



Report 07.635
Date 13 September 2007
File CFO/2/1/13

Subcommittee Planning and Monitoring
Author Barry Turfrey, Chief Financial Officer

Annual Report for the year ended 30 June 2007

1. Purpose

To report the results of the Council and its subsidiaries for the year ended 30 June 2007. To obtain any comments from the Subcommittee in respect of the draft Annual Report and the Summary Annual Report prior to their consideration by Council.

Copies of both documents are included with this report under separate cover (**Attachments 1 and 2**).

2. Significance of Decision

The matters in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002.

3. Background

Under the Local Government Act 2002, the Council is formally required to adopt the Annual Report by 31 October each year.

Audit New Zealand has completed its audit and there are no unresolved issues at this stage. The remaining matters to be completed by the auditors are fairly minor in nature and it is not expected that there will be any changes required. The Auditors will be in a position to give the Subcommittee verbal clearance on the Annual Report and the Summary Annual Report at the meeting. They will issue their audit opinions once the Council approves the Reports on 27 September.

Rudi Tomlinson, our Audit Director from Audit New Zealand, will be in attendance at the meeting on 18 September to summarise the results of the annual audit and to answer any questions that the Subcommittee may have.

4. Role of the Subcommittee

In respect of the Annual Report, the Subcommittee is acting as the Audit Committee of the Council.

Their role is to carry out a detailed review of the Annual Report, (including the Summary Report) and recommend to Council their approval of the Reports subject to any changes required.

5. Background

The 2007 Annual Report reports against the Council's 2006-16 Long-term Council Community Plan (LTCCP). The 2007 Annual Report is in a similar format to the 2006 Annual Report because of this.

In respect of the financial statements this is the first year the Council and its subsidiaries are reporting under the new International Financial Reporting Standards (IFRS).

The main changes to the financial statements resulting from IFRS are as follows:

- Gains or losses on the valuation of Forests are shown as a gain or loss in the Income Statement. Under the previous accounting standards these gains or losses were disclosed by way of a note in the financial statements. The impact for 2006/07 is a gain of \$0.5 million.
- Long term loans or deposits must be valued at fair (market) value, any gain or losses are accounted for through the Income Statement. Previously, these items were accounted for at cost or book value with no gains or losses. The loans affected are:
 - The advance to the Stadium which was written down to \$3.9 million from \$25 million in the restated 2005/06 financial statements. The write down in value is a result of no interest being charged on the advance, and repayments not commencing until 2024. There was a small increase in value in 2006/07 as the repayment of the advance is a year closer.
 - The interest free loan from the Crown to partly fund the purchase of the Wairarapa carriages. The loan was written down by \$2.0 million from the original principal amount of \$4.0 million. The \$2.0 million was shown as a gain in the financial statements.
- The Council's interest rate hedges are valued at fair value and any gain or loss accounted for in the Income Statement. Under the previous accounting standards these gains or losses were only disclosed in the notes to the financial statements. The impact on 2006/07 is a gain of \$1.5 million.

To ensure comparability, the financial statements for 2005/06 have been restated and audited under the new accounting standards.

A summary of the information contained in the Annual Report is also required to be prepared and audited. The Summary Annual Report represents the major matters dealt with in the Annual Report.

However, under the new accounting standards, the Summary Annual Report is required to have additional information. It includes several pages reconciling the changes between the old and new accounting standards.

This, and other information required, has made the Summary Annual Report a more detailed and less user friendly document. It is not something to distribute to 180,000 ratepayers as our primary communication in respect of the year ended 30 June 2007.

As such, it is proposed that:

- The relevant pages, unchanged from the detailed Annual Report are incorporated into the Summary Annual Report. This document will be audited, put on our website and sent to the libraries in the region.
- A user friendly document (the year in review) will be prepared and sent to all ratepayers.

The Auditors are satisfied with this approach.

6. Reconciliation of the preliminary and final result

The Policy, Finance and Strategy Committee reviewed the Council results for the year at their meeting on 14 August. A copy of that report is attached (**Attachment 3**).

The preliminary results reported to the Committee at their meeting on 14 August was a deficit of \$2,461,000. This compares with the final result, a deficit of \$4,583,000.

The reconciliation between the preliminary and final results is as follows:

	\$'000'
Preliminary Result (Deficit)	(2,461)
Regional Council Centre revaluation (Note 1)	(2,200)
Increased dividend from WRC Holdings (Note 2)	128
Other sundry adjustments	(53)
Final Result (Deficit)	<hr/> (4,586) <hr/>

Note 1

Based on an independent valuation the Regional Council Centre increased in value by \$2.200 million (net of deferred tax) as at 30 June 2007.

This gain was included in the preliminary results. However, under the new accounting standards this gain was reversed as the gain was included when Council revalued its investment in the WRC Holdings Group to \$34.5 million (from \$9.1 million).

The increase in value up to \$34.5 million was accounted for in the restated 2005/06 financial statements.

