



Report 08.629
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Committee Finance, Evaluation and Risk
Author Barry Turfrey, Chief Financial Officer
Jane Bradbury, Divisional Manager Corporate & Strategy

Annual Report for the year ended 30 June 2008

1. Purpose

To review the Annual Report for 2008.

The Annual Report will be sent under separate cover (**Attachment 1**).

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 its Annual Report by 31 October each year.

Audit New Zealand has substantially 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 Committee verbal clearance on the Annual Report at the meeting. They will issue their audit opinion once the Council approves the Annual Report on 29 September.

Andy Burns, Audit Director, and Karen Young, Audit Manager, from Audit New Zealand, will be in attendance at the meeting on 16 September to summarise the results of the annual audit and to answer any questions that the Committee may have.

4. Role of the Subcommittee

In respect of the Annual Report 2008, the Committee is acting as the Audit Committee of the Council.

Its role is to carry out a detailed review of the Annual Report, and recommend that Council approves the Report, subject to any changes required.

5. Background

The Annual Report 2008 reports against the Council's 2006-16 Long Term Council Community Plan (LTCCP). Therefore, its format is similar to the 2007 Annual Report.

Last year was the first year the Council and its subsidiaries reported under the NZ International Financial Reporting Standards. There are additional reporting disclosures required under these Standards for 2008 in the area of financial instruments.

6. Valuation of Water Supply assets

At the Committee's meeting on 4 December 2007, a report was tabled on the valuation of the Water Supply assets (Report 07.788). It noted that Greater Wellington would not be undertaking a full valuation of the Water Supply assets as at 30 June 2008 and that this could result in an audit qualification if the value of the Water Supply assets are materially misstated.

Using a series of indices, the Water Supply assets are estimated to be undervalued by approximately \$57 million. This represents around 9.6% of the Council's net assets or equity as at 30 June 2008. At this stage this is unlikely to be material and there should be no audit qualification.

7. Reconciliation of the preliminary and final result

The Council and the Committee reviewed the preliminary Council results for the year at their meetings in August (Report 08.515). A copy of this report is attached (**Attachment 2**).

The preliminary result was a deficit of \$1,970,000; the final result was a deficit of \$2,542,000.

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

	\$ '000'
Preliminary Result (Deficit)	(1,970)
Additional accrual for Grow Wellington (Note 1)	(424)
Increased dividend/subvention from WRC Holdings (Note 2)	70
Write off of assets following Parks revaluation (Note 3)	(105)
Other adjustments	(113)
Final Result (Deficit)	<u>(2,542)</u>

Note 1

Following completion of their annual accounts, Grow Wellington required an additional accrual of income from Greater Wellington, \$424,000.

Note 2

The actual tax in the WRC Holdings Group was lower than expected and this resulted in additional income to the Council of \$78,000.

Note 3

As noted in Report 08.515, the results of the Parks revaluation had not been included at that stage. The value of the Parks assets increased by \$10,865,000 including \$105,000 of assets which were written off.

8. Results for the year ended 30 June 2008

8.1 The Council

As noted in Section 7 above, the Council achieved a deficit for the year of \$2,542,000 compared with the budget deficit of \$14,865,000.

However, the following items are excluded in this operational result:

	\$ '000'	
	Actual 2008	Budget 2008
Operational Surplus (deficit)	5,509	780
Revaluation of debt and Stadium advance (Note 1)	5,460	780
Revaluation of Forestry / Cost of goods sold (Note 2)	(4,393)	1,814
Grants for Public Transport capital expenditure (Note 3)	(9,118)	(18,239)
Net Deficit	(2,542)	(14,865)

Note 1

Revaluation of the Stadium advance and the interest free loan from the Crown - a gain of \$5,460,000.

Note 2

The annual valuation of the Council's forestry assets resulted in a reduction in value of \$3,125,000. The forestry cost of goods sold adjustment was \$1,268,000, giving a total cost of \$4,393,000.

