

Executive summary

This report reviews the Taranaki Regional Council's performance and achievement in relation to its *Revenue and Financing Policy*, *Investment Policy* and *Liability Management Policy* for the 2007/2008 year.

The Council's investments continue to perform to the levels planned for in the *2006/2016 Long-Term Council Community Plan*. For the Council's major investment (Port Taranaki Ltd) 2007/2008 year was both a challenging and successful year. The year was challenging for Port Taranaki Limited as it continued making the transition from a reliance on petrochemical exports (trade tonnes, revenue and profitability) to reliance on a wider-diversified trade business. It was a successful year as Port Taranaki Ltd was able to generate higher revenue shares than last year. Whilst expenditure was higher than last year, dividends were \$200,000 higher than budgeted.

The Taranaki Regional Council invests surplus funds in the form of term deposits with banks and in the form of local government and corporate bonds and stocks. The return on investment (interest) is utilised to reduce the Council general rate requirement. Interest returns on bank deposits, bonds and stocks was 7.41%. These rates should continue to be achievable in 2007/08.

The Council continues to own 38 properties in New Plymouth and Waitara, with a 30 June 2008 valuation of \$16.83 million. This is an increase from the \$14 million at the same time last year. As at 30 June 2008, all properties were leased out. However, as the value of properties has increased significantly over recent years and leases are for long periods, the actual rate of return on the investment properties was 2.79%.

The Council was successful in meeting its funding policies under the *Revenue and Financing Policy*.

The Council has no external public debt nor does it anticipate the need for any in the life of the current *Long-Term Council Community Plan*.

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1. Introduction

1.1 Purpose

This report reviews the Taranaki Regional Council's performance against the standards and targets established in the *Revenue and Financing Policy*, *Investment Policy* and *Liability Management Policy* included in the Council's *2006/2016 Long-Term Council Community Plan*.

1.2 Background

Local Government Act 2002

This 2007/2008 report is the fifth *Revenue and Financing Policy*, *Investment Policy* and *Liability Management* annual report under the Local Government Act 2002.

Revenue and Financing Policy

The Local Government Act 2002 requires the Taranaki Regional Council to prepare a *Revenue and Financing Policy* which identifies the costs of its functions and funds them appropriately. This involves the allocation of costs to the activities, followed by a determination of the most appropriate form of funding.

There are a number of key factors to be considered in determining the sources of revenue and financing for each of the Council's activities, including the:

- community outcomes to which the activity primarily contributes
- distribution of benefits between the community as a whole, any identifiable part of the community and individuals
- period in, or over, which those benefits are expected to occur
- extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity
- costs and benefits, including consequences of transparency and accountability, of funding the activity distinctly from other activities
- overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of the community.

Investment Policy

The Local Government Act 2002 requires the Taranaki Regional Council to prepare an *Investment Policy* which aims to manage investments to optimise returns in the long-term, while balancing risk and return considerations.

The Council's portfolio of investments for 2007/2008 included:

- Equity investments – comprising:
 - Port Taranaki Limited
 - Civic Assurance (New Zealand Local Government Insurance Corporation Ltd)
- Treasury investments
- Property investments

The returns on these investments are utilised to produce a revenue stream that reduces the Council's reliance on general rates.

Liability Management Policy

The Local Government Act 2002 requires the Taranaki Regional Council to prepare a *Liability Management Policy*. This policy defines the key responsibilities and operating parameters within which borrowing, investment and risk management activities can be carried out.

2. Revenue and financing policy

There are ten Council groups of activities: policy and planning; civil defence emergency management; resource consents; land management; river control and flood protection; land transport and harbour management; resource investigations, monitoring and enhancement; pest management; recreation, culture and heritage; and regional representation, information and investments. There are a number of activities contained within each group of activities and a funding policy for each of those activities.

The *Revenue and Financing Policy* identifies the allocation of costs to the Council's ten groups of activities, followed by a determination of the most appropriate form of funding.

The Council utilises investment returns (interest, rent and dividends) to reduce the general rate requirement. Throughout this report and the *Revenue and Financing Policy*, general rates and investment revenue are combined and referred to as general funds.

2.1 Policy and planning

This group of activities has a regional focus including the statutory policy, plan and strategy activity; and the advocacy and response activity.

The benefits from this group of activities accrue to the wider community. Accordingly, the group of activities is funded from general funds.

