the Hātea River is required.

This year there was an operating surplus of \$46,714 transferred to the reserve producing a closing reserve balance of \$222,331.

Hātea River Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	175,617	169,119
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	46,714	(52,348)
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	222,331	116,771

Investment and Growth Reserve

The Northland Regional Council Investment and Growth Reserve was established in 2011/12. The reserve was created to set aside investment income to fund activities and projects that contribute towards the economic well-being of Northland.

Investment and Growth Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	2,184,604	2,184,603
Redirected Investment Income	1,700,000	1,700,000
CIF Income	34,000	34,000
Payments to Northland Inc	(1,507,120)	(1,507,120)
Project Funding	(1,249,200)	(2,238,234)
Other Deposits	87,120	62,403
Closing Balance as at 30 June 2019	1,249,403	235,652

Approved Carry Forwards Reserve

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Council Meeting
20 August 2019

ITEM:

The Approved Carry Forwards Reserve was set up to record operational projects for council that have not been completed during the current year and need to be carried forward to the next financial year. This is the subject of agenda item 6.1. At 30 June 2019 the closing balance of the projects proposed to be carried forward is \$72,070 (excluding LIDAR which has been carried forward into its own reserve).

Approved Carry Forwards - General Funds	Actual	Revised Budget
Opening Balance as at 1 July 2018	187,145	164,835
(Decrease) in Reserve throughout 2018/19 for 2016/17 carry forwards	(187,145)	(164,835)
Increase in Reserve for 2018/19 operational carry forwards	72,070	-
Closing Balance as at 30 June 2019	72,070	-

Kaitiāia Bus Service Reserve

The Kaitiāia Bus Service Reserve was created to hold any targeted Kaitiāia Transport rates collected and unspent in any given year to cover any future funding shortfalls of Kaitiāia bus service. This rate has been replaced with the Far North Transport rate.

The operating deficit of \$38,412 has been transferred to the reserve utilising the remaining balance of this reserve.

Kaitiāia Bus Service Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	38,412	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(38,412)	-
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	-	-

Whangārei Transport Reserve

The Whangārei Transport Reserve was created to hold any targeted Whangārei Transport rates collected and unspent in any given year to cover any future funding shortfalls in the Whangārei bus and total mobility programmes.

In 2018/19 Whangārei Bus made a surplus of \$44,461 and Total Mobility made a surplus of \$25,980. This resulted in \$70,441 being transferred to the reserve making the reserve balance a deficit of \$74,129. The positive reserve movement is predominately due to the Whangārei Rural Trials not going ahead in 2018/19 as planned. The remaining deficit will be taken into account when setting the 2020/21 Whangārei Transport rates.

Whangārei Transport Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	(144,569)	(47,539)
Increase/(Decrease) in Reserve throughout 2018/19 Whangārei Bus	44,461	-
Increase/(Decrease) in Reserve throughout 2018/19 Total Mobility	25,980	-
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	(74,129)	(47,539)

Emergency Services Reserve

The Emergency Services Reserve was created to hold any targeted Emergency Services rates collected and unspent in any given year to ensure all collected rates go to emergency services in the future.

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Council Meeting
20 August 2019

ITEM:

The closing balance of \$57,769 represents targeted rates collected (and adjusted for non-collection) and not allocated to date.

Emergency Services Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018 (revised)	148,736	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(90,967)	34,453
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	57,769	34,453

Mid North Bus Reserve

The Mid North Bus Service Reserve was created to hold any targeted Mid North Transport rates collected and unspent in any given year to cover any future funding shortfalls of the Mid North bus service. This rate has been replaced with the Far North Transport rate

\$87,768 was transferred from the reserve during 2018/19 fully utilising any residual reserve balance.

Mid North Bus Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	87,768	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(87,768)	-
Closing Balance as at 30 June 2019	-	-

Far North Transport Reserve

The Far North Bus Service Reserve was created to hold any targeted Far North Transport rates collected and unspent in any given year to cover any future funding shortfalls of the Mid North Link and Far North Link projects. This rate replaces the Mid North Transport rate and Kaitiāia Bus Service rate.

