

Claimant Guide

March 2010



This guide provides claimant groups that have Crown Forestry Rental Trust (“the **Trust**”) Operational, Research and Specialist Advice funding contracts with information on how to understand and complete the financial reporting requirements contained in these funding contracts.

The guide answers four common questions:

1. What are the Trust’s financial reporting requirements?
2. What about taxes and the IRD?
3. Who should do this work?
4. Is there anything else a claimant group should know?

This guide is a first step. The Trust encourages claimant groups to read this guide in conjunction with Trust funding contracts and the Trust’s *Guide for Claimants Negotiating Treaty Settlements*, which gives more detail on the Trust and the Trust’s funding in general.

Most importantly, this guide is designed for use in conjunction with a Trust Relationship Manager. Each Trust Relationship Manager will be able to work with claimant groups to assist with completing the Trust’s financial reporting requirements.

If a claimant group is unsure of who their Trust Relationship Manager is, they should contact the Trust on:

0800 CFRT CFRT.

Electronic copies of this and all other Trust publications are available for download at: **www.cfrt.org.nz**

PART ONE:

What are the Trust’s financial reporting requirements?

In order to enter into a funding contract, claimant groups and the Trust need to agree in writing on a phased budget prepared by the claimant group.

Claimant groups need to provide five pieces of information to the Trust each month for contract payments to be processed:

1. Balance Sheet (Statement of Financial Position);
2. Statement of Financial Performance;
3. Variance Analysis of Financial Performance;
4. Transaction Analysis, and
5. Bank Statements.

If the claimant group is receiving funding from the Trust from **more than one** contract and this funding is paid into **one** bank account, then the claimant group will need to provide a monthly bank reconciliation for all contracts.

Crown Forestry Rental Trust Trustees define criteria for the activities and costs the Trust will fund and the activities that will be funded. All assistance must be within the terms of the Trust Deed. Under clause 10.6 of the Trust deed, the Trustees can “*only make payments for the expenditure or activities, and in amounts, which the Trustees have approved before the expenditure is incurred or the activity undertaken.*” This means that the Trust cannot reimburse claimant groups for any expenditure made before the date funding was approved by Trustees.



To ensure that this term of the Trust Deed is complied with the Trust requires all claimant groups that receive Trust funding to complete phased budgets to ensure expenditure can be monitored through monthly financial reporting requirements.

All funding contracts contain the same financial reporting requirements. Claimant groups must complete these requirements each month before operational funding milestones, specialist advice invoices or research funding milestones can be processed.

This is a contract requirement under:

- clause 8 for claimant funding contracts,
- clause 3 for specialist advice contracts, and
- clause 11 for research funding contracts.

Claimant groups must provide monthly financial reports in relation to each contract ten working days after the end of each calendar month. If insufficient detail is provided, the Trust may request additional supporting information. This may delay any payments due to claimant groups.

A claimant group must provide five pieces of information for each contract, or six pieces if they have more than one Trust contract paid into the same account:

- Balance Sheet (Statement of Financial Position)
- Income and Expenditure Statement (Statement of Financial Performance)
- Variance Analysis of Financial Performance
- Transaction Analysis
- Bank Statements
- Monthly bank reconciliation if funding from multiple contracts is paid into a

single account.

Each of these pieces of information is discussed in more detail below.

What do claimant groups need to do first?

While the contract with the Trust is being negotiated, the claimant group will need to prepare a phased budget so that spending can be planned and monitored.

- This phased budget will be based on the total amount of funding approved by the Trust and apportioned on a monthly basis over the life of the contract.
- For each line item of funding approved by the Trust, the group will need to show how much will be budgeted for each month.
- This will need to be within the total amount approved by the Trust.
- The phased budget will be used as the basis for the monthly financial reporting information required.

Some amounts will be consistent or fixed each month, such as administration or project management costs. Other costs will vary by month depending on events, for example, Waitangi Tribunal hearing weeks, or negotiation meetings with the Crown. The phased budget should align expenditure with when activities are anticipated to occur.

If events change or there is a pattern of under or over spending each month, then it is possible for the claimant group and the Trust to vary the agreed phased budget to better anticipate future spending. If a claimant group wants to vary their phased budget the first point of contact should be their Trust Relationship Manager.

If additional funding is sought, this will

need to be approved by the Trustees.