1.2.1 Statutory policies, plans and strategies

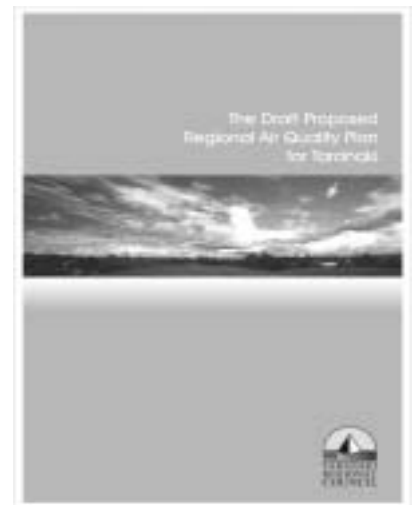
Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$588,668	
General funds	\$588,668	100%

Conclusion:

Complied with revenue and financing policy.



1.2.2 Advocacy and response

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$40,368	
General funds	\$40,368	100%

Conclusion:

Complied with revenue and financing policy.

2.2 Civil defence emergency management



The Council provides an administering role to the Civil Defence Emergency Management Group. The Group administers the provision of emergency management services. The four Taranaki local authority members contribute to the provision of these services.

All services benefit the wider community. The Taranaki

Regional Council's share of the Group's costs is therefore funded from general funds.

2.2.1 Civil Defence and Emergency Management

Revenue and Financing policy: Government grants for national services. Fees and charges from the four local authorities members of the Civil Defence Emergency Management Group. General funds for Taranaki Regional Council portion of these services.

Results:

Total costs	\$438,043	
Government grants	\$42,968	10%
Direct charges	\$208,881	48%
General funds	\$186,194	42%

Conclusion:

Complied with revenue and financing policy.

2.3 Resource consents

The processing and monitoring of resource consents is funded by direct charging those who specifically benefit from and/or cause the expenditure (namely, consent applicants and holders). General inquiries, administration and information requests are funded from general funds. This also recognises that certain compliance monitoring information is of benefit to the wider community. Pollution control is funded by general funds, provided recovery from the polluter has been pursued. Marine oil spill contingency response is funded by government grant in compliance with the Marine Transport Act 1994.



2.3.1 Consent processing and administration

Revenue and Financing policy: 60% fees and charges. 40% general funds.

Results:

Total costs	\$927,404	
Direct charges	\$570,899	62%
General funds	\$356,405	38%

Conclusion:

Complied with revenue and financing policy.

2.3.2 Compliance monitoring programmes

Revenue and Financing policy: 70% fees and charges. 30% general funds.

Results:

Total costs	\$1,754,391	
Direct charges	\$1,232,509	70%
General funds	\$521,882	30%

Conclusion:

Complied with revenue and financing policy in principle.

2.3.3 Pollution incidents and response

Revenue and Financing policy: 100% fees and charges from the party responsible for the pollution. General funds when fees and charges are unable to be applied. Maritime New Zealand grants for national services (oil spills).

Results:

Total costs	\$413,680	
Direct charges	\$152,984	37%
General funds	\$260,696	63%

Conclusion:

Complied with revenue and financing policy.

2.4 Land management

Land management activities are funded by general funds. These services are principally of an advisory nature with physical works being funded by the landowners. There are some minor sales of merchandise to support land management (e.g. riparian plants).



2.4.1 Sustainable land management plans

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$1,025,806	
Direct charges	\$4,902	0.5%
General funds	\$1,020,904	99.5%

Conclusion:

Complied with revenue and financing policy.

2.4.2 General advice and facilitation

Revenue and Financing policy: General funds for the provision of advice and information. Fees and charges for the supply of poplar, willow poles and other plant materials.

Results:

Total costs	\$963,936	
Direct charges	\$542,475	56%
General funds	\$421,461	44%

Conclusion:

Complied with revenue and financing policy.

2.5 River control and flood protection

River control schemes are funded by a targeted rate over the community benefiting from the protection.

Advice, minor river works and flood response benefit the wider community and, as such, are funded from general funds.



2.5.1 River control schemes

Revenue and Financing policy: 100% capital value based targeted rate over the New Plymouth District.

Results:

Waitara and Waiwhakaiho Schemes

Total costs	\$149,240	
Targeted rates	\$177,500	
Transfer to reserves	(\$28,260)	
	\$149,240	100%

Makuri River Control Scheme

Total costs	\$375	
Transfer from reserves	\$375	100%

Waitotara River Control Scheme

Total costs	\$82,784	
Direct costs – STDC	\$48,207	58%
General funds	\$34,577	42%

Conclusion:

Complied with revenue and financing policy.

