

Open Meeting

To	Strategy & Finance Committee
From	Alison Diaz Chief Financial Officer
Date	17 May 2021
Prepared by	Jean de Abreu Financial Accountant
Chief Executive Approved	Y
Reference #	CVN0102/ 3098281
Report Title	Waikato District Community Wellbeing Trust – Final Statement of Intent for the year ending 30 June 2022

1. EXECUTIVE SUMMARY

Pursuant to section 64 of the Local Government Act 2002, Council-Controlled Organisation's (CCO's) are required to provide a final Statement of Intent to its shareholder(s) (Council) by 1 July each year.

2. RECOMMENDATION

THAT the report from the Chief Financial Officer be received;

3. BACKGROUND

The Trustees of the Waikato District Community Wellbeing Trust (Wellbeing Trust) are required to present a final Statement of Intent for the year ending 30 June 2022 to Council by 1 July 2021. This Statement of Intent retains the principles developed in the inaugural Statement of Intent which are:

- Ensure the real (inflation-adjusted) value of the fund is protected;
- Ensure that the total grants distributed do not exceed 50% of the accumulated retained net income after allowing for the CPI movement and expenses;
- Ensure no more than 10% of the capital is distributed in any one year;
- Identify opportunities to grow the fund;
- Have a process for promoting the fund availability and for allocating the fund; and,
- Monitor performance of investments by receiving and considering financial information.

In previous years, the Statements of Intent have been prepared based on receiving a long term, sustainable return on investment of 7.26% before fund management fees. In recognition of the

economic downturn resulting from the COVID-19 pandemic, advice was sought from Kiwi Wealth Limited regarding the sustainability of this level of return. Based on that advice, the assumed rate of return used in this final Statement of Intent was reduced to 5% up to 30 June 2021 and 4% per annum for financial years 2022 to 2024 before expenses.

Budgeted grant distributions are based on the principles identified above and on discussions between the Trustees and Kiwi Wealth Limited.

4. CONCLUSION

The final Statement of Intent for the Waikato District Community Wellbeing Trust for 2021/22 is received.

5. ATTACHMENTS

Waikato District Community Wellbeing Trust Final Statement of Intent for the year ended 30 June 2022.

Waikato District Community Wellbeing Trust

Statement of intent

For the year ending 30 June 2022

Waikato District Community Wellbeing Trust
Statement of intent
For the year ending 30 June 2022

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Waikato District Community Wellbeing Trust
Statement of intent
For the year ending 30 June 2022

Introduction

This Statement of Intent (SOI) is presented by the Waikato District Community Wellbeing Trust (the Trust) as required by Section 64(1) of the Local Government Act 2002.

The SOI forms the basis for the accountability of the Trustees to Waikato District Council, and sets out the objectives, scope of activities undertaken, and performance targets by which the Trust will be measured.

The purpose of this statement of intent is to:

- State publicly the activities and intentions of this council-controlled organisation for the year and the objectives to which those activities will contribute;
- Provide a basis for accountability and transparency.

This Statement of Intent covers the year to 30 June 2022 and includes prospective financial information for the following two financial years.

Jacqui Church (Chair)

Entity information

Legal name

Waikato District Community Wellbeing Trust.

Type of entity and legal basis

The Trust was incorporated on 1 November 2010 under the Charitable Trust Act 1957 and is domiciled in New Zealand. On the same date the Trust was registered in accordance with the Charities Act 2005 to give it charitable status.

The Trust was established by Waikato District Council (WDC) and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002, by virtue of WDC's right to appoint the Trustees.

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Objectives of the Trust

The principal activities of the Trust are undertaken to:

- Promote the social, environmental, and cultural wellbeing of the Waikato district and its communities;
- Deliver on the aspirations and community outcomes of the Waikato district as identified and promoted by the community; and,
- Fund projects identified by Council's planning documents.

Governance

The Trust will be governed in accordance with the terms of the Trust Deed.