Note 2

The dividend from WRC Holdings was estimated at the time the preliminary result was prepared. The actual tax was lower than expected and this resulted in an increased dividend of \$128,000.

7. Results for the year ended 30 June 2007

7.1 The Council

As noted in Section 6 the Council achieved a deficit for the year of \$4.583 million compared with the budget surplus of \$62.278 million.

However, there are a number of items which are excluded in arriving at the operational result, as detailed below:

	\$'000'	
	Actual 2007	Budget 2007
Surplus (deficit)	(4,586)	62,278
Revaluation of debt and Stadium advance (Note 1)	(2,695)	(722)
Revaluation of our interest rate hedges (Note 2)	(1,562)	-
Revaluation of Forestry	589	(1,488)
Grants for Public Transport capital expenditure (Note 3)	9,487	(59,689)
Other	(73)	-
Operational Surplus	1,160	379

Note 1

Revaluation of the Stadium advance and the interest free loan from the Crown.

Note 2

Revaluation of the Council's interest rate hedges as at 30 June 2007 resulted in a gain of \$1.562 million due to the current high interest rates.

Note 3

Grants received from Land Transport New Zealand in respect of capital expenditure.

7.2 Why did the Council make a deficit?

The Council will report a deficit after unrealised gains and losses of \$4.583 million. The major reason for this is the accounting treatment for the purchase of the rail rolling stock by GWRL.

The Council receives grants from Land Transport New Zealand (LTNZ) in respect of the Wairarapa carriages (60% LTNZ grant) and the new Electric Multiple Units (90% LTNZ grant). The remaining amounts are funded by an interest free loan from the Crown for the Wairarapa carriages and Council debt for the new Electric Multiple Units. The monies received from the grants and debt are then paid to Greater Wellington Rail Limited (GWRL) by way of a capital grant for the purchase of the rolling stock.

Therefore, for every \$100 required for the Wairarapa carriages, the Council receives \$60 by way of grant income from LTNZ and \$40 from the Crown loan. The \$100 is then paid out to GWRL as a grant resulting in a loss in the Council of \$40 (\$60 of income less \$100 of expenditure). For the year this resulted in expenditure exceeding income in the Council by \$8.3 million. On consolidation of the Council and GWRL this transaction is eliminated resulting in a surplus of \$11.6 million, being the amount received by way of grant from LTNZ.

7.3 Group results

The Group result comprises the results of:

- The Council
- WRC Holding Ltd
- CentrePort Ltd
- Port Investments Ltd
- Pringle House Ltd
- Greater Wellington Rail Ltd
- Greater Wellington Transport Ltd
- Greater Wellington Infrastructure Ltd

The Group achieved a surplus before tax of \$37.856 million, compared with the restated result under the new accounting standards for 2006 of \$18.27 million.

While impressive, significant amounts of the surplus are from unrealised gains or the accounting treatment for the purchase of the Wairarapa carriages, as detailed below.

	\$ million
Unrealised gains	18.1
Grants received for purchase of rolling stock	11.6
Operational surplus	9.1
Group surplus before tax	38.8

8. Reserves

A detailed analysis of reserve movements during the 2006/07 year is provided as **Attachment 4** of this report, along with explanations of variances between budgeted and actual reserve movements. All variances between budgeted and actual reserve movements will need to be approved by the Council at their meeting on 27 September as part of its adoption of the 2007 Annual Report. The budgeted reserve movements were implicitly approved as part of the 2006/07 Annual Plan.

The Council has four types of reserves which are categorised as follows:

- *Reserves for each Different Area of Benefit.*

These reserves are used where there is a discrete set of rate or levy payers as distinct from the general rate, e.g. Regional Water Supply, Transport, Bovine Tb, Parks Land Purchase, River Rates, and Wairarapa Schemes.

Any funding surplus or deficit relating to these separate areas of benefit is applied to the specific reserves, in proportion to their respective revenue and financing policy ratios.

- *Contingency Reserves*

The Council has traditionally set aside reserves that can be made available when a specific unforeseen event occurs. The largest of these is the Flood contingency reserve.

The release of these funds generally can only be approved by Council, with some delegation to Divisional Managers. These reserves are long-term in nature.

- *Reserves where there has been Rebudgeting of Expenditure*

If a specific project has been planned to be completed during the financial year, but has not been, then if it is appropriate it is rebudgeted for the following year.

Funds are made available in the following year to fund these projects and the main mechanism to achieve this is through the use of a reserve. By doing this the Council does not rate the community twice for the same project.

- *Special Reserves*

The only special reserves of the Council are the Election Reserve and Corporate Systems Reserve. The Election Reserve is necessary to smooth the costs of the local body elections across the three years of the triennium, and the Corporate Systems Reserve smooths the cost of information technology over the planning horizon.

9. Non Financial Results

The Council is required by law to report in its Annual Report, its achievements against the targets published in the 2006/07 Annual Plan.

