

Mayor and Councillors
COUNCIL

4 OCTOBER 2012

Meeting Status: **Public**

Purpose of Report: For Decision

ANNUAL REPORT TO 30 JUNE 2012

PURPOSE OF REPORT

- 1 The Annual Report for the year ended 30 June 2012 needs to be adopted by the Council.

SIGNIFICANCE OF DECISION

- 2 The Council's Significance Policy is not triggered by this report.

BACKGROUND

- 3 The Corporate Business Committee reviewed the draft Annual Report on 20 September 2012 and subsequent minor changes have been made to the document, along with any audit adjustments required by Council's Auditors, Ernst and Young. At that meeting the Corporate Business Committee resolved to recommend the draft Annual Report subject to any final changes required from Audit for adoption by Council on 4 October 2012.
- 4 Ernst and Young have almost completed their final review of the Annual Report. They have provided a draft Audit unqualified opinion for inclusion in the Annual Report. Once Council has adopted the Annual Report, Ernst and Young will replace this with the original signed audit report. Carolyn Dimond, Executive Director Assurance of Ernst & Young will attend the Council meeting.
- 5 If the Ernst and Young final review results in any recommended additional changes, a list of these together with replacement pages will also be made available at the Thursday meeting, in the form of a tabled Appendix 3 to this report SP-12-691.

CONSIDERATIONS

Clear Audit Opinion

- 6 The Council has received a "clear" and unqualified draft audit opinion for the 2011/12 Annual Report. This is a continuation of clear audits received since 1 July 1992.

International Financial Reporting Standards

- 7 The Council's Annual Report for the year ended 30 June 2012 has been prepared in accordance with the New Zealand International Financial Reporting Standards (NZIFRS).
- 8 This report presents the audited Annual Report commenting on the achievements in the 2011/12 year against the 2011/12 Annual Plan for each of the 16 activity categories. These activities are used by the Council to report on detailed issues, programmes, expenditure, performance and funding frameworks.
- 9 The Council's performance overall is graphed within the Annual Report attached as Appendix 1 to this report. The overall performance is summarised in the following table:

Key Performance Indicators	Year End Result to 30 June 2012
Achieved	92
Ongoing/On target	11
Not achieved	14
Not relevant	13
No longer required	0
Total Key Performance Indicators	130

Financial Results

- 10 The organisation's financial performance continued to be managed in line with the Council's overall objectives. Given the impacts of the economic recession on the levels of revenue in some activities during the year the Council has ended the year in a satisfactory financial position, mainly due to savings in loan servicing costs.
- 11 There was a rates surplus of \$691,000 as at 30 June 2012 which was reported to the Corporate Business Committee on 16 August 2012. This rates surplus has been partly used (\$206,000) to offset the 2012/13 rates increase and the balance was used to offset the additional costs for the District Plan and Expressway work. The additional costs for this work were required as a result of delays in the externally driven NZTA Expressway programme and consequent impacts on staff time allocated to the District Plan review.
- 12 The Statement of Comprehensive Income (on page 135 of the Annual Report) includes revenue and expenditure not only funded from rates but also from other sources. The operating surplus, before one-off items, was \$3.67 million. The difference between the rates surplus and the operating surplus is made up of a number of items as follows:

- 13 Key items impacting on the difference between the operating surplus and rates surplus

	\$000
Operating Revenue that can only be used to fund <u>capital</u> expenditure includes:	
Development Contributions (Capital contributions from Developers)	3,468
NZTA Subsidy for Capital Projects	631
	<u>4,099</u>
Operating Revenue that is <u>non cash</u>	
Vested Assets (Roading water, wastewater and stormwater assets vested in Council by developers at the time of subdivision)	880
Operating Revenue relating to <u>Capital</u> Reserves	
Interest on Loan Repayment/Depreciation Reserves/Special Funds	401

Offsetting these revenue transactions is the following expenditure impacts

Operating Expenditure which is not funded from rates	\$000
Non funded depreciation	1,800
NZTA share of Roading Depreciation	470
Capital Expenditure that is funded from rates	25
Activities <u>not rates funded</u>	
Net Solid Waste Deficit	96
Waste Levy	50

- 14 The solid waste account ended the year with an operating deficit of \$96,000. This related mainly to the greenwaste revenue not matching greenwaste costs and higher operating costs of the Waikanae Recycling Centre.
- 15 The waste levy is funded nationally and is allocated to local authorities for expenditure on waste minimisation.
- 16 The operating surplus before one off items was \$3.671 million. These one off items included the following:

Unrealised loss on valuation of interest rate swaps	\$5.936 million
Loss on Asset Disposal	\$0.975 million

- 17 When these one off items are deducted from the operating surplus, it results in a net operating deficit of \$3.24 million as follows:

	Actual to 30 June 2012 \$m	Budget 2011/12 \$m
Operating Surplus (before the following items)	\$3.671	\$1.575
Less unrealised loss on valuation of interest rate swaps	(\$5.936)	-
Less Loss on Asset Disposal	(\$0.975)	-
Net Operating Surplus (Deficit)	(\$3.24)	\$1.575

- 18 The draft financial statistics for the 2011/12 year are attached as Appendix 2.