Financial Information Required

The relevant five or six pieces of financial information must be provided to the Trust ten working days after the end of each calendar month. Contract payments will not be made if this information is not provided.

These pieces of information only need to relate to funding provided by the Trust.

1. Balance Sheet (Statement of Financial Position)

The Trust requires a Balance Sheet (Statement of Financial Position) at the end of each month.

A Balance Sheet is a snapshot of the claimant group's financial position. It is a summary of the claimant group's assets, liabilities and ownership equity/reserves as at the end of each month.

The Trust will review the Balance Sheet (Statement of Financial Position) to check that:

- it balances (i.e., total assets = total liabilities + equity);
- the month end date is the same as the Statement of Financial Performance; and
- the financials are accrual based (i.e. all expenditure incurred during the reporting period has been accounted for in the Statement of Financial Performance and corresponding invoices to be paid have been listed as creditors or as accruals).

2. Statement of Financial Performance

The Trust requires a Statement of Financial Performance (Actual Expenditure compared with Agreed Phased Budget Expenditure) showing

actual expenditure against the amounts specified in the claimant group's phased budget for the month just ended and year to date reporting periods.

The Statement of Financial Performance indicates how the money received from the Trust has been applied against expenses, such as administrative costs, fees for specialist advisors, or any research costs. The Statement of Financial Position shows the Trust how much Trust funding has been spent by the claimant group at the end of each month.

The Trust will review the Statement of Financial Performance to check that:

- it is for the right period;
- both actual and budget figures are included for the reporting period;
- it is set up with the same cost categories for expenditure and phased budget amounts as approved by the Trust; and
- it relates to contracted activities.

3. Variance Analysis of Financial Performance

A variance is the difference between the amount in the agreed phased budget and the actual amount spent.

The Trust requires a Variance Analysis of Financial Performance for the month just ended and year to date.

There are three components to the Variance Analysis. To fulfil this requirement, a claimant group will need to:

- i. identify any variances for each cost category, ie, either under or over spending of the phased budget amounts.
- ii. explain why there is a variance.

This shows that the claimant group is actively monitoring their phased budget and can explain the variances and confirm that it will stay within the agreed budget for the contract.

- iii. provide an explanation for any remedial action required to correct any variances. Examples of remedial action may be to re-phase the budget or adjust future expenditure to ensure that future spending aligns with the agreed budget. Budgets can only be re-phased within the cost category and Trust approval must be obtained before funding from one cost category can be used for another cost category. The claimant group should try to do this before the next month so the same explanation is not required. The re-phasing of a budget cannot be done retrospectively (i.e. once the cost has been incurred). If this is necessary, it is important that the claimant group notifies the Trust in writing at the earliest opportunity.

It is important to think about what effect any variance will have on the agreed phased budget for the remainder of the contract. If an overspend is anticipated it is important that this is calculated and reported so that the agreed phased budget can be updated if necessary.

The Trust will review the Variance Report to check that:

- there is an explanation for variances for each cost category greater than or less than 10% of the agreed phased budget, and
- these variance explanations equate with the information in the claimant group's milestone report.

4. Transaction Analysis

The Trust requires a detailed project ledger or general ledger transaction report. The report must provide transaction details incurred for each agreed cost category specified in the agreed phased budget, showing:

- i. payments made to and from the claimant group's bank account, and
- ii. accruals made for goods or services provided for the month just ended.

It is a Trust requirement that all invoices received for the month just ended which have not been approved for payment are included in the Statement of Financial Performance.

The Transaction Analysis lists the details of each individual transaction during the month, the date and the amount of the transaction paid and/or received.

The Trust will review the Transaction Analysis to check that:

- nothing is out of place,
- the activities are the same as have been approved by the Trust, and
- items have been correctly categorised.

5. Bank Statements

The Trust requires copies of monthly bank statements and transaction listings specific to the bank account used by the claimant group to receive Trust funding.

The Trust will review the Bank Statements to check that:

- the month end closing balance for the reporting period reconciles with the reported general ledger cash balance. If there is a difference, then the Trust requires a bank reconciliation report by way of explanation.

- there is not a surplus of unspent funds in the bank account.

