

8. REVIEW OF SPECIAL FUNDS

Officer responsible
Director of Finance

Author
Paul Melton, DDI 941-8413

The purpose of this report is threefold. Firstly, to reconfirm the purposes of those special funds where the date of the original resolution is uncertain. Secondly, to review and where appropriate to merge or draw down the funds. Thirdly, to establish some principles for monitoring and managing the Council's special funds.

BACKGROUND

The last occasion when the Council's special funds were reviewed was in 1996, seven years after local government reorganisation. In terms of the Local Government Reorganisation Order in Council:

"... the special funds of the former authorities shall only be expended for the purposes for which they were set aside. After 1 November 1996 the Council can resolve to apply for such other purpose or purposes as the Council considers appropriate."

The outcome of the 1996 review was that some special funds were merged and some were drawn-down to help fund the 1996/97 capital programme. Six years have passed since this review and it is considered timely to carry out a further review.

Special funds are monies which have been put aside to fund a particular project or capital item or for debt repayment or to extinguish a liability. Special funds have their origins in cash accounting when such funds were a way of helping to minimise the impact large projects would have on rates. Accrual accounting with its operating and capital split, together with depreciation plus the Long Term Financial Strategy (Financial Model) has helped to reduce the need for special funds. All capital projects and the matching funding are now planned for and factored into the Long Term Capital Programme. The special funds which have been established in recent years relate mainly to making provision for the repayment of debt or for other liabilities. The exceptions to this are the Capital Endowment Fund and the Income Equalisation Fund.

The approach taken by this report is to review each of the current special funds and to make a recommendation as to the future of the fund.

Not included in this review are some recently established funds. The Council resolutions setting up these funds and their management are well documented. These include the Capital Endowment Fund, the Debt Repayment Reserve, Loan Repayment Reserve, the Emergency Capital Fund, the Accident Insurance Contingency Reserve, City Care Contingencies Reserve, Water Supply Upgrading Reserve, Burwood Landfill Stage C Aftercare Reserve, the Bertelsmann Prize Fund, Conference and Similar Events Bridging Loan Fund and the Income Equalisation Fund. The trust funds have also been excluded from this review. They are subject to separate conditions and are not easily modified. Peter Mitchell, the Legal Services Manager, has been asked to review several of the smaller and older trusts and will report separately on these.

The dollar amounts alongside the special fund headings are the fund balances as at 30 June 2002.

Where the recommendations recommend draw-downs for 2003/04, these are to fund projects already in the 2003/04 capital programme.

1. PLANT RENEWAL FUND

\$1,402,159

The Plant Renewal Fund goes back to pre-amalgamation days when Plant Renewal Funds were the mechanism to fund plant purchases. Depreciation and a share of the plant hire revenue was transferred to the fund and the plant purchases were funded by draw-downs from the fund.

The way in which the fund is currently operated is that it provides funding for any urgent or non discretionary plant purchases which may arise during the year.

In budget terms, purchases are funded from the fund and sale proceeds are credited to the fund. Any additional budget transfers are to ensure the closing balance equals zero.

In actual terms purchases are debited from the fund and sales are credited to the fund and any transfers to or from the fund are based on budget.

Given the fact that the Council has a long term capital budget for plant purchases and that there is a plant renewal programme in place, the continuing need for a Plant Renewal fund is no longer considered necessary.

Recommendation: That for the 2003/04 planning process, no further transfers be made to the fund and that any balance remaining be drawn-down fully in that year.

2. TOWN HALL EDUCATION FUND \$34,163

This fund was established prior to amalgamation. It was funded by profits from New Zealand Army Band concerts and other similar type concerts.

It is unclear what the purposes of the fund are but it has been suggested by staff originally involved with the Town Hall that it was set up to help fund any children's activities/concerts that may use the Town Hall. Given the changed management of the Town Hall, it is probably best referred to the Annual Plan Subcommittee.

Recommendation: That this fund be referred to the Annual Plan Subcommittee.

3. P C SALES – RESTRUCTURING FUND \$296,356

This fund was established in June 1998 using the proceeds from the sale of Council-owned computers.

Council-owned computers were purchased by a computer leasing company and rather than buy computer equipment the Council now leases this equipment. The sale proceeds were placed in a reserve to meet the Year 2000 compliance costs and any other restructuring costs which may arise as a result of government review. In the period since the fund has also been utilised for restructuring costs in general.

Given the ongoing efficiency reviews, it is considered prudent to retain the fund for future restructuring costs.

Interest is not credited to this fund as it is not a long term fund that should be inflation protected.

Recommendation:

1. That the purpose of the PC Sales – Restructuring Fund be confirmed as a fund available to fund general restructuring costs.
2. That interest not be credited to the fund.