Unrealised Loss on the Value of Council's Interest Rate Swaps

- 19 The main reason for the operating deficit as 30 June 2012 is the unrealised loss on the revaluation of Council's interest rate swaps of \$5.936 million. This loss is unrealised as at 30 June 2012 and will never be realised and simply reflects the change in the market valuation of Council's interest rate swaps between 30 June 2011 and 30 June 2012. In late March 2012, long term interest rates decreased significantly as a result of the European debt crisis. Interest rates are now at historical lows and will increase as the global financial crisis eases.
- 20 Council takes out interest rate swaps for the long term to protect its exposure to changes in interest rates on its debt levels out to 10 years. As the market interest rates increase, (as they are predicted to do as the economy moves out of recession) the market valuation of Council's interest rate swaps will increase and unrealised gains will be reported in the future financial statements. A 1% increase in market interest rates equates to a \$5.325 million gain in market value of Council's swaps. With market interest rates at historically low levels (3% to 4% below long term averages), there is plenty of potential for large gains in the future. Careful management of interest rate swaps has saved the Council up to \$700,000 over the past 12 months in loan servicing costs.
- 21 The interest rate swaps will continue to provide significant savings in debt servicing costs over the long term. Using interest rate swaps to secure our fixed debt interest costs is a far more flexible and pragmatic way of managing our interest rate costs compared to using fixed rate loans. If fixed rate loans were required to be valued at the end of each year the unrealised losses would be far greater than those for interest rate swaps and there would be less flexibility in terms of being able to lower the average interest cost of Council's debt.

Loss on Asset Disposal

- 22 Another contributor to the operating deficit is a loss on asset disposal which mainly related to the \$934,000 for the Civic Administration Building in preparation for the upgrade. The book value of the remaining building structure

was \$1.394 million prior to the new work being undertaken on the Civic Administration Building.

- 23 This loss in historic value needed to be recognised as an accounting transaction as part of the 30 June 2012 Annual Report. Following the upgrade the building will be revalued to reflect its increased value.

Closing Audit Report

- 24 At a meeting on 13 September the Audit & Risk Subcommittee considered the Closing Audit Report from Ernst & Young and noted that all significant accounting issues had been agreed with management and included in the Annual Report.
- 25 The Audit & Risk Subcommittee will be considering the Audit Management Report when it is received after the adoption of the Annual Report. The Subcommittee will review this report along with action to be taken on significant issues and the audit recommendations raised.

Financial Considerations

- 26 The Council has made budget provision for the fees associated with auditing the Annual Report and the costs of publishing the final documents.

Legal Considerations

- 27 The Annual Report has been prepared to meet the requirements of the Local Government Act 2002 and the NZFRS. Officers from Ernst and Young have issued a draft unqualified report and will replace this with the original signed unqualified audit report upon Council's adoption of the final Annual Report at this 4 October 2012 meeting. As required by the Local Government Act 2002, a Summary of the Annual Report must also be prepared and audited to ensure that it represents, fairly and consistently, the information regarding the major matters dealt with in the full Annual Report.

Delegation

- 28 The Council has the responsibility for setting the Council Strategic direction under the following delegation in the Governance Structure, Section A.2.
- 3 Strategic Planning, Monitoring and Reporting
- *Monitor LTCCP and Annual Plan implementation.*

Tāngata Whenua Considerations

- 29 The message from Tāngata whenua has been included in this Annual Report.

Publicity Considerations

- 30 Copies of the final Annual Report and the Annual Report Summary will be distributed to a mailing list of people who have indicated their interest. Copies will also be available from Council Service Centres and Libraries as well as on the Council website.

RECOMMENDATIONS

- 31 That the Council receives the Ernst and Young Audit Report on the Statement of Accounts for the Kāpiti Coast District Council for the year ended 30 June 2012.
- 32 That, in line with the recommendation from the Corporate Business Committee, the Council adopts pursuant to Section 98 of the Local Government Act 2002, the Kāpiti Coast District Council Annual Report for the year ended 30 June 2012 attached as Appendix 1 to this report (SP-12-691).

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Appendix 1: 2011/12 Annual Report
Appendix 2: 2011/12 Financial Statistics