Reporting is split into the Council's groups of activities as follows:

Environment Management

Transport

Water Supply

Land Management

Safety and Flood Protection

Parks

Community

Investments

Overall, it is pleasing to see that once again the majority of performance targets have been met. Where shortfalls have occurred, the reasons are clearly stated.

10. Fraud

The Auditors have sent a letter to the Chair of the Subcommittee regarding audit procedures for the review of fraud. They will discuss this with the Subcommittee at the meeting. A copy of the letter is attached (**Attachment 5**).

11. Communications

No communications are necessary at this time. A press release will be prepared for the Council meeting on the 27 September.

12. Recommendations

That the Subcommittee recommend to Council that it:

- (1) **Receives** the report.
- (2) **Notes** its contents.
- (3) **Considers** the following net amounts, in addition to those budgeted, be added to or deducted from the respective reserves, subject to any changes requested by the Subcommittee:

(a)	Transport Rate Reserves	860,000
(b)	Transport Policy Reserve	349,761
(c)	Wairarapa Bovine TB Rate	(182,542)
(d)	Wairarapa Rating Schemes-Catchment Awhea	(2,453)
(e)	Wairarapa Rating Schemes-Catchment Whareama	915
(f)	Wairarapa Rating Schemes-Catchment Homewood	(745)
(g)	Wairarapa Rating Schemes-Catchment Mataikona	542
(h)	Wairarapa Rating Schemes-Catchment Maungaraki	1,170
(i)	Wairarapa Rating Schemes-Catchment Kaiwhata	(2,921)
(j)	Wairarapa Rating Schemes-Drainage	(141,150)
(k)	Wairarapa Shingle Royalty	44,625
(l)	Wairarapa Rating Schemes-River LWVD	(357,459)
(m)	Wairarapa Rating Schemes-River Waiohine	(19,091)
(n)	Wairarapa Rating Schemes-River Gladstone	(2,707)
(o)	Wairarapa Rating Schemes-River Waipoua	(4,788)
(p)	Wairarapa Rating Schemes-River Waingawa	(14,170)
(q)	Wairarapa Rating Schemes-River Lower Tauera	1,184
(r)	Wairarapa Rating Schemes-River Lower Whangaehu	(282)
(s)	Wairarapa Rating Schemes-River Upper Mangatarere	(20)
(t)	Wairarapa Rating Schemes-River Te Ore Ore	19,146
(u)	Wairarapa Rating Schemes-River Mt Bruce	13,063
(v)	Wairarapa Workshop	32,463
(w)	Akura Nursery Reserve	4,405
(x)	Bioworks	(127,629)
(y)	River Rate Reserve-Hutt City	51,281
(z)	River Rate Reserve-Kapiti Coast	97,794
(aa)	River Rate Reserve-Porirua City	3,801
(bb)	River Rate Reserve-Upper Hutt City	59,783
(cc)	River Rate Reserve-Wellington City	(11,261)
(dd)	Flood Contingency Wairarapa	(446,979)
(ee)	Treasury and Planning systems reserve	(54,694)
(ff)	Finance System Reserve	485,496
(gg)	Rebudget to 06/07- Korokoro tree removal	50,000
(hh)	Rebudget to 06/07- Emergency equipment	(195,000)
(ii)	Rebudget to 07/08-Metlink Signage	225,000

<i>(jj)</i>	<i>Rebudget to 07/08-Level 6 fitout</i>	<i>323,000</i>
<i>(kk)</i>	<i>Rebudget to 07/08-Bus & Ferry Procurement Review</i>	<i>50,000</i>
<i>(ll)</i>	<i>Rebudget to 07/08-RLTS Review</i>	<i>120,000</i>
<i>(mm)</i>	<i>Rebudget to 07/08-Transport Model Update</i>	<i>31,500</i>
<i>(nn)</i>	<i>Rebudget to 07/08-Whiteria Park Ranger Service</i>	<i>216,000</i>
<i>(oo)</i>	<i>Rebudget to 07/08-Boundary Fence Akatarawa Forest</i>	<i>45,000</i>
<i>(pp)</i>	<i>Rebudget to 07/08-Wainuiomata Mainland Forest Island</i>	<i>30,000</i>
<i>(qq)</i>	<i>Rebudget to 07/08-Drycreek Possum Operation</i>	<i>15,000</i>
<i>(rr)</i>	<i>Rebudget to 07/08-QE2 private land protection</i>	<i>83,000</i>

(4) Adopts the Annual Report and Summary Annual Report for the year ended 30 June 2007 subject to any changes requested by the Subcommittee.

Report prepared by:

Report approved by:

Barry Turfrey
Chief Financial Officer

David Benham
Chief Executive

Attachment 1: 2007 Draft Annual Report is enclosed as a separate attachment to this report

Attachment 2: 2007 Draft Summary Annual Report is enclosed as a separate attachment to this report

Attachment 3: Report 07.501

Attachment 4: Explanations of Unbudgeted Reserve Movements (2006/2007)

Attachment 5: Audit procedures for the review of fraud for 2006/07