

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

9 OCTOBER 2014

Meeting Status: **Public**

Purpose of Report: For Decision

DRAFT ANNUAL REPORT TO 30 JUNE 2014

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 16 October 2014.

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 (2013/14 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 year two of the 2012 Long Term Plan (LTP) and the 2013/14 Annual Plan.
- 4 The Corporate Business Committee (CBC) is responsible for monitoring Council's performance against the LTP and the 2013/14 Annual Plan. It receives quarterly reports covering the financial and service performance of each Activity. At the CBC meeting of 14 August 2014 the Council reviewed the Activity Report covering Key Performance Indicators and the Financial Report for the year ended 30 June 2014. The content of the cumulative Activity Reports has contributed to the content of the draft Annual Report.

CONSIDERATIONS

Issues

- 5 The Council's service performance for each of the 16 activities (Part 3) 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.
- 6 This report shows that further progress was made on the remaining Council priorities identified in the LTP during the 2013/14 year. The Civic Administration Building upgrade had already been completed in 2012/13. In the latest year the installation of water meters project was practically completed, construction of the Coastlands Aquatic Centre was finalised and the Centre was opened to a very positive public response.

- 7 In addition, the level of service KPI results shows an overall total of KPIs achieved or ongoing/on target of 80%, the same level of achievement as in 2012/13.

Key Performance Indicators	Year End Result to 30 June 2014
Achieved	65
Ongoing / On target	14
Not achieved	20
Total Relevant KPIs	99
Not relevant	2
Total Key Performance Indicators	102

FINANCIAL CONSIDERATIONS

- 8 Council's financial statements, accounting policies and notes to the financial statements are presented in Part 4 of the draft 2013/14 Annual Report.
- 9 The draft Statement of Comprehensive Revenue and Expense for the year ended 30 June 2014 is shown below.

2012/13		2013/14	2013/14
Actual		Actual	Budget
\$000		\$000	\$000
	Revenue		
47,762	Rates	50,149	50,427
8,034	Fees and Charges	7,443	7,517
2,698	Grants and Subsidies	3,669	3,225
2,032	Development and Financial Contributions	1,095	1,299
-	Finance Revenue	197	194
4,161	Unrealised Gain on Revaluation of Derivatives	3,992	-
2,166	Other Operating Revenue	3,867	1,324
66,853	Revenue	70,412	63,986
	Expenses		
13,472	Depreciation and Amortisation	15,746	14,150
6,493	Finance Expense	7,595	8,696
41,659	Other Operating Expense	45,841	43,762
61,624	Expense	69,182	66,608
5,229	OPERATING SURPLUS/(DEFICIT)	1,230	(2,622)
	Other Comprehensive Revenue and Expense		
(13,625)	Revaluation of Property Plant and Equipment	563,754	60,831
(13,625)	Other Comprehensive Revenue	563,754	60,831
(8,396)	TOTAL COMPREHENSIVE REVENUE AND EXPENSE	564,984	58,209

- 10 Council has achieved an audited net operating surplus of \$1.23 million which is \$3.85 million or 147% favourable to the Annual Plan budget.

- 11 Council's favourable performance was achieved mainly due to an unbudgeted recovery of the Kapiti Expressway property holdings costs (mainly interest and rates) of \$2 million from the New Zealand Transport Agency and a \$1 million savings on budgeted finance costs due to a deliberate \$10 million reduction to the 2013/14 planned capital projects work programme.
- 12 An unaudited net operating surplus of \$3.70 million, for the year ended 30 June 2014, was reported to the Corporate Business Committee on the 14 August 2014 (Corp-14-1275). As Council reports on fourth quarter financial results, it is not unusual for subsequent adjustments to be made in response to new and/or additional information being received and/or as requested by Council's auditors, Ernst & Young.
- 13 The net operating surplus was further reduced by \$2.48 million. Key adjustments included a reduction of \$0.68 million to development contribution revenue to comply with Council's policy on growth capital expenditure. A loan of \$0.29 million provided to the Clean Tech Trust for green enhancements/ office fit-outs was expensed and due to the uncertainty of future tenancy at balance date, net lease costs of \$0.61 million for Clean Tech Park were also expensed. Depreciation was increased by \$0.37 million following a correction to the carrying amount of an asset. Lastly, Council's doubtful debt provision was further increased by \$0.23 million due to its age.
- 14 Other Comprehensive Revenue and Expense of \$563.75 million is due to valuation uplift for Council's assets of \$31.02 million and an unbudgeted valuation uplift for Council's land under roads of \$532.73 million. Valuation of land under roads does not impact on Council's credit rating (Standard & Poor's: A+) or on its ability to raise external funding.
- 15 Council has finished the year in a very strong position at balance date. Most notably, long term assets were \$481.52 million above budget from an unbudgeted revaluation of land under roads, public debt was \$19 million below budget from a \$10 million reduction to the planned capital works programme and an unbudgeted settlement of \$7.2 million from NZTA for the Western Link Road properties. Lastly, Council's future financial instrument obligations were \$6.84 million below budget at balance date.
- 16 While the closing cash at balance date was high at \$7.14 million, this was due to the settlement of the Western Link Road properties from NZTA in the last week of June and was fully spent in July 2014.
- 17 The Rates Funding Requirement surplus/(deficit) is different to the operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense due to the following:
 - Operating surplus/(deficit) covers all of Council's operating revenue and expenditure from all funding sources, including vested assets.
 - Rates Funding surplus/(deficit) only covers Council's revenue and expenditure that is rates funded.
- 18 The total Rates Funding Requirement for 2013/14 was \$50.80 million. Council has achieved a Rates Funding Requirement surplus of \$2.06 million for the 2013/14 year.

- 19 As per Council's resolution, a total of \$0.55 million of the 2013/14 Rates Funding Requirement surplus has been used to offset the 2014/15 Rates Funding Requirement and the remaining surplus of \$1.52 million will be used to repay debt.
- 20 The Annual Report Disclosure Statement for the year ending 30 June 2014 presents Council's financial performance in relation to various benchmarks to enable assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.
- 21 For 2013/14 Council did not meet the Balanced Budget Benchmark debt due to its policy of non-funded depreciation. In addition, Council did not meet the Debt Servicing Benchmark because of the significant capital investment in the Kapiti District over the past four years. All other benchmarks were met.
- 22 Ernst & Young have reported that their intention is to issue Council a "clean" unqualified audit report for the year ended 30 June 2014 at the time of adoption of the Annual Report by Council on the 16 October 2014.

Legal Considerations

- 23 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 2014.
- 24 The Act requires that the Council, within one month after the adoption of its Annual Report, must make publicly available both its Annual Report and a summary of the information contained in its Annual Report.
- 25 The Annual Report and the Annual Report Summary will be made available to the public on the Council's website and through service centres and libraries after the Council meeting on 16 October 2014. The Summary Annual Report 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.

Delegation

- 26 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

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

Publicity Considerations

- 28 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.

RECOMMENDATIONS

- 29 That the Corporate Business Committee considers the 2013/14 draft Annual Report (SP-14-1342 Appendix 1 refers) and recommends, subject to any final changes from audit, the Report be adopted by Council on 16 October 2014.

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ATTACHMENTS:

Appendix 1: Draft 2013/14 Annual Report