\$152,453 was transferred to the reserve during 2018/19.

Far North Bus Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	-	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	152,453	-
Closing Balance as at 30 June 2019	152,453	-

During 2018/19 two projects were not completed. Far North and Mid North Link marketing and promotion projects totalling \$4,770 are expected to be completed in the 2019/20 financial year.

LIDAR Reserve

The LIDAR Reserve was created to hold any LIDAR contributions as this project is run over a number of years and includes funding from seven parties.

The reserve balance at 30 June 2019 is \$366,690, consisting of \$316,690 of council funding and \$50,000 of Land Information New Zealand (LINZ) funding.

LIDAR Reserve	Actual	Revised Budget
Opening Balance as at 1 July 2018	546,934	-
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	(180,244)	-
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	366,690	-

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Council Meeting
20 August 2019

ITEM:

Regional Sporting Facilities Reserve

The Regional Sporting Facilities Reserve was established to set aside any targeted Regional Sporting Facilities rates collected and not fully utilised in any given year for the purpose of funding Sporting Facilities across Northland.

During the 2018/19 year \$621,192 of unspent rates were transferred to reserve.

	Actual	Revised Budget
Regional Sporting Facilities Reserve		
Opening Balance as at 1 July 2018	-	
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	621,192	-
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	621,192	-

Operational Costs Reserve

The Operating costs reserve was established in June 2019. The purpose of the operating costs reserve (and cash holdings it represents) is to ensure that the portion of annual operating costs in any financial year that is intended to be funded from managed fund gains is guaranteed and not exposed to market volatility.

Surplus gains of \$1,117,229 earned on council's externally managed fund portfolio in the 2018/19 financial year was transferred to reserve.

	Actual	Revised Budget
Operational Cost Reserve		
Opening Balance as at 1 July 2018	-	
Increase/(Decrease) in Reserve throughout 2018/19 (operational transfer)	1,117,229	-
Increase/(Decrease) in Reserve throughout 2018/19 (capital transfer)	-	-
Closing Balance as at 30 June 2019	1,117,229	-

Capital Subsidy Reserve

There is \$77,049 of subsidy received held in this reserve to partially offset future depreciation costs associated with the Regional Integrated Ticketing Information System (RITIS).

Nil

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 14 August 2018

ID: A1220735

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20 August 2019

ITEM: 0

TITLE: Regional Rates Collection - 2018/19

ID: A1222450

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

The three district councils administer the collection of the regional council rates on council's behalf.

The table below summarises the level of rates collected in 2018/19, the total outstanding rate balances, and the provisions held to offset the prospect of non-collection of the outstanding rates as at 30 June 2019.

	WDC		KDC		FNDC		TOTAL	
	18-19	17-18	18-19	17-18	18-19	17-18	18-19	17-18
Amount of Current Year Rates Collected	\$15.27M	\$12.14M	\$4.44M	\$3.44M	\$9.95M	\$7.20M	\$29.65M	\$22.78M
Percentage of Current Year Rates Collected	95.0%	96.0%	92.5%	93.5%	86.0%	86.1%	91.9%	92.2%
Percentage of Current Year Rates Collected - 3 Year Average	95.9%	95.5%	93.4%	93.9%	86.6%	87.5%	92.3%	92.5%
Amount of Rate Arrears Collected	\$169K	\$170K	\$234K	\$165K	\$322K	\$385K	\$725K	\$720K
Percentage of Rate Arrears Collected	53.2%	52.1%	38.3%	33.2%	8.7%	11.5%	15.7%	17.3%
Percentage of Rate Arrears Collected - 3 Year Average	53.9%	56.3%	37.5%	43.2%	10.7%	12.7%	17.8%	20.7%
Total Outstanding Rates at Year End	\$325K	\$317K	\$819K	\$612K	\$1.73M	\$2.09M	\$2.88M	\$3.02M
Total Provision held to offset prospect of Non-Collection	\$155K	\$165K	\$568K	\$448K	\$1.50M	\$1.82M	\$2.23M	\$2.43M
Provision as a % of Outstanding rates	48.1%	51.8%	69.3%	73.2%	86.7%	86.9%	77.4%	80.4%

Recommendation

That the report 'Regional Rates Collection - 2018/19' by Simon Crabb, Finance Manager and dated 31 July 2019, be received.

