



AUDIT AND RISK MANAGEMENT COMMITTEE

11 SEPTEMBER 2017

PORIRUA CITY COUNCIL'S ANNUAL REPORT TO 30 JUNE 2017

PURPOSE

The purpose of this report is for the Committee to consider Council's Annual Report to 30 June 2017 that includes commentary on the significant issues and areas of judgement that has been used in arriving at the annual result, and recommend they be adopted by Council.

RECOMMENDATIONS

That the Audit and Risk Management Committee:

1. Receive the report
2. Is satisfied that the appropriate information and approach has been taken in respect to the processes to produce the Annual Report.
3. Notes the comments of the external auditors pertaining to the preparation and accuracy of the Annual Report.

Report prepared by: Suzanne Biddington
MANAGER FINANCIAL SERVICES

Report approved by: Roy Baker
GENERAL MANAGER CORPORATE SERVICES AND CHIEF FINANCIAL OFFICER

EXECUTIVE SUMMARY

This report provides the Audit and Risk Management Committee with details of the significant issues and areas of judgement that have been used in deriving the annual financial and performance results for the Annual Report 2016-2017.

CONTRIBUTION TO COUNCIL'S STRATEGIES

1. The document includes four detailed sections that outline what has been achieved in the financial year ending 30 June 2017 that contributes to the four key strategic priorities:
2. Children and young people at the centre of city decisions;
3. A healthy and protected harbour and catchment;
4. A growing, prosperous and regionally connected city; and
5. A great village and city experience.

DISCUSSION

Annual Report

6. The draft Annual Report reports against the 2017 Annual Plan adopted by Council on 29 June 2016. The draft Annual Report is attached as Attachment 1 to this report.
7. The Annual Report is complete, subject to final review following any changes requested by Council and any final audit adjustments. The signed Audit opinion will be released once the Annual Report has been adopted by Council and the final edit review completed.

Summary Annual Report

8. The draft Summary Annual Report is complete, subject to final review following any changes requested by Council and any final audit adjustments.

2016-2017 RESULTS COMPARED TO THE ANNUAL PLAN

9. The table below reconciles the actual net surplus against the 2017 Annual Plan.
10. A significant portion of the net surplus is a result of non-cash transactions associated with vested assets and the mark to market accounting requirement for interest rate swaps. A detailed explanation of the variances can be found in the Annual Report itself (note 34).

	2017	
	\$000	
Net surplus - Annual Plan	1,483	
Non-cash revenue / (expenses) movements		
Revenue from vested assets	2,280	
Depreciation and amortisation	(993)	
Gain on sale	(338)	
Loss on interest rate swaps	2,708	
Share of associates net surplus	(26)	
Loss on Investment property valuations	(622)	
Total non-cash	4,995	
Cash revenue / (expenses)		
Revenue	2,500	
Expenses	3,951	
Net finance costs	(188)	
Total cash	(1,263)	(1,263)
Net surplus - Annual Report	5,215	

SIGNIFICANT ISSUES AND VALUE JUDGMENTS

11. Non-cash revenue / (expenses)

VESTED ASSETS

12. Revenue from vested assets totalled \$4.5 million (\$11.3 million in 2015-2016). The timing of the completion of subdivision work and the vesting of assets is outside the control of Council.

The table below outlines the categories of assets vested to Council.

	2017
	\$000
Roading	443
Land under roads	740
Water services	484
Stormwater reticulation	1,042
Wastewater reticulation	649
Reserves	1,120
Total income from vested assets	4,478

13. Revenue from vested assets is non-cash revenue and Council assumes the ongoing maintenance obligations for these vested assets.

DEPRECIATION AND AMORTISATION

14. Depreciation and amortisation was less than the Annual Plan. This is due to lower capital expenditure than planned and changes in useful lives during the revaluation processes.

INTEREST RATE SWAPS

15. Interest rate swaps are revalued to fair value as at 30 June 2017 to comply with accounting standards. The fair value adjustment for interest rate swaps as at 30 June 2017 resulted in a net gain of \$2.7 million (2016 net loss of \$3.9 million). The fair value is affected by movements in interest rates.