2.5.2 Advice, minor works and flood response

Revenue and Financing policy: 70% general funds. 30% capital value based targeted rate over the New Plymouth district.

Results:

Total costs	\$265,697		
Less direct charges	\$1,012	0.4%	
Targeted rate	\$1,000		
Transfer from reserves	<u>\$75,793</u>	\$76,793	28.9%
General funds	\$187,892		70.7%

Conclusion:

Complied with revenue and financing policy.

2.6 Land transport and harbour management

Regional transport planning and passenger transport services benefit the wider community and, as such, are funded from general funds. Bus subsidies for certain categories of users are provided in the New Plymouth district and accordingly are funded by that community. Harbour safety and



navigational services benefit the wider community and are funded from general funds.

2.6.1 Regional land transport planning

Revenue and Financing policy: Government grants for national services (Land Transport New Zealand). General funds for regional services.

Results:

Total costs	\$276,176	
Government grants	\$31,601	12%
General funds	\$244,575	88%

Conclusion:

Complied with revenue and financing policy.

2.6.2 Passenger transport

Revenue and Financing policy: Government grants for national services (Land Transport New Zealand). General funds for regional services. Capital value targeted rate for the New Plymouth bus subsidies.

Results:

Total costs	\$1,151,646	
Government grants	\$624,726	54%
Direct charges	\$19,000	2%
Targeted rate	\$240,250	21%
General funds	\$267,670	23%

Conclusion:

Complied with revenue and financing policy.

2.6.3 Harbour management

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$25,631	
General funds	\$25,631	100%

Conclusion:

Complied with revenue and financing policy.

2.7 Resource investigations, monitoring and enhancement

The State of the Environment Monitoring and Resource Investigations and Projects activities provide the necessary regional scientific information for Council to be informed and make defensible decisions across its range of functions. Consequently, the activity is funded from general funds.



Environmental enhancement grants involve promoting the protection of the region’s environment through the use of enhancement grants. The protection of the environment is a combined effort between the Council and landowners. Landowners do not forgo ownership rights to the land but they incur opportunity costs in respect of potential land development. The Council provides grants for the long-term preservation and protection (e.g. fencing) of the land. Consequently, the activity is funded from general funds.

Waste minimisation is an advocacy, encouragement and facilitation role. The results of this work are implemented and funded by third parties. The wider community, through enhanced environmental quality, is the beneficiary of this work. The project is a joint exercise of the region’s four local authorities. The region’s three district councils contribute to the cost of the activity with the Taranaki Regional Council’s portion being funded by general funds.

2.7.1 State of the environment monitoring

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$940,689	
General funds	\$940,689	100%

Conclusion:

Complied with revenue and financing policy.

2.7.2 Resource investigations and projects

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$396,500	
Direct charges	\$64,570	16%
General funds	\$331,630	84%

Conclusion:

Complied with revenue and financing policy.

2.7.3 Environmental enhancement grants

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$146,621	
General funds	\$146,621	100%

Conclusion:

Complied with revenue and financing policy.

2.7.4 Waste minimisation

Revenue and Financing policy: Fees and charges from the region's three territorial authorities. General funds for Taranaki Regional Council portion of these services.

Results:

Total costs	\$120,433	
Direct charges	\$50,000	42%
General funds	\$70,433	58%

Conclusion:

Complied with revenue and financing policy.

2.8 Pest management

Pest management activities (plants and animals), with some minor exceptions that are directly charged for or funded by government grant, are funded from general funds. The basis of this approach was developed in accordance with section 76 of the Biosecurity Act 1993 and is provided in detail in Council's adopted:

- *Pest Management Strategy for Taranaki: Animals*
- *Pest Management Strategy for Taranaki: Plants.*



2.8.1 Pest animal management

Revenue and Financing policy: Government grants for national services (Crown agencies' contributions). Fees and charges for bait stations and enforcement operations. General funds for other services.

Results:

Total costs	\$1,597,601	
Direct charges	\$80,256	5%
General funds	\$1,517,345	95%

Conclusion:

Complied with revenue and financing policy.

2.8.2 Pest plant management

Revenue and Financing policy: Government grants for national services (Crown agencies' contributions). Fees and charges for enforcement operations. General funds for other services.