Background/Tuhinga

Confirmation of council's rates transactions and outstanding rate balances for 2018/19 are provided by each district council as part of the year-end Annual Report process.

As at 30 June 2019, council's total outstanding rates in its year-end accounts is \$2,877,236. This is a decrease of \$144,971 from last year's balance of \$3,022,207.

Current Year Rates

In 2018/19 council received \$29,650,373 of the annual rates strike, equivalent to **91.9%** (2017/18: 92.2%). The three-year average current year rates collection rate has slightly reduced to **92.3%** (2017/18: 92.5%).

Attachment 1 is the 2018/19 Rates Reconciliation Statement. This reconciliation summarises council's rate strike, cash received, remissions, write-offs, penalties charged, and includes the Māori Freehold Land impairment adjustment that are all accounted for when calculating council's annual rates revenue and the total outstanding rates in our year-end accounts.

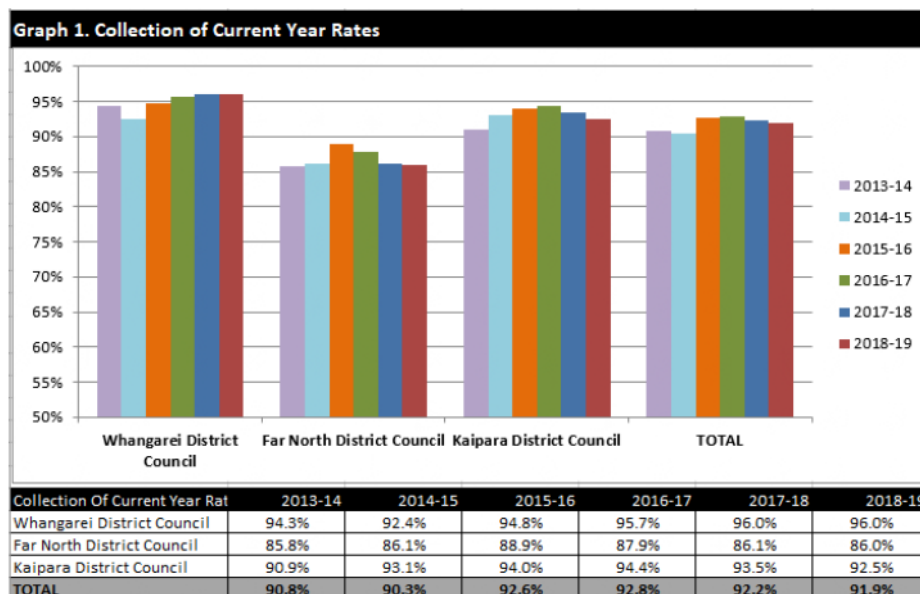
ID: A1222450

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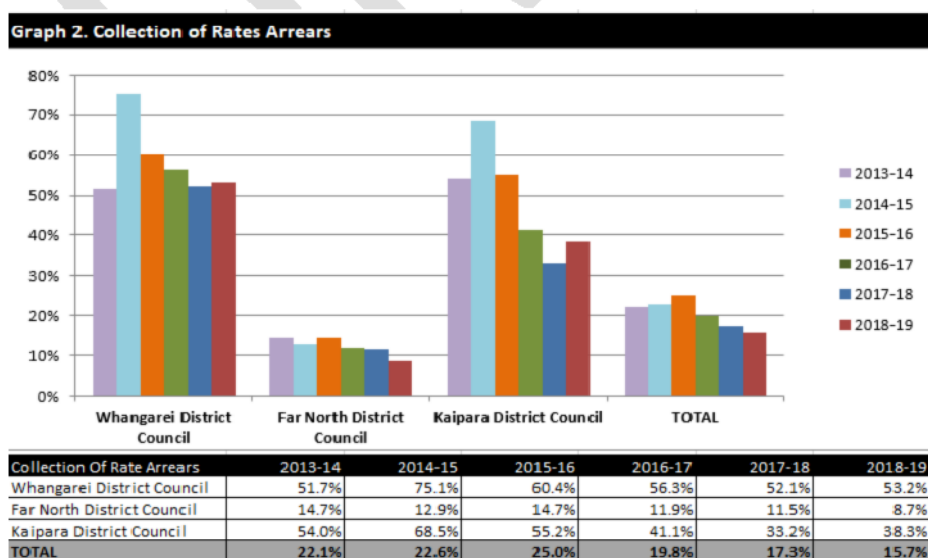
Graph 1 presents the proportion of current year rates that has been collected by each district council over the past six years.