4. COMMUNITY LOANS FUND \$1,759,005

The Community Organisation Loans Scheme is designed to help community organisations carry out capital projects. Established on amalgamation in 1989/90 with existing loan funds. The monies are currently lent out at an interest rate of 2% over a five year term (sometimes 10 years). Applications are dealt with in the normal community funding process and the Metropolitan Funding Subcommittee has power to approve the loans which are reported to the Strategy and Finance Committee when the annual summary report is prepared which is usually in August/September. Each year between \$250,000 and \$300,000 is available for loans. This fund is usually over-subscribed.

Interest is credited to the fund.

Recommendation:

1. That the Community Loans Fund be confirmed as available to help community organisations carry out capital projects.
2. That monies be lent out at an appropriate interest rate over a 5 to 10 year time frame.
3. That applications be approved by the Metropolitan Funding Committee and reported to the Strategy and Finance Committee.
4. That interest be credited to the fund.

5. HISTORIC PLACES TRUST FUND

\$1,009,551

The purpose of this fund is provide a revolving capital fund for the purchase, of listed heritage buildings threatened with demolition. The intention is to purchase buildings and to later on-sell them with a heritage covenant attached. The sale proceeds are transferred back into the fund. These proceeds may be less than that paid which would represent the cost to the community of protection of the buildings.

The intention was to build the fund up to about \$1M.

Funding started in the 1997/98 year with \$300,000 and built on an earlier fund which was set up in the late 1970s (which had slowly accumulated to about \$208,000 by June 1998).

The Sydenham Heritage Trust Loan is an investment asset of this fund and is included in the total fund balance of \$1.0M. (The current cash balance of the fund is \$597,051.) The resolution relating to the loan was approved by the Council on 26 April 2001.

Credits to the fund include budgeted transfers, interest and the sale proceeds, while purchases are deducted from the fund. Where a loss is made on the resale of a heritage building, this must be treated as an operating expense in the Council's accounts to comply with Accounting Standards.

- Recommendation:**
1. That the purpose of the Historic Places Trust Fund be confirmed as a capital fund for the purchase of listed heritage buildings threatened with demolition.
 2. That, when a heritage building purchased from this fund is on-sold, the sale proceeds be paid back into the fund.
 3. That, where the sale proceeds are less than the amount paid, this represents the cost to the community of heritage building protection.
 4. That interest be credited to the fund.

6. NON CONFORMING USES FUND

\$807,579

The purpose of this fund is to enable the Council to purchase properties containing non-conforming uses causing nuisance to surrounding residential areas and inhibiting investment and redevelopment for residential purposes. The intention is to remove the buildings and to extinguish the activities causing the nuisances.

The intention is to build the fund up to a level sufficient to purchase two, non-conforming use properties. There can also be costs related to movement of business activity from the site, demolition, clearance and fencing, as well as sales costs.

The fund was established in 1984/85 and since that time, 11 properties have been purchased and cleared of activity, mainly standalone projects but occasionally with other Council projects.

Interest is credited to the fund.

- Recommendation:**
1. That the purpose of the Non-Conforming Uses Fund be confirmed as a fund to enable the purchases of properties containing non-conforming uses and which are causing a nuisance to surrounding residential areas and inhibiting investment and redevelopment for residential purposes.
 2. That the intention of any purchase be to enable the Council to remove the non-conforming uses and to on-sell the property.
 3. That sale proceeds be credited back to the fund.
 4. That interest be credited to the fund.

7. PAPANUI PARKING FUND **\$12,733**

This fund represents cash contributions arising from the resource consent process for where a development has an on-site parking shortfall. There are various suburban retail districts like Papanui where the District Plan allows cash in lieu of parking. The cash contributions must be used to provide improvements to public parking facilities in that area.

- Recommendation:**
1. That the purpose of the Papanui Parking Fund be confirmed as a fund available to fund the development of Papanui shopping area parking facilities.
 2. That the transfers into the fund represent cash contributions from Papanui property developers in lieu of providing parking spaces.
 3. That interest be credited to the fund.

8. NEW BRIGHTON PARKING FUND **\$13,935**

This fund represents cash contributions (arising from building consents) for the provision of car parking in the Beresford Street area. This fund should be used for development purposes, in this instance the development of car parking facilities in the Beresford Street area.

Interest is credited to the fund.

Kevin Mara, the Project Manager for the New Brighton Revitalisation Project, has advised that this project includes upgrading work on the Beresford Street car park. This will involve new accessways into the car park and new kerb and channels. This is currently at the planning stage and the physical work will follow in 2003/04. A 2003/04 draw-down from the New Brighton Parking Fund to match the expenditure would be entirely appropriate.

- Recommendation:**
1. That the purpose of the New Brighton Parking Fund be confirmed as available to fund the development of car parking in the Beresford Street area.
 2. That the fund be drawn-down to fund the Beresford Street car parking developments in 2003/04.
 3. That interest be credited to the fund.

9. SPORTS STADIUM FUND (EX WDC) **\$49,040**

This fund was established with a view to developing a joint venture facility between Waimairi District Council and either the College of Education or the University of Canterbury. The fund was established by the Waimairi District Council prior to 1989.