Objective

1. To comply with the terms of the Trust Deed and in particular with the duties of the Trust as set out in clause 11 of the Deed.

Clause 11 of the Deed lists the Trust's objectives as:

- a) To consider and approve projects submitted by Waikato District Council (Council);
- b) To publicise the projects and activities of the Trust;
- c) To actively promote the work of the Trust with a view to ensuring the long-term operations of the Trust;
- d) To ensure information about the Trust's activities and objectives is available to people within the area and fosters a sense of community achievement and betterment;
- e) To develop appropriate funding allocation mechanisms; and,
- f) To be guided by a clearly defined set of principles.

Performance measure

1. Undertake an annual legal review of compliance with the Trust Deed; no later than two months after the end of the financial year.

Investment

The Trust will, in accordance with the Trust Deed, invest or reinvest part or parts of the Trust Fund not immediately required for the purposes of the Trust (whether income or capital) in investments or securities, as the Trust Board considers beneficial to the Trust Fund. The Trust will also seek other opportunities and avenues for growing the trust Fund. The intention of the Trustees is that the real value of the Trust Fund is preserved.

Objective

1. To adhere to the Trust's *Management of Investment Portfolio and Distribution Policy*.
2. To review, on an annual basis, the investment mandate, and the performance of the portfolio manager.

Performance measure

1. At each quarterly meeting, review compliance with the Trust's *Management of Investment Portfolio and Distribution Policy* during that quarter.

Waikato District Community Wellbeing Trust

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For the year ending 30 June 2022

Fund disbursement

The Trust will, as appropriate, disburse funds towards projects that meet the Trust's criteria and meet the objectives of the Trust Deed.

Objective

1. As per the *Management of Investment Portfolio and Distribution Policy*, to distribute total grants that do not exceed 50% of the accumulated net income after allowing for accumulated expenses, inflation movements and prior year distributions.

Performance measures

1. A distribution process is undertaken that distributes the annual fund to eligible recipients in accordance with funding targets set up by the Trustees in accordance with the *Management of Investment Portfolio and Distribution Policy* for the current year.
2. Six monthly reports are received from all successful applicants within the required time frames.

Portfolio and distribution policy compliance

Agreed targets

1. Ensure that the real (inflation-adjusted) value of the Fund is protected.
2. Ensure that no more than 10% of the capital is distributed in any one year.
3. The portfolio investment manager will report regularly to the Trustees.
4. The Trustees will annually review the performance of the portfolio manager.

Structure of the Trust's operations, including governance arrangements

The Trust comprises a Board of five Trustees who oversee the governance of the Trust.

The Trustees are:

Mayor	Allan Sanson
Councillor	Jacqui Church (Chair)
Councillor	Rob McGuire
WDC appointee	Judi Muru
WDC appointee	vacant position

The operation and administration of the Trust are undertaken by staff of WDC. Those staff are: Chief Financial Officer, EA to the Chief Operating Officer, Community Development Coordinator and Financial Accountant.

Main sources of the Trust's cash and resources

The Trust's introductory fund was provided by distribution of the capital fund of the Waikato Foundation Trust.

The proceeds of that distribution are invested in a portfolio of financial assets managed by Kiwi Wealth Limited. The returns from the portfolio are the Trust's source of continuing revenue.

Waikato District Community Wellbeing Trust
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Prospective statement of financial performance

Prospective performance reports for the years ending 30 June 2021 - 2024

Prospective statement of financial performance

	FY Budget	FY Forecast			
	2020/21	2020/21	2021/22	2022/23	2023/24
	\$	\$	\$	\$	\$
Revenue					
Finance income	241	97	378	378	378
Dividend income from portfolio of investments managed by Kiwi Wealth Limited	-	-	-	-	-
Realised gains on investments	55,464	79,615	41,153	40,952	40,604
Unrealised gains on investments	161,194	403,112	148,490	147,768	146,513
Total revenue	216,899	482,824	190,021	189,098	187,495
Expenses					
Audit fees	7,810	8,627	8,627	8,627	8,627
Portfolio management fees	30,452	31,949	33,480	33,150	32,858
Other expenditure	2,159	1,866	1,905	1,997	2,047
Grants	190,719	122,000	185,481	59,015	33,763
Unrealised losses on investments	-	-	-	-	-
Total expenses	231,140	164,442	229,493	102,789	77,295
Surplus/(deficit) for the period	(14,241)	318,382	(39,472)	86,309	110,200

