

Chairperson and Community Board Members
WAIKANAE COMMUNITY BOARD

17 JUNE 2014

Meeting Status: **Public**

Purpose of Report: For Decision

WAIKANAE CAPITAL IMPROVEMENT FUND

PURPOSE OF REPORT

1. This report asks the Waikanae Community Board to consider the future of the Waikanae Capital Improvement Fund (the Fund) and specifically the establishment of a trust (the Trust) to administer the Fund.

SIGNIFICANCE OF DECISION

2. The Kāpiti Coast District Council's Significance Policy is not triggered by this report.

BACKGROUND

3. As a result of the Local Government re-organisation in 1989 the Kāpiti Coast District Council ("the Council") was formed from the Kāpiti Borough Council, Ōtaki Borough Council and part of the Horowhenua County Council. As part of the allocation of the property assets of the Horowhenua County Council between Kāpiti Coast District Council and Horowhenua District Council, Waikanae was allocated \$625,000 and the Ōtaki area was allocated \$176,000.
4. The Council established special funds called the Waikanae Capital Improvement Fund and the Ōtaki Capital Improvement Fund with these proceeds. The Ōtaki Capital Improvement Fund was spent over a 3-4 year period by the Ōtaki Community Board on Ōtaki capital projects. The Waikanae Capital Improvement Fund accumulated interest initially and then the annual interest has been allocated to fund grants to Waikanae Community Organisations for capital projects.
5. The balance of the Waikanae Capital Improvement Fund as at 31 May 2014 is \$1.134 million. The fund is used by the Council to offset debt, with the Council providing a return of 5%. This is above the current rates available from banks. The costs of administering the Fund are covered within the Council budget.
6. The Waikanae Community Board currently has responsibility for making recommendations to the Council about the use of the Fund for the purpose of funding capital projects within the Waikanae community.
7. The Waikanae Community Board has expressed concerns about securing the benefit of the Fund for Waikanae residents, given the prospect of reorganisation of Wellington local authorities. For this purpose, it has indicated that it is interested in the Council establishing a trust (the Trust) for the Fund, but has asked for information about the benefits and costs of such an option.

8. A change to the Fund can be recommended by the Waikanae Community Board but the final decision rests with the Council.

CONSIDERATIONS

Outline of the Trust Model for the Fund

9. Preliminary work has been undertaken on the options available to the Board in terms of establishing a Trust, including some high level costs. A number of issues would need to be considered by the Board, and there is a brief discussion of the key issues in this section:
 - a. The purpose of the Trust would continue to be “to assist in the funding of capital projects for Waikanae Community Organisations”.
 - b. The fund will need to be established in a form that allows it to continue to be exempt from income tax (as it is while within Council). This could be in the form of a charitable trust or a beautification society.
 - c. The legal entity could not be a Council Controlled Organisation, as this would keep it under the control of the Council. The Board will need to consider whether or not to recommend to Council that it has appointees on the new entity.
 - d. Because control of the fund would be removed from both the Council and the Community Board, the Board will need to be satisfied that an independent Trust will manage the fund prudently and will continue to use the fund for its intended purpose.
 - e. The fund is currently earning interest from the Council, and the Council is paying all administration costs. Once the fund moves to an independent status, there will be an impact on the surplus available for distribution, due to changes to both revenue and expenses.
 - f. The fund will need to earn a return greater than CPI in order to be maintained in real terms.
10. The key reason for moving to a trust model is that it would secure the funds for the current and future benefit of the Waikanae community.

Business Case for the Trust Model

11. The Waikanae Community Board need to consider the implications and costs of setting up a trust and compare that against the status quo. This would include an assessment of the risks associated with governance and management of an independent Trust. For example it would need to consider how trustees would be appointed, and what monitoring processes would need to be in place. It would also include consideration of the financial sustainability of the fund, once all costs are recognised within the Trust, instead of being borne by the Council.
12. It may be necessary for the Trust to have an investment strategy and it is likely to need investment advice, monitoring and management of its investments.
13. The return on funds will depend on the level of risk that the Trust is willing to take. A conservative approach to investing the funds could result in a return of 4%, a broader approach would result in a higher return but with increased investment risk, and cost. For example, a balanced portfolio approach across

domestic and international funds, including stocks, shares and interest products, could return between 6% - 10% but would require a higher fund administration cost.

14. A more detailed business case needs to be prepared for the Board to consider. This is recommended as the next step in the process, and a briefing provided to allow the Board to fully consider the business case options.

Financial Considerations

15. There are no financial considerations at this stage. The detailed business case will be prepared within Council resources.
16. If the fund was to be transferred to a separate entity, there will be an increase in net debt for the Council; although there would be minimal change to the cost of debt funding for the Council.

Legal Considerations

17. There are no legal considerations at this stage. Some legal advice may be required as part of the detailed business case. This would need to include advice as to how the fund could be transferred from the Council to an independent Trust.

Delegation

18. The Board has a broad role to act as an advocate for the interests of its community (Local Government Act 2002 clause 52).
19. Under the Council's delegations document, Part D, the Board has delegated authority to consider this matter under clauses 10.14 and 10.28:

For the Waikanae Community Board

10.14 Authority to consider and make recommendations to council on the proposed use of the Waikanae Capital Improvement Fund for the purpose of funding capital projects within the Waikanae Community Board boundary. This is for expenditure over and above the approved annual grant allocations from this fund.

10.28 Authority to undertake any other responsibilities that are delegated to [the Board] by the territorial authority.

20. Assuming the Board approves the development of a Business Case, the latter, once completed, would then form part of a recommendation to Council from the Board about the future of the Capital Improvement Fund.

Consultation

21. There are no consultation issues at this stage. The Board will consider consultation as part of the detailed business case stage.

Policy Implications

22. The establishment of a trust for the Fund would change the existing Council policy on the Fund.

Tāngata Whenua Considerations

23. There are no Tāngata Whenua issues to be considered.

Publicity Considerations

24. There are no publicity issues to be considered at this stage.

RECOMMENDATIONS

25. That the Waikanae Community Board agrees to the preparation of a detailed business case for the establishment of a Trust to administer the Waikanae Capital Improvement Fund.

Or

26. That the Waikanae Community Board does not agree to the preparation of a detailed business case for the establishment of a Trust to administer the Waikanae Capital Improvement Fund.

Report prepared by:

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