Results:

Total costs	\$368,393	
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Government grants	\$0	0%
Direct charges	\$21,275	6%
General funds	\$347,118	94%

Conclusion:

Complied with revenue and financing policy.

2.9 Recreation, culture and heritage



Generally, the provision of regionally significant recreation, culture and heritage services provides *public good* benefits to the wider community and, as such, they maybe expected to be funded from general funds. For major expenditure projects, more specific targeting of beneficiaries is proposed as confirmed by independent expert analysis. Projects under

this significant activity will have varying funding sources depending upon the specifics of each project.

2.9.1 Yarrow stadium

Revenue and Financing policy:

Targeted rates that recover 78% of the costs from the New Plymouth district, 5% from the Stratford district and 17% from the South Taranaki district.

Results:

Collected from the:
New Plymouth District

\$11 of the UAGC	\$352,517	
Targeted rate	<u>\$353,764</u>	
	\$706,281	80.7%

Stratford District

\$11 of the UAGC	\$42,251	4.8%
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South Taranaki District

\$11 of the UAGC	\$126,753	14.5%
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Conclusion:

Complied with revenue and financing policy.

2.9.2 Regional gardens

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$807,705	
Direct charges	\$11,546	1%
General funds	\$796,159	99%

Conclusion:

Complied with revenue and financing policy.

2.10 Regional representation, information and investment

The Public Information activity involves the promotion of the Council's functions and activities and in particular community awareness and understanding of sustainable resource management. This activity benefits all of the ratepayers and residents of the region.

The Council has a policy of charging for information requests and Official Information Act requests where the information requested is specific in nature and requires significant time and resources to compile.

Managing the Council's interest in its investment is an activity without direct beneficiary and is conducted on behalf of the whole region. Accordingly, general funds finance this activity.



The Representation activity benefits all of the ratepayers and residents of the region. There are neither separately identifiable individual beneficiaries nor those who clearly cause the expenditure to be incurred. Accordingly, general funds finance this activity.

2.10.1 Public information

Revenue and Financing policy: Fees and charges for specific large information requests. General funds for regional services.

Results:

Total costs	\$323,641	
Direct charges	\$915	0.3%
General funds	\$322,726	99.7%

Conclusion:

Complied with revenue and financing policy.

2.10.2 Investment management

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$3,846	
General funds	\$3,846	100%

Conclusion:

Complied with revenue and financing policy.

2.10.3 Representation

Revenue and Financing policy: 100% general funds.

Results:

Total costs	\$801,875	
General funds	\$801,875	100%

Conclusion:

Complied with revenue and financing policy.

3. Investment Policy

This annual activity report outlines the specific performance of the Council's investment instruments through the 2007/2008 financial year. The operational and reporting requirements of the *Investment Policy* were achieved throughout the year.

3.1 Investment policy philosophy

The Council acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from its borrowing and investment activities. However, the Council is a risk adverse entity and does not wish to incur additional risk from its treasury activities.

The Council's treasury function is a risk management function focused on managing investments to optimise returns in the long-term while balancing risk and return considerations.

3.2 Investment types

The *Investment Policy* addresses three types of investments that are held by the Council, including: equity investments, treasury investments and property investments.

3.2.1 Equity investments

The Council holds equity investments in two entities: Port Taranaki Ltd and the New Civic Insurance.

3.2.2 Port Taranaki Limited

The Taranaki Regional Council holds 100% of Port Taranaki Ltd. These shares have a book value of \$26 million, but in the open market they may range in value from \$60 million to \$100 million.

The following policies were adopted for the management of its investment in Port Taranaki:

- *The Council will continue to maintain the current risk management procedures and exercise ongoing governance through the constitution, statement of corporate intent, half-year report, annual report and the appointment of the Board of Directors.*
- *The Council will continue reviewing ownership options while maintaining control and minimising risk.*

Constitution: There were no issues in relation to Port Taranaki Ltd's constitution during 2007/2008.

Statement of Corporate Intent: The Council considered Port Taranaki's draft Statement of Corporate Intent on 8 August 2007. Performance against the Statement of Corporate Intent was monitored when considering the Companies half and full year results. Actual performance for 2007/2008 compared against the targets established in the Statement of Corporate Intent is outlined in Table 1.

