

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

22 SEPTEMBER 2011

Meeting Status: **Public**

Purpose of Report: For Decision

DRAFT ANNUAL REPORT TO 30 JUNE 2011

PURPOSE OF REPORT

- 1 This report seeks the Committee's consideration of the audited draft Annual Report with a view to recommending it be adopted by Council on 6 October 2011.

SIGNIFICANCE OF DECISION

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

BACKGROUND

- 3 Council is required under the Local Government Act 2002 to produce an audited Annual Report each year. This report shows Council's performance for the year in both a service and financial context, against measures set out in the 2009 Long Term Council Community Plan (LTCCP).
- 4 The draft Annual Report was considered by the Audit and Risk Subcommittee on 6 September 2011 and as a result of those considerations some additional performance information has been included in Section 2 of the Report.
- 5 Corporate Business Committee (CBC) is responsible for monitoring Council's performance against the Annual Plan and as noted above receives a quarterly performance overview of each Activity. Committee members will recall that the CBC meeting of 18 August 2011 reviewed the Activity Report covering Key Performance Indicators and the Financial Report for the year ended 30 June 2011. The content of the cumulative Activity Reports has contributed to the content of the draft Annual Report material. The Audit and Risk Subcommittee noted at their 6 September 2011 meeting that the process of considering the draft Annual Report was made much easier this year due to the quarterly Activity Reports received at CBC meetings.

CONSIDERATIONS

Issues

- 6 This report presents the draft audited Annual Report commenting on the achievements of Year Two of the 2009 LTCCP work programme 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.

- 7 The Council's performance overall is graphed within the draft Annual Report attached as Appendix 2. The overall performance is summarised in the following table:

Achievement Category	Year End Result to 30 June 2011
Achieved	97
Ongoing / On target	16
Not achieved	15
Not relevant	8
No longer required	2
Total Key Performance Indicators	138

Financial Results

- 8 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 activity during the year the Council has ended the year in a satisfactory financial position, mainly due to savings in loan servicing costs.
- 9 The draft Annual Report for the year ended 30 June 2011 shows that the Council recorded an operating surplus of \$327,000. This compares to the budgeted operating surplus of \$5.478 million for the 2010/11 year as per the Annual Plan.
- 10 Primarily the lower operating surplus is because in the 2010/11 Annual Plan Council had budgeted a New Zealand Transport Agency (NZTA) subsidy of \$5.58 million for the purchase of a property relating to the Western Link Road. Although, a conditional sale and purchase agreement was signed prior to the NZTA's announcement on the Expressway the sale had not been completed as at 30 June 2011. The \$5.58 million budget represents a 90% NZTA subsidy on the proposed purchase price of that property.
- 11 Total Operating Revenue of \$55.069 million was \$4.976 million below the budget of \$60.057 million. This mainly related to the NZTA budgeted capital subsidy of \$5.58 million described above.
- 12 Total Operating Expenditure of \$54.912 million was \$345,000 above the budget of \$54.579. The Total Operating Expenditure includes an unrealised loss of \$1.252 million in the value of Council's interest rate swaps as at 30 June 2011. The loss is an unrealised loss as at 30 June 2011 and only reflects the change in the market valuation of the Council's interest rate swaps between 30 June 2010 and 30 June 2011.
- 13 Council takes out interest rate swaps for the long term to protect Council's 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 in value and unrealised gains will be reported in the future financial statements. A 1% increase in market interest rates equates to a \$4.538

million gain in market value of Council's swaps. With market interest rates at historically low levels (2% to 3% 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 \$600,000 over the past 12 months in loan servicing costs.

- 14 There is a rates surplus of \$441,000 as at 30 June 2011 which was reported to the Corporate Business Committee on 18 August 2011. This rates surplus has been partly used to offset the 2011/12 year rates increase and the balance will be used to offset future rates increases.
- 15 The 2010/11 Draft Financial Statistics (Appendix 1 refers) highlight the key financial results achieved for the 2010/11 year.

Financial Considerations

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

Legal Considerations

- 17 The draft Annual Report has been prepared to meet the requirements of the Local Government Act 2002. The final Annual Report must contain an auditor's report on whether it meets the requirements of the Local Government Act 2002 (the Act). That audit by Ernst and Young was undertaken in early August 2011.
- 18 The Act also requires that the Council prepare a Summary of the Annual Report. This Summary document will be published in a local newspaper after the Council meeting on 6 October 2011. The Summary must also be audited to ensure that it represents, fairly and consistently, the information regarding the major matters dealt with in the full Annual Report.
- 19 Grant Taylor (Partner, Assurance Standard Services) of Ernst and Young will provide a written comment on the audit process to the 22 September 2011 CBC meeting and he will attend the 6 October 2011 Council meeting to adopt the final Annual Report.

Delegation

- 20 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.7:

“Financial and Asset Management

7.7 Authority to consider and to recommend to the Council the adoption of the Annual Report to the public, together with the Auditor's report thereon (Section 98, Local Government Act 2002)”.

Tāngata Whenua Considerations

- 21 Tāngata whenua have provided their message for inclusion in this draft Annual Report and this will be included in the draft Report to be adopted by Council on 6 October 2011.

Publicity Considerations

- 22 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.

CONCLUSION

- 23 The Council has ended the year well. It is in a satisfactory financial position considering the challenges of the effects of the economic recession, especially on building control and resource consent revenue. The operating surplus has been achieved mainly through savings in loan servicing costs. The organisation's corporate planning and reporting requirements were completed with the primary achievement being the adoption of the 2011/12 Annual Plan on 23 June 2011.

RECOMMENDATIONS

- 24 That the Corporate Business Committee notes that the Audit and Risk Sub-Committee has reviewed the draft Annual Report on 6 September 2011 (SP-11-330 refers) and made subsequent minor changes to the document. These changes, along with final audit adjustments required by Council's auditors, Ernst and Young, have been included in the draft Annual Report attached Appendix 2 to this report (SP-11-351).
- 25 That the Corporate Business Committee considers the draft Annual Report (SP-11-351, Appendix 2 refers) and recommends it for adoption by Council on 6 October 2011

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ATTACHMENTS:

- Appendix 1: Draft 2010/11 Financial Statistics
Appendix 2: Draft 2010/11 Annual Report

Appendix 1**DRAFT 2010/11 FINANCIAL STATISTICS**

Actual	2009/10 Actual \$000	2010/11 Actual \$000	2010/11 Budget \$000
Total Operating Revenue	56,408	55,239	60,057
Total Operating Expenditure	60,458	54,912	54,579
Operating Surplus / (Deficit)	(4,050)	327	5,478
Gain on revaluation of Assets	(817)	59,147	42,482
Total Comprehensive Income/(Deficit)	(4,867)	59,474	47,960
Retained Earnings	573,006	576,366	613,370
Revaluation Reserve	100,192	159,338	143,491
Public Equity	678,293	737,766	760,860
Total Debt	71,519	66,547	108,392
Net Debt (Total Debt - Sinking Funds /Loan Repayment Provision)	57,533	62,284	94,406
Net Debt/Equity	8.5%	8.4%	12.4%
% Debt Servicing Costs Total Rates	10.9%	9.3%	16.0%
% Debt Servicing Costs to Total Operating Revenue	7.7%	8.3%	11.2%
Average Interest Cost of Debt Raised	6.2%	5.7%	6.5%
Short Term Investments	11,473	313	5,655
Long Term Investments	66	66	1,500
Total Investments	11,539	375	7,155
Average of Interest Rate on Investments	4.2%	3.1%	3.5%