In the 1996/97 financial year there was a budgeted draw-down of \$650,000 from the fund for the WestpacTrust Sport and Entertainment Centre. It was intended that this draw-down would extinguish the fund. Unfortunately the draw-down was based on an out-of-date balance for the fund with the result that a residual amount was left which continued to earn interest.

It is recommended that this fund be combined with the Norwest Stadium Fund (see below) and be referred to the Annual Plan Subcommittee for draw-down in 2003/04

- Recommendation:**
1. That the Sports Stadium Fund be combined with the Norwest Stadium Fund.
 2. That the merged fund be referred to the Annual Plan Subcommittee with a recommendation that it be drawn-down to help fund the 2003/04 capital programme.

10. NORWEST STADIUM FUND (EX WDC) **\$11,895**

There is confusion as to the actual purpose of this fund and how it differs from the Sports Stadium Fund. Given the small amount in the fund and its similarity with the Sports Stadium Fund, it is suggested that this fund be combined within the Sports Stadium Fund.

See recommendation (1) and (2) above.

11. ENDOWMENT LAND RESERVE

\$474,693

This fund reflects the proceeds from the sale of two of the three endowment farms at Methven. These farms were vested in the Council when the Sydenham Borough Council was amalgamated with the Christchurch City Council in 1903. The proceeds represent the Council's interest in the land only. The improvements were sold to the lessees in 1977.

To date no appropriate use of the funds has been identified. Any utilisation which is for other than the purchase of 'similar land' requires the consent of the Minister of Local Government.

Given the pressures on the Council budget, it would seem appropriate to refer this fund to the Annual Plan Subcommittee for appropriate utilisation in the forthcoming Annual Plan.

Recommendation: That the Endowment Land Reserve be referred to the Annual Plan Subcommittee for appropriate utilisation in the forthcoming Annual Plan.

12. HISTORY OF CDB FUND (EX CBD)

\$40,967

This fund was set up to fund the publication and research costs for writing a detailed history of the Christchurch Drainage Board.

Prior to amalgamation it was agreed that Dr John Wilson would write a history of the Christchurch Drainage Board. Twelve years have now passed and both Paul Baldwin, the Funds Accountant, and Pam Ellis, Property Services Manager, two former employees of the Board, are of the view that a history of the Board is now not likely to happen.

It should be noted that a shorter pictorial history of the Board was written at the time of reorganisation. This publication was entitled "*Christchurch, Swamp to City: A Short History of the Christchurch Drainage Board 1875–1989*" by John Wilson.

Recommendation: That the fund be referred to the Annual Plan Subcommittee and be drawn-down to help fund the 2003/04 capital programme.

13. ROAD AND PROPERTY PURCHASE RESERVE (EX WDC)

\$95,461

This ex Waimairi District Council Fund was established to fund roading and property purchases within the Waimairi District area. While there have been some draw-downs to help fund property purchases in the Waimairi area over the last 12 years, the residual balance has because of compounding interest continued to grow. There are no property purchases planned in the Waimairi area for 2003/04. It is suggested that this fund be utilised by contributing to this Council's cost of the Fendalton Road Project.

Recommendation: That the Road and Property Purchase Reserve be utilised as a funding source for the Fendalton Road Project.

14. PRINCIPLES FOR MONITORING AND MANAGING SPECIAL FUNDS

From time to time the accounting staff responsible for actioning transfers need guidance as to the amounts to be transferred.

The principles set out below are designed to clarify the transfer process.

- The basis of the transfer should be identified, ie whether it is a fixed amount, variable based on actual results, or variable but capped either by amount or fund balance. (This will now be detailed in the Annual Plan Subcommittee report to the Council.)
- Where budgeted special fund transfers are to fund actual projects, they should always be supported by a matching budget expenditure item.
- Where transfers are based on actual transactions, the transfer is recorded in the month of that transaction.
- Where the basis of a transfer is a year end result, the transfer will occur in June. (End of year transfers currently include the Kilmore Street Car Park, the Dog Account and partly the Plant Renewal Fund and Housing Development Fund.)

- Where a transfer is not based on actual transactions, the timing of the transfer will be discretionary, taking into account the balance of the fund, the impact of any subsequent events on the fund, the desire to maximise general rate interest income, and any agreements or arrangements made with any stakeholders.
- It is assumed that special funds will be interest-bearing unless the resolution setting up the special fund specifies that it will not be interest-bearing. (As a general rule a special fund is based on the assumption that the Council is putting funds aside for asset creation. Asset costs increase over time and the interest earned on the funds is a way of recognising this. Similarly where the fund is to fund an escalating liability, the fund should also be interest bearing. Where this is a temporary reservation of funds or liability provision as opposed to a long-term provision, interest should not be credited to the fund.)
- The interest is allocated monthly and should be based on the opening monthly balance of the fund. New funds set up during the month will receive pro-rata interest for the days from set up to end of month.

Recommendation: That the transfer principles noted above be adopted.