Table 1: Annual performance for 2007/2008

Programmes and performance measures established in the Statement of Corporate Intent	2007/2008 actual performance (2006/2007 performance)
Return on average total assets Target 5%	9.17% (6.95%)
Return on average shareholder's funds Target 4%	5.92% (6.86%)
Wharf utilisation (berth occupancy)	
Moturoa Target 40-50%	53% (32%)
Newton King Tanker Terminal Target 20-30%	19% (18%)
Blyde 1 & 2 Target 15-20%	48% (38%)
Breakwater Target 40-50%	40% (43%)
Health and safety: Eliminate all work-related accidents.	23 work related accidents, of which 6 resulted in 98 days lost time (27 work related accidents, of which 3 resulted in 11.5 days lost time).

Appointment of directors: Messers Young and Walter were re-elected to the Board at the Annual General Meeting on 28 September 2007. Mr Walter was appointed as an independent Director in December 2008. At the same time Councillor Horton was appointed to the Board. All appointments were made in accordance with the Council's *Director Appointment Policy*.

Trading results: Port Taranaki recorded a tax paid profit for the 2007/2008 year of \$4.76 million, compared to \$4.78 million in 2006/2007. This was due to a combination of higher operating expenditure and expenditure write-offs associated with the Pike River coal project.

Total trade volumes of 3.38 million freight tonnes was up 3% on last year's 3.28 million freight tonnes. Major variances in trade volume were from (2006/2007 performance):

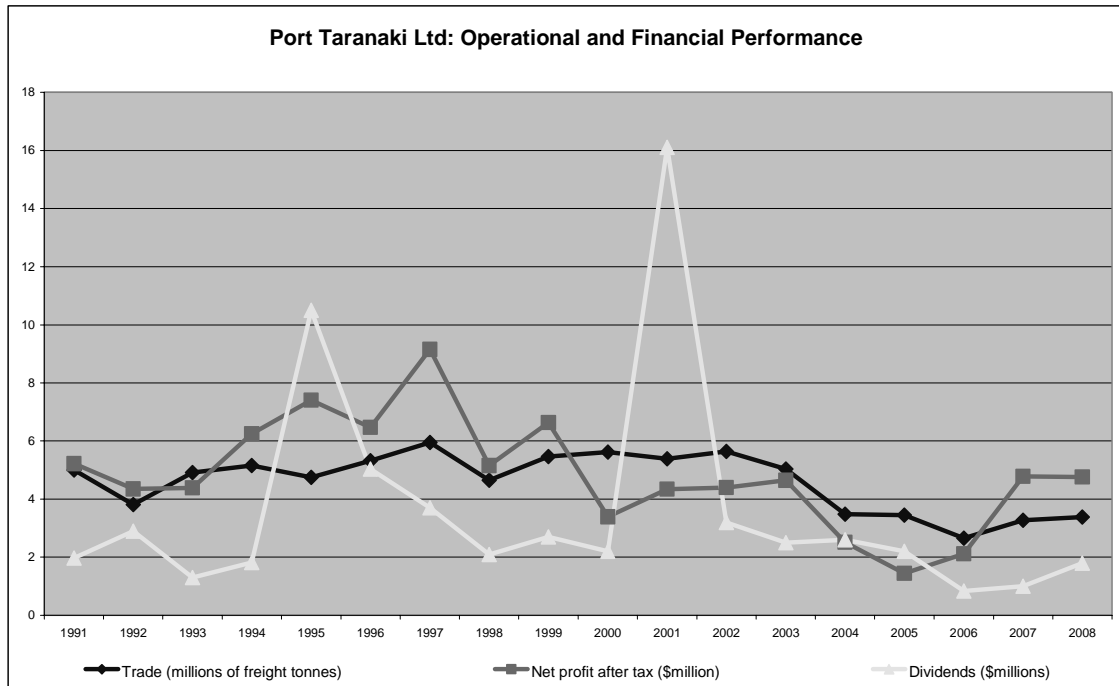
- crude oils – up 8% (up 18%)
- LPG – down 20% (down 60%)
- Petrol and Fuel Oil – up 20%
- Bitumen – down 45%
- Animal feeds – up 66%
- fertiliser – down 39% (up 44%)
- logs – down 22% (up 29%)

Port Taranaki's strategic planning over the last couple of years has focussed primarily on diversifying the trade base, particularly gaining the local share of the North Island's containerised cargoes. Figure 1 demonstrates Port Taranaki's performance trends between 1991 and 2008.