INVESTMENT PROPERTY REVALUATIONS

16. The investment properties were revalued as at 30 June 2017, resulting in a net revaluation loss of \$70,000 (revaluation gain of \$277,000 in 2015-2016). The loss was a result of \$633,000 positive gains offset by \$703,000 negative valuations of which \$580,000 relates to 7 Serlby Place. 7 Serlby Place was valued on a commercial development basis rather than as an Investment Property.

REVALUATION OF ROADING ASSETS, LAND & BUILDINGS AND PARKS ASSETS

17. The revaluation of assets are as per the summary provided to the Committee at the meeting of 19 June 2017 and outlined in the table below.

Asset Class	\$M
Land under roads	18.3
Road assets	(1.4)
Park assets	1.6
Land	2.5
Buildings	(1.7)
Total Revaluations	<u>19.3</u>

OTHER

18. During the year NZTA made a payment of \$574,000 which was a prepayment for the work to be undertaken at the James Cook Interchange in relation to the Transmission Gully Link Road.
19. In November the City had a storm event that lead to emergency roading works expenditure including slip restoration work of \$1.7m for which Council received \$1.14m in NZTA subsidy. The slip restoration work is continuing into the 2017/18 year for which a budget of \$1.184m was provided for.
20. The storm event also lead to additional repair work for Parks & Reserves and Stormwater.

MATTERS OF JUDGEMENT

21. Every year there are a number of matters that require management to use their judgement in deciding the cost or value of an item under review. This year the following items have requirement management to make a number of judgments about estimates or assumptions that are normally associated with provisions. These include:

- Non-current assets held for sale: the total value of assets held for sale is \$0.3 million, these properties are expected to be sold within the next 12 months and meet the accounting standards definition of being held for sale.
- Landfill Aftercare provision: the discount interest rate used for the Landfill Aftercare provision was 2.97%. The useful life was extended by eight years as per the recommendations at the meeting of the Committee on 6 March 2017. These changes resulted in a decrease in the provision of \$995,000 (2016 2.34% resulting in an increase in the provision of \$2,231,000).

STATEMENT OF SERVICE PERFORMANCE

22. The Statement of Service Performance details the levels of service for each of the Council's 11 activity areas and the performance measures and targets for each activity.
23. The performance measure results for 2016-2017 were collected from activity managers and have been endorsed by the General Managers. The performance measure results have been audited as part of the Council's end-of-year audit carried out by Council's auditors, Ernst and Young.
24. Of the 101 non-financial performance measures in the Long-term Plan 2015-25, 76 performance measures (75%) were met, 23 performance measures (23%) were not met and two performance measures were not applicable (2%). This result is an improvement from last year's result when 74% of performance measures were met, 20% were not met and 6% were not applicable.

ERNST AND YOUNG AUDIT ISSUES

25. The Annual Report document is externally audited on behalf of the Auditor General by Ernst and Young against the statutory requirements of the Local Government Act 2002.
26. The Ernst and Young Closing Report to the Audit and Risk Management Committee for the year ended 30 June 2017 is provided in Attachment 3 to this report.

OPERATIONAL IMPLICATIONS

27. The results of the Annual Report 2016-2017 will assist management in identifying improvements that can be made to work programmes, service delivery reviews, and the achievement of the Council's strategic priorities.

FINANCIAL IMPLICATIONS

28. The cost of producing, printing and distributing the Annual Report and Summary Annual Report is provided within current budgets.

STATUTORY REQUIREMENTS

29. The Annual Report and Annual Report Summary 2016-2017 are required under section 98 of the Local Government Act 2002.
30. The Annual Report and Summary Annual Report have been prepared to meet the requirements of the Local Government Act 2002.

31. The Summary Annual Report must represent, fairly and consistently, the information regarding the major matters dealt with in the Annual Report.
32. The Local Government Act 2002 requires each Annual Report to be completed and adopted by resolution within four months after the end of the financial year to which it relates i.e. by the end of October.
33. The Local Government Act 2002 requires that the Annual Report and Summary Annual Report to be made publicly available within one month of adoption.

CONSULTATION

34. No formal consultation is required for either the Annual Report or Summary Annual Report 2016-2017.

ATTACHMENTS:

- Draft Annual Report 2016-2017 including financial statements #4937259
- Ernst and Young closing report to the Audit and Risk Committee for the year ended 30 June 2017