6. Monthly Bank Reconciliation for Multiple Funding Contracts

- If the claimant group has more than one contract with the Trust but receives all Trust funding into one bank account, then the claimant group must provide a monthly bank reconciliation for all contracts.
- This reconciliation will be based on the total funding received from the Trust for each contract and expenditure incurred by the claimant group for each contract as specified in each contract's Statement of Financial Performance.
- The overall monthly bank reconciliation for all contracts must equal the bank balance in the Statement of Financial Position as at the end of the month, taking into account accounts receivable, accounts payable, and any other transactions.

PART TWO:

What about taxes and the IRD?

Claimant funding received from the Trust is not subject to GST.

Claimant groups do not need to pay any GST to the IRD for work funded by the Trust.

Claimant groups cannot claim back GST components from the IRD for expenses paid from Trust funds.

Claimant groups will need to pay PAYE tax to the IRD and Accident Compensation levies to the ACC if staff are employed.

Claimant groups do not pay PAYE tax to the IRD if independent contractors are used.

Claimant groups will need to pay Withholding Tax if Trustees or Board members receive honoraria.

All payments from the Trust to the claimant group are inclusive of any applicable tax. If any tax is imposed on or payable from the activities funded in a contract, this tax must be paid by the claimant group.

GST

The Goods and Services Tax (“**GST**”) treatment of Trust funding for Waitangi Tribunal claims activities is different to the GST treatment of routine business activities.

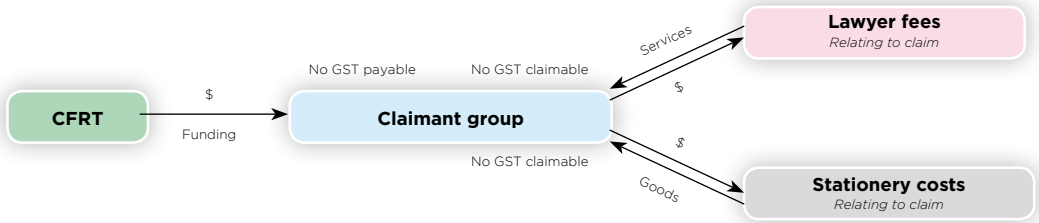
There is an IRD ruling from December 2006 (*Tax Bulletin Volume 18, Number 11, page 37*) for your accountant or financial adviser to refer to which explains the differences fully and how GST should be treated. This ruling is available for download on the IRD website (www.ird.govt.nz).

GST TREATMENT OF CROWN FORESTRY RENTAL TRUST FUNDING

The Goods and Services Tax (“GST”) treatment of claimant funding is different to the GST treatment of routine business activities.

The claimant funding that you receive from the Crown Forestry Rental Trust (“CFRT”) is not subject to GST – in other words, you don’t have to pay any of it to the IRD as GST. On the same basis, you cannot claim back from the IRD the GST content of the expenses that relate to your claim negotiations. However, because you are funded for costs including GST, the inability to claim back GST has no net cost for you.

Consequently, getting it right in your GST return will not result in less cash for negotiation of your settlement, but will remove the risk of getting your returns wrong and incurring IRD penalties.



TECHNICAL ANALYSIS

GST on CFRT funding to claimant groups

No GST output tax (GST on income/GST taxable amounts received) is payable on funding received by claimant groups from CFRT, as:

- There is no reciprocal benefit to CFRT as a result of the payment; and
- The payment is not deemed subject to GST as a Government grant¹.

GST on expenditure incurred by claimant groups

Claimant groups can claim back GST paid (GST input tax) *if* the expenditure is incurred for the principle purpose of making taxable supplies.

Generally, GST input tax cannot be claimed on expenses incurred in negotiating treaty settlements, as the negotiating activity is not considered to be part of a claimant group’s taxable activity².

¹It is the IRD’s view that payments in relation to treaty claims are of compensatory nature for historical wrongdoings, and, accordingly, are outside the scope of a grant or donation.

²An exception is for non-profit bodies. Taxation advice should be sought to confirm a claimant group’s taxation status.

PAYE

If a claimant group is employing staff (rather than hiring independent contractors) to carry out activities, the claimant group will still be required to contribute Pay As You Earn (“**PAYE**”) tax to the IRD for any wages or salaries.

For example if a claimant group:

- employs a Project Manager at \$100 per week, a portion of this amount would need to be paid to the IRD as PAYE. The claimant group would pay this employee \$100 less PAYE and any other taxes and contributions, such as ACC levies.
- has a Project Manager who is an independent contractor and the claimant group has agreed to pay them \$100 per week, then the claimant group would pay the independent contractor \$100 per week. Independent contractors are responsible for their own PAYE, ACC levies and other tax obligations.

