

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

19 SEPTEMBER 2013

Meeting Status: **Public**

Purpose of Report: For Decision

DRAFT ANNUAL REPORT TO 30 JUNE 2013

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 3 October 2013.

SIGNIFICANCE OF DECISION

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

BACKGROUND

- 3 The Council is required (under the Local Government Act 2002) to produce an audited Annual Report each year (2012/13 draft Annual Report attached as Appendix 1). This report shows Council's performance for the year in both a service and financial context, against measures set out for the 2012/13 year in the 2012 Long Term Plan (LTP).
- 4 The Corporate Business Committee (CBC) is responsible for monitoring Council's performance against the LTP. It receives quarterly reports covering the financial and service performance of each Activity. At the CBC meeting of 15 August 2013 the Council reviewed the Activity Report covering Key Performance Indicators and the Financial Report for the year ended 30 June 2013. The content of the cumulative Activity Reports has contributed to the content of the draft Annual Report material.

CONSIDERATIONS

- 5 This report presents the draft audited Annual Report, commenting on the Council's service and financial performance during the 2012/13 year against Year One of the 2012 LTP. The introduction, context and leadership statements in Parts 1-3 lead into Part 4 which reports on Council's 16 activity categories. These activities provide a breakdown of the detailed issues, programmes, expenditure, performance and funding frameworks used by Council. Part 5 sets out the detailed financial reports, with other information covered in Part 6.
- 6 The Council's service performance for each of the 16 activities (Part 4) covers Key Results, Key Performance Indicators (KPIs), linkages to the seven Community Outcomes and a Financial summary for the specific activity. The Council uses KPIs to determine and compare its performance in terms of achieving its strategic priorities and meeting its targeted levels of service.

- 7 This report shows that significant progress was made towards the Council's five priorities identified in the 2012 LTP during the 2012/13 year. The Civic Administration Building upgrade was completed, the installation of water meters project was ahead of schedule, construction of the Coastlands Aquatic Centre progressed to its final stage, and the Expressway project advanced towards construction stage. Overall the economic development of the District is trending towards new and progressive opportunities.
- 8 In addition, the level of service KPI results shows an overall achievement of 80%, an improvement from 71% in 2011/12. Some individual KPI results show an increase of more than 10% satisfaction on the previous year.
- 9 The overall KPI performance for the year is summarised in the following table:

Key Performance Indicators	Year End Result to 30 June 2013
Achieved	77
Ongoing / On target	1
Not achieved	18
Total Relevant KPIs	96
Not relevant	6
Total Key Performance Indicators	102

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 positive financial position.
- 11 The Council ended the year with an operating surplus of \$5.174 million. Included in the operating surplus is an unrealised gain on the valuation of interest rate swaps \$4.161 million. After this is deducted from the operating surplus this results in a net operating surplus of \$1.013 million.
- 12 Included in the \$1.013 million operating surplus is the rates surplus of \$723,000. The balance of the net operating surplus relates to revenue and expenditure that do not relate to rates. These include non cash transactions such as vested assets (water, wastewater and stormwater) vested in Council by developers. Of the rates surplus of \$723,000, \$341,000 was used to offset the 2013/14 rates increase and the balance is available to be used to offset the 2014/15 rates increase.
- 13 The operating surplus resulted mainly from savings in loan servicing costs (finance costs) as a result of the lower interest rate market and the careful management of interest rate swaps.
- 14 Also included in the summary statement of comprehensive income is a one-off adjustment of \$13.625 million which recognised the NZTA's share of the land purchased for the Western Link Road.

- 15 The Western Link project was on hold until the Board of Inquiry made their final decision about the MacKays to Peka Peka Expressway in April 2013. This decision was appealed but the decision was upheld in the High Court in August 2013. (The appellants have sought leave to appeal this decision to the Supreme Court).
- 16 NZTA's share of the land will now be transferred back to NZTA as a non-cash transaction representing a write-off of NZTA's share of the land that Council was holding for the Western Link Road. Council's share will be sold to the NZTA early in the 2013/14 year.

Comparison of Net Operating Surplus to the Budget

- 17 The higher net operating surplus of \$1.013 million compares to the budgeted surplus of \$263,000.
- 18 Although the operating revenue (excluding the gain on revaluation of swaps) is below the budget the operating expenditure is also below the budget but by a greater amount resulting in a net operating surplus of \$1.013 million compared to a budgeted surplus of \$263,000. The main variance to budgets was the Finance Costs which were under spent by \$1.3 million.
- 19 The draft financial statistics for the 2012/13 year are attached as Appendix 2.

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

- 20 The main reason for the operating surplus as at 30 June 2013 is the unrealised gain on the revaluation of Council's interest rate swaps of \$4.161 million. This gain is unrealised as at 30 June 2013 and simply reflects the change in the market valuation of Council's interest rate swaps between 30 June 2012 and 30 June 2013. In June 2013, long term interest rates increased as a result of the Federal Reserve indicating that they were going to cut back on quantitative easing in the future and as a result long term interest rates have risen.
- 21 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 more unrealised gains will be reported in the future financial statements. A 1% increase in market interest rates equates to a \$3.082 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 contributed to the \$1.3 million saving in interest costs.

Closing Audit Report

- 22 At a meeting on 19 September at 1.30pm the Audit & Risk Subcommittee will consider the closing Audit Report from Ernst & Young which concludes that all significant accounting issues had been agreed with management and included in the draft Annual Report.
- 23 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 actions to be taken on any significant issues and the audit recommendations raised.

Financial Considerations

- 24 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

- 25 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 August/September 2013.
- 26 The Act also requires that the Council prepare a Summary of the Annual Report. This Summary document will be made available to the public on the Council's website and through service centres and libraries after the Council meeting on 3 October 2013. 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.
- 27 Ernst and Young have provided a draft closing Audit Report for the Audit & Risk Subcommittee meeting and Ernst & Young are intending to be at the 3 October 2013 Council meeting when the final Annual Report is adopted.

Delegation

- 28 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.
- 7 Without limiting the generality of this delegation, the committee has the following functions, duties and powers:

“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

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

Publicity Considerations

- 30 Copies of the final Annual Report and the Annual Report Summary will be distributed to the Secretary of Local Government, the Auditor General and the Parliamentary Library (Section 98(6), Local Government Act 2002) and a mailing list of related and interested councils and people. Copies will also be available from Council Service Centres and Libraries as well as on the Council website.

CONCLUSION

- 31 The Council's performance over the 2012/13 year showed the completion, or significant progress towards completion, of three of its five priorities (the Civic Administration Centre and the installation of water meters, and the Coastlands Aquatic Centre) with the remaining two (the expressway and economic development) on track to provide opportunities and stimulate growth in the District over the medium and longer terms.
- 32 Overall KPI results for the 16 Activity categories show 80% achieved (up from 71% in the 2011/12 year) and increased satisfaction measures for the level of service provided by the Council (some showing more than 10% improvement).
- 33 The Council has ended the year in a positive financial position. The operating surplus, before one off items, has been achieved mainly through savings in loan servicing costs resulting from the management of Council's interest rate swaps. The organisation's corporate planning and reporting requirements were completed with the primary achievement being the adoption of the 2013/14 Annual Plan on 27 June 2013.

RECOMMENDATIONS

- 34 That the Corporate Business Committee considers the 2012/13 draft Annual Report (SP-13-972 Appendix 1 refers) and recommends, subject to any final changes from audit, the Report be adopted by Council on 3 October 2013.

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Appendix 1: Draft 2012/13 Annual Report
 Appendix 2: Draft 2012/13 Financial Statistics