Rate Arrears

Outstanding rate arrears (including penalty arrears) collected in 2018/19 totalled \$724,908 equivalent to a collection rate of **15.7%** (2017/18: 17.3%) of the opening outstanding rate balance excluding the Māori Freehold Land impairment adjustments. The three-year average rate arrears collection rate has reduced to **17.8%** (2017/18 20.70%).

Graph 2 presents the proportion of outstanding rate arrears that has been collected by each district council over the past six years.



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Māori Freehold Land Rating impairment required under IPSAS 23

NZ Accounting Standard IPSAS 23 governs the recognition and measurement of rating revenue and this standard stipulates that revenue is recognised when it is probable that council is going to receive payment.

Due to councils, historical experience of non-payment of rates on Māori Freehold Land, it was considered necessary (and confirmed as necessary by Deloitte) that the 2018/19 rates revenue struck on Far North Māori Freehold Land (MFL) should be reduced and a corresponding reduction made to the provision for doubtful debts expense. The overall effect is lower revenue, lower expenditure and **no impact on the bottom line** for the year.

The amount of the MFL adjustment for 2018/19 is \$561,198 which is significantly larger in dollar term than last year's adjustment of \$377,086, however it is largely in line with last year's collection rate of MFL current year rates of approximately 30%. The total rates outstanding at 30 June 2019 on Māori Freehold Land in the Far North District, disregarding cumulative impairments, is \$2,660,182.

Maori Freehold Land Rates	FNDC	
	18-19	17-18
MFL Outstanding Rate Opening Balance	\$2.75M	\$2.47M
plus: Current Year MFL Rates Struck	\$1.05M	\$676K
less: Current Year MFL Rate Remissions & other adjustments	(\$116K)	(\$62K)
less: Current Year MFL Rate & Penalty Payments received	(\$303K)	(\$217K)
less: Arrear MFL Rate Remissions & other adjustments	(\$17K)	(\$59K)
less: Arrear MFL Rate & Penalty Payments received	(\$21K)	(\$27K)
less: MFL Rates written off	(\$678K)	(\$38K)
MFL Outstanding Rates Closing Balance before Impairment	\$2.66M	\$2.75M
less: Accumulated Prior year MFL Rate impairment	(\$1.59M)	(\$1.21M)
less: Current Year MFL Rate impairment	(\$561K)	(\$377K)
MFL Outstanding Rates Closing balance - as per Annual Accounts	\$510K	\$1.16M

Provision for Rate doubtful debts

The rationale for determining the level of Provision for Rate Doubtful Debts was modified slightly in 2018-19 as more detail and precision was provided from the district councils. This enabled the provision held for outstanding rate penalties to be based on actual non-collection rates as opposed to the longstanding method of applying a 100% provision. This change is the main reason for the provision percentages dropping for the Whangarei and Kaipara Districts.

The Far North provision has the same provision percentage as last year of 87%, but may be a little on the low side considering the average three-year collection rate of Far North rate arrears is only 11%. The relevant 2019/20 and draft 2020/21 budgets have been increased in an endeavour to raise the level of the Far north provision.