There are other obligations as an employer that claimant groups will need to be aware of - for example withholding tax for honoraria paid to Trustees or Board members, holiday pay, sick leave, Kiwi Saver contributions and Student Loan deductions. We recommend claimant groups seek professional advice about their obligations before employing any staff.

There are several tools that can assist with calculating PAYE and other taxes. The Trust recommends claimant groups visit the IRD website at:

www.ird.govt.nz or contact an accountant or financial advisor for further information.

PART THREE:

Who should do this work?

The Trust suggests claimant groups provide a copy of this guide and their Trust contract or contracts to their Accountant and/or Financial Advisor.

A claimant group will need to complete the Variance Analysis Report, based on the information provided by the Accountant and/or Financial Advisor.

Claimant groups should engage an Accountant and/or Financial Advisor

The Trust may provide a funding contribution to enable a claimant group to engage an Accountant and/or Financial Advisor to complete this work. A Trust Relationship Manager can assist with making an application for this funding contribution.

If this funding is approved, the Trust recommends that the claimant group provide a copy of the funding contract and this guide to their Accountant and/or Financial Advisor so they are aware of the claimant group's contractual obligations and the work that needs to be completed.

The Accountant and/or Financial Advisor will be able to assist with producing:

- Balance Sheets (Statements of Financial Position)
- Statements of Financial Performance
- A list of Variances
- Transaction Analysis

An Accountant and/or Financial Advisor will be able to identify what the variances are but will not be able to assist with explaining why there is a variance or detailing the remedial action that will be taken to correct this

variance. This is a task that the claimant group will need to complete, as it is the claimant group, rather than the Accountant and/or Financial Advisor, who will be aware of the “on the ground” factors that have given rise to an under or over spend. It is important that the variance explanations on any financial reports match the explanations given in the overall milestone report narrative required under each operational, specialist advice and research contract.

The Accountant and/or Financial Advisor may be able to assist with providing bank statements, although it is likely that these will be sent directly to the claimant group or be available to the claimant group online.

Is special software required?

The claimant group and their Accountant and/or Financial Advisor will need to maintain a recognised computerised accounting software package that allows the financial information required to be produced. No Trust funding can be released until this can be demonstrated.

PART FOUR:

Is there anything else a claimant group should know?

Claimant groups will need a separate bank account dedicated to Trust funding.

If a claimant group has more than one contract with the Trust, a monthly bank reconciliation detailing the allocation of funds for each contract must be provided.

Claimant groups will need to supply independent audited accounts to the Trust each financial year.

Claimant Groups will need a separate bank account

The claimant group will need to establish and maintain a separate bank account or suffix for Trust funding. This bank account must be:

- separate from any other bank account that the claimant group has,
- designated for the receipt of Trust funding only, and
- operated by at least two signatories jointly.

Before any payments can be made, the claimant group will need to provide the Trust:

- an encoded deposit slip or bank confirmation of the account name and number
- the names of the signatories for this bank account

Trust funding must be operated exclusively out of a Trust funding bank account. Claimant groups should not transfer funds between other bank accounts as Trust funding needs to be easily tracked and reconciled.

What if the claimant group has more than one funding contract with the Trust?

If a claimant group has more than one funding contract with the Trust, the claimant group will need to provide a monthly bank reconciliation across all contracts based on the figures contained in all of the Trust funding contracts.

This monthly bank reconciliation must disclose the cash balance of each contract separately. The Trust requests this information to ensure that the bank balance reported in the Balance Sheet (Statement of Financial Position) reflects the combined cash balance. An Accountant and/or Financial Advisor will be able to assist with this requirement.

The Trust will review the bank reconciliation to check that:

- the General Ledger bank account balance agrees with the Balance Sheet bank account balance, and
- the bank reconciliation agrees with the actual bank statement.

The Trust will require copies of Independently Audited Financial Accounts

The claimant group will need to supply the Trust with independently audited financial accounts each year. This will need to be done within three months after the end of each financial year.

The Trust may provide a funding contribution to enable the claimant group to engage an auditor to complete this work. The Trust Relationship Manager can assist with making an application for this funding contribution.

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