The main activities that happened at the Port during 2007/2008 included:

- The Tui field commenced operations with the Port's tug attending 50 offtake tanker connections to the FPSO Umuroa throughout the year.
- Pohokura development drilling was completed in May, with condensate now being shipped through the Newton Kin Tanker Terminal.
- Kupe field construction and development drilling was completed in May, with most of the equipment for the production station being imported through the Port.
- Maari field construction started late in the year, with heavy equipment stored on Breakwater 2 berth.
- Major investment was made through upgrades of the Ports Dynamic Underkeel Clearance system and environmental monitoring system (including the installation of a waverider buoy at the entrance to the newly dredged channel).
- The tug Kupe was purchased from Centreport to provide back up to the existing tugs when they are engaged in offshore activities.
- A contract was entered into with Q-West Boat Builders Ltd (Wanganui) to provide a maintenance crew transfer launch to the Pohokura field for STOS.
- The Newton King Terminal saw the biggest loadings of petrochemicals, particularly methanol.
- An area of land was developed at the Blyde Terminal to provide an additional 700 container slots.

Figure 1: Performance trends for Port Taranaki Ltd 1991 – 2008



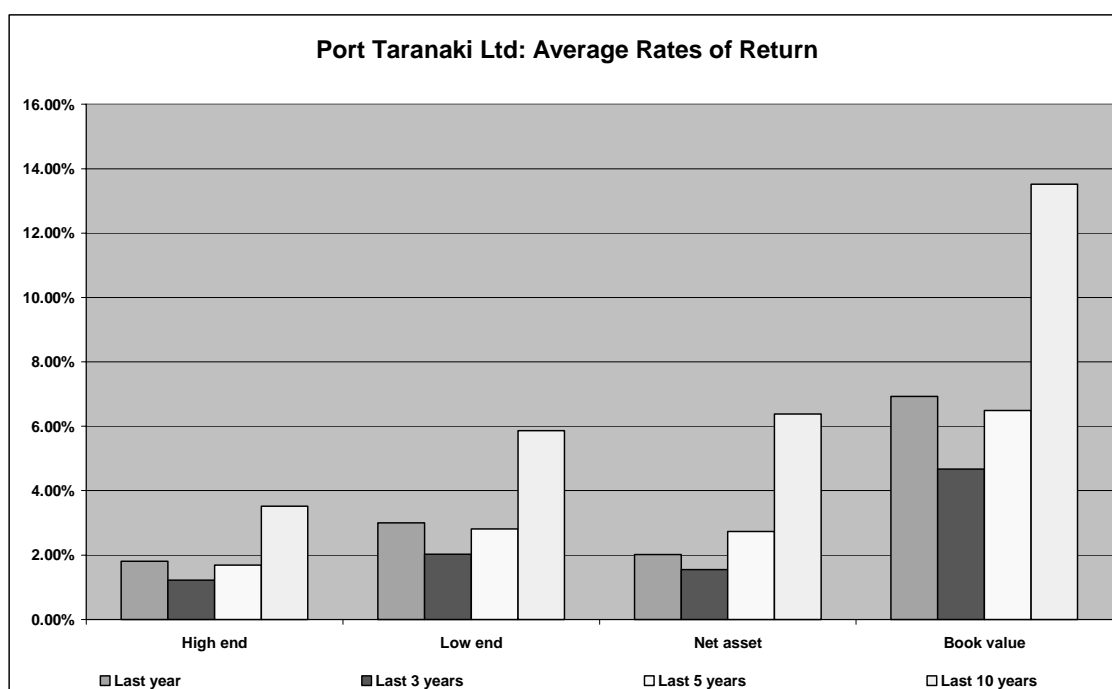
Dividends. The return on investment (dividends) needs to be compared against the value of the investment. Table 2 summarises the returns against a range of values for the investment.

Table 2: Summary of returns against investment

Basis of valuation	Valuation	Dividends	Bank return ¹	Percentage return ²
Book value	\$26,000,000	\$1,800,000	\$1,926,600	6.92%
Net asset backing	\$89,256,802	\$1,800,000	\$6,613,929	2.02%
Low end potential market valuation	\$60,000,000	\$1,800,000	\$4,446,000	3.00%
High end potential market valuation	\$100,000,000	\$1,800,000	\$7,410,000	1.80%

- 1 Return based upon valuation being invested in bank at the 2007/2008 actual bank investment rate of return (7.41%).
- 2 Return achieved from dividends against the valuation.

