

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

20 SEPTEMBER 2012

Meeting Status: **Public**

Purpose of Report: For Decision

**DRAFT ANNUAL REPORT TO 30 JUNE 2012**

**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 4 October 2012.

**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. This report shows Council's performance for the year in both a service and financial context, against measures set out in the 2011/12 Annual Plan.
- 4 The Corporate Business Committee (CBC) is responsible for monitoring Council's performance against the Annual Plan and it receives a quarterly financial report and a performance overview of each Activity. Committee members will recall that at the CBC meeting of 16 August 2012 the Council reviewed the Activity Report covering Key Performance Indicators and the Financial Report for the year ended 30 June 2012. 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 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.

- 6 The Council's performance overall is graphed within the draft 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
<b>Total Key Performance Indicators</b>	<b>130</b>

### Financial Results

- 7 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.
- 8 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.
- 9 The Statement of Comprehensive Income (on page 141 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 \$3.63 million. The difference between the rates surplus and the operating surplus is made up of a number of items as follows:
- 10 Key items impacting on the difference between the operating surplus and rates surplus

**\$000**

Operating Revenue that can only be used to fund capital expenditure includes:

Development Contributions (Capital contributions from Developers)	3,468
NZTA Subsidy for Capital Projects	631
	4,099

Operating Revenue that is non cash

Vested Assets (Roading water, wastewater and stormwater assets vested in Council by developers at the time of subdivision)	880
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	<b>\$000</b>
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	<b>\$000</b>
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>	<b>\$000</b>
Net Solid Waste Deficit	96
Waste Levy	50

11 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.

12 The waste levy is funded nationally and is allocated to local authorities for expenditure on waste minimisation.

13 The operating surplus before one off items was \$3.630 million. These one off items included the following:

Unrealised loss on valuation of interest rate swaps	\$5.936 million
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Loss on Asset Disposal	\$0.934 million
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14 When these one off items are deducted from the operating surplus, it results in a net operating deficit of \$3.24 million as follows:

	<b>Actual to 30 June 2012 \$m</b>	<b>Budget 2011/12 \$m</b>
Operating Surplus (before the following items)	\$3.630	\$1.575
Less unrealised loss on valuation of interest rate swaps	(\$5.936)	-
Less Loss on Asset Disposal	(\$0.934)	-
<b>Net Operating Surplus (Deficit)</b>	<b>(\$3.24)</b>	<b>\$1.575</b>

15 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

- 16 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.
- 17 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.
- 18 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

- 19 Another contributor to the operating deficit is a loss on asset disposal amounting to \$934,000 for the Civic 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 Building.
- 20 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

- 21 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 draft Annual Report.
- 22 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

- 23 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

- 24 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 2012.
- 25 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 4 October 2012. 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.
- 26 Ernst and Young provided a draft Audit Report to the 13 September 2012 Audit & Risk Subcommittee meeting and Ernst & Young are intending to be at the 4 October 2012 Council meeting when the final Annual Report is adopted.

## Delegation

- 27 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

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

## Publicity Considerations

- 29 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

- 30 The Council has ended the year in a satisfactory financial position considering the challenges of the effects of the economic recession, especially on building control and other revenue sources. 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 2012/32 Long Term Plan on 28 June 2012.

## RECOMMENDATIONS

- 31 That the Corporate Business Committee considers the draft Annual Report (SP-12-667 Appendix 1 refers) and recommends subject to any final changes from audit, the adoption by Council on 4 October 2012.

### Report prepared by:

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### Approved for submission by

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