

Report No:	RCN12-05-07
File No:	E936
Date:	16 May 2012
<i>Decision required</i>	

REPORT SUMMARY

Report to: Full Council
Meeting Date: 24 May 2012
Report Author: Russell Holden
Subject: **Special Port Nelson Dividend**

EXECUTIVE SUMMARY

During March of 2012 Council received a special one-off dividend from Port Nelson of \$4 million.

This report examines some of the options Council may consider when deciding upon the use of these funds.

RECOMMENDATION

THAT the Tasman District Council receives report RCN12-05-07 Special Port Nelson Dividend; and

THAT the Tasman District Council use the Port Nelson special dividend replenish the General Disaster Fund to the value of \$3 million, and offset general rate debt by \$1 million.

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1. PURPOSE

- 1.1 This report outlines some of the options available to Council on the use of the Port Nelson special dividend received in March of 2012.

2. BACKGROUND / MATTERS TO BE CONSIDERED

- 2.1 In March 2012 Council received a special Dividend from Port Nelson of \$4 million.
- 2.2 Previous uses of unexpected cash funds received by Council, i.e. the 1996 Port Dividend, and the shareholder returns received from NRSBU, have been used to offset debt.
- 2.3 Council's Disaster Fund has been depleted by the significant rain events of December 2010, and again in December 2011.
- 2.4 Council's share of the cost of the December 2011 rain event is predicted to be around \$3.4 million.
- 2.5 Council has committed to increase the replenishment of the Disaster fund from year one of the Long Term Plan, to a balance of \$6.5 million.

3. FINANCIAL/BUDGETARY CONSIDERATIONS

- 3.1 Total amount received from Port Nelson was \$4 million.

5. OPTIONS

Option 1:

- 5.1 Place all of the Special Dividend funds in the Disaster Fund, to provide a significant boost towards the goal of reaching a fund total of \$6.5 million.

5.2 Of the \$4 million received, approximately \$3.4 million is likely to be required to cover Council’s share of the December 2011 rain event. This could be covered by loan and repaid from the disaster fund over time, or could be fully cash-funded from the dividend received.

Option 2:

5.3 Use the fund to repay a portion of Council’s debt. Significant public debate has focused on the level of Council’s debt.

Option 3:

5.4 Put \$3 million in the General Disaster Fund and pay \$1 million off debt.

5.5 Council is a growth authority, and as such incurs the cost of expanding and constructing infrastructure to meet the coming communities’ needs. Part of the cost of infrastructure is funded by debt. Council has also adopted a strategy to equitably manage the concept of intergenerational equity, by using debt to ensure those ratepayers gaining the benefit of the asset are the ones paying for it.

5.6 There are options for using the funds to repay debt that Council could consider:

5.6.1 Option A:

Apply the funds to General Rate-funded debt only. Council has debt within the major activities of; General Rate, Wastewater, Water Supply, Refuse, Stormwater, and Facilities. Council’s mix of targeted rates are spread across the District’s ratepayers, with not all ratepayers paying every rate.

As all ratepayers pay the General Rate, this option would benefit all ratepayers.

Table 1 below indicates the likely savings of loan charges to the General Rate, should \$1 million be applied to the General Rate.

Table 1.

Apply \$1 million to repay only General Rate-funded debt		
General Rate Savings	\$ Decrease	% Decrease
Year 1	\$110,450	0.37%
Year 2	\$106,425	
Year 3	\$105,125	

5.6.2 Option B:

Apply the funds across all major activities of Council which have loans. As detailed above Council has, and is proposing to increase the level of debt across all major activities in the Draft Long Term Plan. This option would, in part, provide some relief to those areas.

Table 2 below provides a guide as to the likely saving in year one of the Long Term Plan, should this option be implemented. Note that a full year saving has been assumed.

Table 2.

Apportion Debt Repayment Across All Activities Loans			
excluding specific Targeted Rates & Reserve Financial Contributions			
Activity	Debt Repayment	Saving in Rate	
General Rate Activities	\$455,628	0.17%	
Wastewater	\$237,754	\$1.68	exc GST
Water	\$170,359	\$0.01/m3	exc GST
Stormwater	\$118,112	0.0001 cents per \$ capital value	exc GST
Refuse Targeted Rate Loans	\$2,791	\$0.02	exc GST
Other	<u>\$15,356</u>		
	\$1,000,000		

As all rates have different computation factors, it is difficult to readily grasp how the application of funds, or cost reductions, affect each rate. Table 3 is a key to the four major activities of Council, and indicates the level of debt reduction required to effect a significant level of specific rate saving.

Table 3.

Repaying a mixture of Activity Loans & Reducing Varying Rates			
Possible Savings in Rates	Debt Repayment	Saving in Rate	
General Rates	\$2.70 million	1%	
Volume m3 charge	\$1.43 million	\$0.05	exc GST
1st Pan	\$1.41 million	\$10.00	exc GST
Refuse Targeted Rate	\$0.166 million	\$1.00	exc GST

6. RECOMMENDATION / CONCLUSION

- 6.1 Staff recommend paying \$1 Million off debt and putting \$3 million into the General Disaster Fund, as outlined in Option 3 in paragraph 5.4.
- 6.2 Staff recommend Option A as outlined in paragraph 5.5.1 in applying the funds to debt, i.e. those loans which are only funded by General Rate. This option provides the greatest benefit to the greatest number of ratepayers.

7. DRAFT RESOLUTION

THAT the Tasman District Council receives report RCN12-05-07 Special Port Nelson Dividend; and

THAT the Tasman District Council use the Port Nelson special dividend replenish the General Disaster Fund to the value of \$3 million, and offset general rate debt by \$1 million.