Figure 2: Average funds of returns from Port Taranaki Ltd over different time periods



The five and ten year figures provide the best indication of the levels of returns resulting from the Council's investment in Port Taranaki Ltd. When evaluating the performance of the investment it is necessary to compare the returns against those received from other investments. In general terms, Port Taranaki does not annually return as much as other less risky forms of investment. However, Port Taranaki does have the ability to provide one-off returns that the Council's other investments are unable to do.

Ownership and governance review: During 2002/2003 the Council completed a review of the governance and ownership issues in relation to Port Taranaki Ltd. Given that there was no compelling reason to change the existing structure, the review concluded that the status quo for ownership and governance of Port Taranaki Ltd be retained. No ownership or governance review was undertaken during 2007/2008.

3.2.3 Civic Assurance

The Taranaki Regional Council holds 1,000 \$1 shares in Civic Assurance. These shares have a book value of \$1,000, but in the open market they have a limited value, as they are unable to be readily transferred. The following policies were adopted for the management of its investment in Civic Assurance:

- *The shares in Civic Assurance are to continue to be held, as the shares are not readily transferable.*
- *Annual reports are received and reviewed by the Council. The election of Directors takes place at the Annual General Meeting held at the time of the Local Government New Zealand annual conference. The Council votes by proxy or by delegated authority to the Chairperson.*

The Council considered the 2007/2008 Annual Report and financial statements for the year ended 31 December 2007 on 4 August 2008.

3.2.4 Treasury investments

The Taranaki Regional Council invests surplus funds in the form of term deposits with banks. The return on investment (interest) is utilised to reduce the Council general rate requirement.

Policies: It is the Council's policy to maximise its returns but to minimise its exposure to risk. More specifically, the Council minimises its credit exposure by:

- *Ensuring all investment, cash management, interest rate risk management and any foreign exchange transactions are undertaken with entities that have a very strong credit rating.*
- *Limiting total exposure to prescribed amounts and set percentages of total cash investments.*
- *Monitoring compliance against set limits.*

Banks: The Council only used those banks and local government/corporate bonds authorised by the *Treasury Management Policy*. The banks and bonds used were reported to the Council in the Monthly Financial Reports.

Returns: A 7.41% return from cash investments was achieved (2006/2007 – 6.61%).

Exposure and monitoring: The Council complied with the limits imposed by the *Investment Policy*. Again these limits were reported to the Council in the Monthly Financial Reports.

Return trends: In recent years the value of interest earned on cash investments has risen markedly as the strength of the Council's balance sheet has increased.

Returns on investments are budgeted to be at 7% per annum in the *Long-Term Council Community Plan*. It is anticipated that the Council will have no problems achieving this mark in 2007/2008.

3.2.5 Property investments

Background: The Council owns 38 properties in New Plymouth and Waitara, which were transferred to the Council at the time the Council assumed the role of the previous Taranaki Harbours Board in 1989. Properties are currently leased on a long-term basis to parties external to the Council.

Policies: The following policies were adopted for the management of the Council's investment in properties:

- *The Council will continue to hold its properties unless there is a conflict of interest between the Council's role as a regulator and its role as a landlord.*
- *The Council will not seek to acquire any new equity or property investments unless they are identified in its Long-Term Council Community Plan.*
- *The Council will continue to maximise returns from its properties.*

Return on investments: Investment properties are revalued annually and at 30 June 2008 they were valued at \$16.83 million. These properties returned the Council

2.79% in 2007/2008. The significant increase in value of these properties has resulted in reduced returns from them. This is because of the long-term nature of the leases. That is, the rentals cannot be reviewed until such time as the lease expires. When the leases are renewed the rentals will increase proportionally.

As at 30 June 2008 all properties were leased out.

Disposal of properties: No properties were sold during the year. A number of leaseholders have expressed a desire to purchase the property they lease should the Council change its policy in regard to ownership.

Renewal of leases: During 2007/2008 two leases were renewed. All leases are renewed after independent valuations by Telfer Young (Taranaki Ltd) of New Plymouth.

3.2.6 Reserve funds

The Council has a number of reserves set aside for specific purposes. Some of these reserves are legislative requirements, whereas, others are historical in nature. The full range of reserves and their purposes follows.