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Provision for Rate Doubtful Debts	WDC		KDC		FNDC		TOTAL	
	18-19	17-18	18-19	17-18	18-19	17-18	18-19	17-18
Opening Balance	\$165K	\$149K	\$0.45M	\$359K	\$1.82M	\$1.89M	\$2.43M	\$2.39M
Rate Arrears written off during the year	(\$27K)	(\$11K)	(\$15K)	(\$11K)	(\$595K)	(\$89K)	(\$637K)	(\$111K)
Penalty Arrears written off during the year	(\$46K)	(\$60K)	(\$2K)	(\$16K)	(\$65K)	\$0K	(\$113K)	(\$76K)
Additional provision for Rate Arrears	\$48K	\$15K	\$116K	\$54K	\$288K	(\$96K)	\$451K	-\$27K
Additional provision for Penalty Arrears	\$17K	\$72K	\$21K	\$61K	\$57K	\$119K	\$95K	\$251K
Provision for Rate Doubtful Debts Closing Balance	\$156K	\$165K	\$568K	\$448K	\$1.50M	\$1.82M	\$2.23M	\$2.43M
Total Outstanding Rates at Year End	\$325K	\$317K	\$819K	\$612K	\$1.73M	\$2.09M	\$2.88M	\$3.02M
Provision as a percentage of Outstanding rates	48%	52%	69%	73%	87%	87%	77%	80%

Attachments/Ngā tapirihanga

Attachment 1: Rates Reconciliation 2018/19

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date:

ATTACHMENT ONE NORTHLAND REGIONAL COUNCIL - RATES RECONCILIATION STATEMENT 2018/19
ANNUAL RATES RECONCILIATION WITH DISTRICT COUNCILS (including Year end MFL Impairment adjustment)

District Council	Outstanding Rates 1 July 2018 per District Council	Impairment on MFL rates (4 years)	Outstanding Rates 1 July 2018 NRC Accounts	2018/19 Rate Strike (GST Ind)	Adjustments to Rate Strike (remissions & postponements)	Penalties Applied	Discounts	Rate Write-offs Exp	Rate Write-offs Prov	Total Cash Received	Outstanding Rates 30 June 2019 per District Council	Impairment on MFL rates 2018/19	Outstanding Rates 30 June 2019 NRC Accounts	Outstanding Current Year Rates 30 June 2019	Outstanding Rate Arrears 30 June 2019	Note	Outstanding Current Year Rates 30 June 2018	Outstanding Rate Arrears 30 June 2018	Outstanding Rates 30 June 2018 NRC Accounts
Far North District Council	\$3,682,117	(\$1,588,972)	\$2,093,146	\$11,568,905	(\$385,371)	\$166,344	\$0	(\$50,806)	(\$771,505)	(\$10,325,970)	\$2,294,743	(\$561,198)	\$1,733,545	\$751,755	\$981,790	Assumes final washup payment of \$234144 which was paid in July-19 and backdated to 30 June 2019	\$557,082	\$1,536,064	\$2,093,146
Kaipara District Council	\$611,691	\$0	\$611,691	\$4,796,732.68	(\$72,316)	\$163,670	\$0	(\$4,564)	(\$19,154)	(\$4,707,194)	\$818,954	\$0	\$818,954	\$359,235	\$459,719	Assumes final washup payment of \$45712 which was paid in July-19 and backdated to 30 June 2019	\$236,123	\$375,568	\$611,691
Whangarei District Council	\$317,370	\$0	\$317,370	\$15,906,688	(\$343,014)	\$88,213	(\$72,449)	(\$18,648)	(\$77,181)	(\$15,476,242)	\$324,738	\$0	\$324,738	\$230,441	\$94,297	Assumes final washup payment of \$129465 which was paid in July-19 and backdated to 30 June 2019	\$202,329	\$115,041	\$317,370
TOTAL	\$4,611,178	(\$1,588,972)	\$3,022,207	\$32,272,326	(\$750,701)	\$418,226	(\$72,449)	(\$74,018)	(\$867,841)	(\$30,509,316)	\$3,438,434	(\$561,198)	\$2,877,236	\$1,341,431	\$1,535,805		\$995,534	\$2,026,673	\$3,022,207