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Prospective statement of financial position

Prospective statement of financial position

	FY Budget	FY Forecast			
	2020/21	2020/21	2021/22	2022/23	2023/24
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	9,214	14,528	14,422	14,268	14,474
Other financial assets	4,383,471	4,736,840	4,713,845	4,673,876	4,758,641
Prepaid insurance	408	434	490	503	517
Total current assets	4,393,093	4,751,802	4,728,757	4,688,647	4,773,632
Total assets	4,393,093	4,751,802	4,728,757	4,688,647	4,773,632
Liabilities					
Current liabilities					
Creditors and other payables	202,991	182,178	198,595	72,166	46,941
Accrued expenses	8,166	8,972	8,982	8,992	9,002
Total current liabilities	211,157	191,150	207,577	81,158	55,943
Total liabilities	211,157	191,150	207,577	81,158	55,943
Net assets	4,181,936	4,560,651	4,521,180	4,607,489	4,717,689
Equity					
Introductory fund	2,579,899	2,579,899	2,579,899	2,579,899	2,579,899
Capital maintenance fund	648,626	649,547	740,761	831,184	923,334
Accumulated funds	953,411	1,331,205	1,200,520	1,196,406	1,214,456
Total net assets / equity	4,181,936	4,560,651	4,521,180	4,607,489	4,717,689

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Prospective statement of cash flows

Prospective performance reports for the years ending 30 June 2021 - 2024 (cont)

Prospective statement of cash flows

	FY Budget	FY Forecast			
	2020/21	2020/21	2021/22	2022/23	2023/24
	\$	\$	\$	\$	\$
Cash flows from operating activities					
Cash was received from:					
Interest receipts	241	97	378	378	378
Dividends received	-	-	-	-	-
Cash was applied to:					
Payments to donees	(123,056)	(158,217)	(171,556)	(185,481)	(59,015)
Payments to suppliers	(39,806)	(59,250)	(41,210)	(43,554)	(40,569)
Net cash flows from operating activities	(162,621)	(217,370)	(212,388)	(228,657)	(99,206)
Cash flows from investing and financing activities					
Cash was received from (applied to):					
Realised gains from investments	55,464	79,615	41,153	40,952	40,604
Sale (acquisition) of investments	107,220	115,175	171,129	187,551	58,808
Net cash flows from investing and financing activities	162,684	194,790	212,282	228,503	99,412
Foreign exchange translation differences	-	-	-	-	-
Net increase (decrease) in cash for the year	63	(22,580)	(106)	(154)	206
add opening bank accounts and cash	9,151	37,108	14,528	14,422	14,268
Closing bank accounts and cash	9,214	14,528	14,422	14,268	14,474

Statement of accounting policies

Basis of preparation

The Board of Trustees has elected to apply PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)* for Tier 3 entities on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2million.

Notwithstanding the comments above, the following Tier 2 PBE accounting standards have been applied:

PBE IPSAS 4 The effects of changes in foreign exchange rates; and

PBE IPSAS 41 Financial instruments.

Note, IPSAS 41 Financial instruments replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement, effective for reporting periods beginning on or after 1 Jan 2022 (early adoption is permitted). Council has adopted this new standard and there are no material changes as the requirements are similar to that of PBE IPSAS 29.

All transactions in the financial statements are reported using the accrual basis of accounting.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

Goods and services tax

The Trust is not registered for GST. All amounts in the performance report are inclusive of GST.

Significant accounting policies

Interest and dividend revenue

Interest revenue is recognised as it is earned during the year.