Makuri River Control Scheme reserve: The Council strikes a targeted rate, as and when required, based on land values in the Makuri Valley River catchment for maintenance of the river scheme. Any unspent funds must be appropriated to this reserve.

North Taranaki/Waitara River Control Scheme reserve: The Council strikes a targeted rate based on capital values over the New Plymouth District for the purposes of:

- maintaining of the Waitara River Flood Protection Scheme
- the construction of flood protection works in the lower Waiwhakaiho catchment
- for other minor river control works which are required for flood protection in the district.

Any unspent funds must be appropriated to this reserve. Funds may only be appropriated to cover expenditure on the above purposes.

Contingency/disaster reserve: This reserve was created to meet the Council's share of the replacement cost of infrastructure assets affected by natural disasters. It also covers the Council's commitments under the *National Civil Defence Plan* in the event of emergencies. It is available for any other contingency or emergency response purposes including oil spill response and flood response.

Hollard Garden Endowment reserve: This reserve was established at the bequest of Mr Bernard Hollard. This reserve is to be used specifically and exclusively for the benefit of Hollard gardens.

Dividend equalisation reserve: The Council transfers dividends received in excess of budget to this reserve. The reserve is to be used to equalise dividend returns over time. Dividends in excess of budget since 1996/1997 have been transferred to the reserve. Prior to 1996/1997 all dividends were used to repay debt incurred during

the incorporation of Port Taranaki Ltd. From 1996/1997 onwards dividends have been used to reduce the general rate requirement.

Policies: The following policies were adopted for the management of the Council's reserves:

- *The reserve funds will not be matched by specific investments.*
- *Transfers to and from reserve funds will continue to be approved by the Council.*
- *Interest revenue will be credited to each reserve fund that represents funding from specific sources rather than from the general ratepayer base or from the disposal of assets or investments. The specific reserves that will receive interest revenue are the North Taranaki/Waitara River Control Scheme reserve, the Makuri River Control Scheme reserve and the Hollard Garden Endowment reserve.*
- *Movements in reserve funds will be reported to the Council as part of the monthly financial reports.*

Funding reserves: The Council's policy is not to match specific investments to reserves. However, the Council is in the position of being readily able to fund any expenditure from a reserve. At 30 June 2008 the Council's reserves amounted to \$9.5 million, whereas the Council had cash and investments of \$14.9 million to fund expenditure from any of the reserves.

Transfers to and from reserves: All transfers to and from reserves are approved by the Council through the annual plan and estimates approval process, or through a separate recommendation of the Council for special circumstances. Actual transfers to and from reserves for 2007/2008 are outlined in Appendix 1.

Interest: In accordance with the Council's policy, interest revenue was applied to the North Taranaki/Waitara River Control Scheme reserve, the Makuri River Control Scheme reserve and the Hollard Garden Endowment reserve – refer to Appendix 1.

Reporting movements in reserve funds: Movements in reserve funds were reported to the Council as part of the Monthly Financial Reports. In 2007/2008 the majority of movements in reserve funds were at the end of the financial year and, as such, were reported to the Council through consideration of the 2007/2008 Annual Report.

4. Liability management policy

The *Liability Management Policy* provides the framework to allow the Council to borrow funds as and when required. It was noted in the policy that the *Long-Term Council Community Plan* indicated there was no short to medium term intention to borrow funds. This proved to be the case in 2007/2008. The Council has no external public debt nor does it anticipate the need for any in the life of the current *Long-Term Council Community Plan*.

Appendix 1 – Reserve movements for 2007/2008

	Opening balance 1 July 2007	Plus transfers to reserves	Sub-total	Plus interest	Less transfers from reserves	Closing balance 30 June 2008
Makuri River reserve	\$1,746	\$0	\$1,746	\$129	\$375	\$1,500
North Taranaki/Waitara River Control Scheme reserve	\$470,296	\$28,259	\$498,555	\$34,849	\$75,793	\$457,611
Contingency/disaster reserve	\$1,086,000	\$0	\$1,086,000	\$0	\$0	\$1,086,000
Hollard Garden Endowment reserve	\$184,613	\$0	\$184,613	\$13,680	\$0	\$198,293
Dividend equalisation reserve	\$8,926,594	\$0	\$8,926,594	\$0	\$1,140,743	\$7,785,851
Totals	\$10,669,249	\$28,259	\$10,697,508	\$48,658	\$1,216,911	\$9,529,255