Note 3

Grants received from Land Transport New Zealand in respect of transport improvements.

8.2 Income Statement - Council

	\$ '000'		
	Actual 2008	Budget 2008	Last year 2007
Revenue	153,466	154,496	141,531
Operating expenditure	(138,521)	(143,250)	(132,913)
Depreciation	(9,436)	(10,466)	(9,476)
Operating surplus (deficit)	5,509	780	(858)
Unrealised gains and losses	5,460	780	4,257
Revaluation of Forestry / Cost of goods sold	(4,393)	1,814	(589)
Grant revenue for transport improvements	15,006	42,380	17,769
Grant expenditure for transport improvements	(24,124)	(60,619)	(25,165)
Net deficit for the year	(2,542)	(14,865)	(4,586)

8.3 Why did the Council make a deficit?

Operationally, the Council made a surplus of \$5,509,000 compared with the budget surplus of \$780,000. The favourable variance is due to lower operating costs as detailed to Council in the August report (Report 08.515).

Grant revenue and expenditure received for transport improvements, coupled with unrealised gains, have resulted in an overall deficit for the year of \$2,542,000 (compared to budget of \$14,865,000).

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 in the Council exceeding income by \$9,118,000. On consolidation of the Council and GWRL, this part of the transaction is eliminated.

8.4 Group results

The Group result comprises the results of:

- The Council
- WRC Holdings Ltd
- CentrePort Ltd
- Port Investments Ltd
- Pringle House Ltd
- Greater Wellington Rail Ltd

The Group achieved a surplus after tax of \$14,235,000.

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

	\$ '000'
	2008
Unrealised gains	1,011
Grants received for purchase of rolling stock	13,216
Operational surplus	3,209
Group surplus before tax	17,436
Tax	3,201
Group surplus after tax	14,235

9. Reserves

A detailed analysis of reserve movements during the 2007/08 year is provided, along with explanations of variances between budgeted and actual reserve movements (**Attachment 3**). All variances between budgeted and actual reserve movements will need to be approved by the Council at its meeting on 29 September 2008 as part of its adoption of the 2008 Annual Report. The budgeted reserve movements were implicitly approved as part of the 2008/09 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 be rebudgeted for the following year.

Funds are made available in the following year to fund these projects. The main mechanism for this is the use of a reserve, so 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 Reserves smooth the costs of elections and system upgrades.

10. Non Financial Results

The Council is required by law to report in its Annual Report, its achievements against the targets published in the 2007/08 Annual Plan.

Reporting is according to the Council's Groups of Activities:

- Environment Management
- Transport
- Water Supply
- Land Management
- Safety and Flood Protection
- Parks
- Community
- Investments.

It shows that, on the whole, we have achieved the set targets.

11. Communications

No communications are necessary at this time. A press release will be prepared for the Council meeting on the 29 September.

12. Recommendations

That the Committee recommends to Council that it:

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

(a)	Transport Rate Reserve	755,032
(b)	Transport Policy Reserve	302,339
(c)	Wai Bovine TB Rate - Bov TB	52,646
(d)	Wai Rating Schemes-Catchment Awhea	(2,496)
(e)	Wai Rating Schemes-Catchment Whareama	(5,360)
(f)	Wai Rating Schemes-Catchment Homewood	472
(g)	Wai Rating Schemes-Catchment Mataikona	496
(h)	Wai Rating Schemes-Catchment Maungaraki	(477)
(i)	Wai Rating Schemes-Catchment Kaiwhata	(1,451)
(j)	Wai Rating Schemes-Drainage	(30,229)
(k)	Wai Shingle Royalty	79,000
(l)	Wai Rating Schemes-River LWVD	53,550
(m)	Wai Rating Schemes-River Waiohine	(14,284)
(n)	Wai Rating Schemes - Gladstone	4,892
(o)	Wai Rating Schemes-River Waipoua	2,071
(p)	Wai Rating Schemes-River Waingawa	(18,832)
(q)	Wai Rating Schemes-River Lower Tauera	935
(r)	Wai Rating Schemes-River Lower Whangaehu	741
(s)	Wai Rating Schemes- Te Ore Ore	14,638
(t)	Wai Rating Schemes - Mt Bruce	(6,110)
(u)	Kopuranga Scheme Reserve	1,675
(v)	Akura Nursery Reserve	(22,600)
(w)	Wairarapa Wetlands	50,000
(x)	River Rate Reserve-Hutt City	14,864
(y)	River Rate Reserve-Kapiti Coast	64,177
(z)	River Rate Reserve-Porirua City	(5,701)
(aa)	River Rate Reserve-Upper Hutt City	32,369
(bb)	River Rate Reserve-Wellington City	(16,150)
(cc)	Election Reserve	70,000
(dd)	Finance System (SAP) Reserve	564,977
(ee)	IT Operations Capex Reserve	(151,193)
(ff)	Wgtn Regional Strategy - Grow Wellington	261,233
(gg)	Rebudget to 07/08-Whiteria Park Ranger Service	118,170
(hh)	Rebudget to 08/09 - Contacts Database Management	59,000
(ii)	Rebudget to 08-QE2 private land protection	92,000

(jj)	<i>Rebudget 08 - Clean up Waiwhetu</i>	75,000
(kk)	<i>Rebudget 08 - Pauatahanui</i>	28,000
(ll)	<i>Rebudget 08 - Bio Plants Admin</i>	20,000
(mm)	<i>Rebudget 08 - Animal Control Hutt</i>	165,000
(nn)	<i>Rebudget 08 - Animal Control Kai</i>	26,000
(oo)	<i>Rebudget 08 - Animal Control Aka</i>	21,000
(pp)	<i>Rebudget 08 - Corridor Studies - CBD</i>	43,500
(qq)	<i>Rebudget 08 - RLTS</i>	52,500
(rr)	<i>Rebudget 08 - Beacon Hill Capex</i>	45,788
(ss)	<i>Rebudget 08 - Ava Railway Stopbank Improvements</i>	5,597
(tt)	<i>Rebudget 08 - Whirinaki Crescent Stopbank</i>	3,561
(uu)	<i>Rebudget 08 - South Waitohu Stopbank</i>	22,691
(vv)	<i>Rebudget 08 - Crystals Extended Stopbank</i>	19,930
(ww)	<i>Rebudget08 - Waikanae Environmental strategy implementation</i>	2,035
(xx)	<i>Rebudget 08 - Waiwhetu Flood Improvements</i>	10,175
(yy)	<i>Rebudget 08 - Emergency PS Whitehead Road</i>	10,531
(zz)	<i>Rebudget 08 - Terminal Reservoir for Wainui System (CBD reservoir)</i>	4,418
(aaa)	<i>Rebudget 08 - Replace AVS Kaitoke-Karori main</i>	4,418
(bbb)	<i>Rebudget 08 - Wairarapa Accommodation Project Capex</i>	90,926
(ccc)	<i>Rebudget 08 - Kapiti Rail Station Concept Design</i>	25,000
(ddd)	<i>Rebudget 2008 - Capex-Metlink Signage</i>	225,000
(eee)	<i>Rebudget 08 - Bus & Ferry Procurement Review</i>	17,500

(4) **Adopts** the Annual Report for the year ended 30 June 2008 subject to any changes requested by the Committee.

Report prepared by:

Report prepared by:

Report approved by:

Barry Turfrey
Chief Financial Officer

Jane Bradbury
Divisional Manager
Corporate & Strategy

David Benham
Chief Executive

Attachment 1: 2008 Draft Annual Report is enclosed as a separate attachment to this report

Attachment 2: 2008 Preliminary Review for the year ended 30 June 2008

Attachment 3: Explanations of Unbudgeted Reserve Movements (2007/2008)