Dividend revenue is recognised when the dividend is declared.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand Dollars using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation at the end of the period exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in surplus (deficit) for the year.

Grant expenditure

All grants made by the Trust are classified as discretionary.

Discretionary grants are those grants where the Trust has no obligation to award on receipt of the grant application. Such grants are recognised as expenditure when approved without condition by the Board and the approval has been communicated to the applicant. Discretionary grants made subject to conditions are recognised as expenditure when all conditions have been met.

Statement of accounting policies (cont.)

Income tax

The Trust has charitable status and is exempt from income tax.

Bank accounts and cash

Bank accounts and cash comprise cash on hand and deposits held at call with financial institutions.

Investment portfolio

Components of the investment portfolio are classified as follows:

Financial Asset

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Fixed Interest Investment

The fixed interest investment is classified as a financial asset at fair value through surplus or deficit. The contractual cash flows of the investment are solely principal and interest, however, these are neither held for the purpose of collecting contractual cash flows nor held for collecting contractual cash flows and for sale. Consequently, all investments are measured at fair value through surplus or deficit. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Growth (Equity) Investment

Financial assets at fair value through surplus or deficit include financial assets held for trading. After initial recognition, this investment is measured at its fair value with gains or losses on re-measurement recognised in the surplus or deficit.

All financial assets in the portfolio are classified as a current asset.

Creditors and accrued expenses

Creditors and accrued expenses are measured at the amount owed.

Forecast assumptions

1. Portfolio income

Kiwi Wealth has estimated an average return on the portfolio of 5% for the remaining six months to 30 June 2021 and 4% per annum for financial years 2022 to 2024 before expenses.

The split of the total return between interest, dividends and gains/losses is estimated using proportions calculated from an average of past results while taking into account changes to the components of the portfolio.

2. Expenses

Audit fees are estimated at \$8,627 for each of the four forecast years.

Portfolio management fees are assumed at a rate of 0.61% of the opening portfolio value in each year.

Other expenditure comprises annual return fees, bank charges, general expenses, and audit disbursements.

3. Grant's expenditure

It is assumed that for the current (2021) year all outstanding grants will be paid by 30 June 2021. It is further assumed that in subsequent years 80% of the maximum allowable distribution will be approved and fully paid by year end.

The maximum allowable distribution is set out in the *Management of Investment Portfolio and Distribution Policy*. Total grants must not exceed 50% of the accumulated net income after allowing for accumulated expenses, inflation movements and prior year distributions.

4. Prepayments

Prepayments represent four months of insurance costs.

5. Creditors and other payables

Creditors and other payables are made up of the amount owing to Waikato District Council and the June portfolio management fee.

It is assumed that the year-end balance owing to WDC is paid in full in the following year.

6. Accrued expenses

Accrued expenses comprise audit fees and disbursements.

7. Equity

The Trust was established with an initial capital contribution resulting from the transfer of 35% of funds previously held by the Waikato Foundation Trust as of 31 January 2012. This was recognised as revenue in that year and transferred to the introductory fund.

The capital maintenance fund is made up of accumulated annual charges transferred from accumulated funds to maintain the real value of the Trust fund.

The accumulated funds and capital maintenance funds together represent the total net increase in the fund value since the inception of the Trust.

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Other financial disclosures

Ratios

The Local Government Act 2002 requires a statement of intent to include the projected ratio of equity to total assets.

The ratio of equity to total assets is forecast as follows:

2020/21	96.0%
2021/22	95.6%
2022/23	98.3%
2023/24	98.8%

Compensation

The Trustees will not seek any fees or expenses for work undertaken on behalf of Waikato District Community Wellbeing Trust.

Information to be provided to the Trustees

The Trustees will be provided with the following information:

- Within four months of the end of the financial year the audited financial statements plus a summary of how the Trust has performed against its objectives and performance targets;
- Quarterly reports on the performance of investments; and,
- A draft statement of intent for consideration in February of each year.