



Report 07.675
Date 18 September 2007
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Committee Policy Finance and Strategy
Author Barry Turfrey, Chief Financial Officer

Annual Report for the year ended 30 June 2007

1. Purpose

To obtain the approval of the Committee for the Annual Report and Summary Annual Report for the year ended 30 June 2007.

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.

The Planning and Monitoring Subcommittee met to review the Annual Report and Summary Annual Report on 18 September. Subject to minor changes they recommended that Council adopt the 2006/07 Annual Report and Summary Annual Report.

Audit New Zealand has completed its audit and there are no unresolved issues. They will issue their audit opinions once the Council adopts both reports.

Phil Sharman from Audit New Zealand, will be in attendance at the meeting on 27 September to summarise the results of the annual audit and to answer any questions that the Committee may have.

4. Background

The 2007 Annual Report reports against the Council's 2006-16 Long-term Council Community Plan (LTCCP). This is the first Annual Report for the 2006-16 LTCCP.

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).

To ensure comparability, the financial statements for 2005 and 2006 have been restated and audited under the new accounting standards.

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 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.

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.

5. Reconciliation of the preliminary and final result

The Committee reviewed the Council results for the year at its meeting on 14 August. A copy of that report is attached (**Attachment 3**).

The preliminary results reported to the Committee at its meeting on 14 August was a deficit of \$2,461,000. This compares with the final result, a deficit of \$4,586,000.

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)	<u>(4,586)</u>
Add back unrealised gains	(4,786)
Deficit prior to unrealised gains	<u><u>9,372</u></u>

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 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.

6. Results for the year ended 30 June 2007

6.1 The Council

The Council will report a deficit before unrealised gains and losses of \$9.372 million. The major reason for this is the accounting treatment for the purchase of the rail rolling stock by Greater Wellington Rail Limited (GWRL). This results in a deficit of \$9.5 million.

	Council Actual \$'000'	Council Budget \$'000'
Surplus (deficit) before unrealised items and tax	(9,372)	57,873
Deficit (surplus) arising from purchase of rail rolling stock	9,495	(59,689)
Surplus (deficit)	<hr/> 123	<hr/> (1,816)
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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 \$9.5 million. On consolidation of the Council and GWRL this transaction is eliminated. The increase in the Group's surplus is \$19.8 million.

6.2 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 \$23.004 million.

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

	Group Actual \$'000'
Council deficit	(9,372)
Reduction in deficit consolidation re rail rolling stock	19,809
Unrealised gains	18,119
Other group operating surplus	9,300
Consolidated surplus	37,856

7. Representation letters

Representation letters to the auditors must be signed by the Chair, Chief Executive and Chief Financial Officer. The letters are for the year ended 30 June 2007 and the restated financial statements under IFRS. The representation letter for 2007 includes a list of the unadjusted errors (in the opinion of the auditors) in respect of the 2006/07 financial statements. For the Council, the only item is the provision for doubtful debts, \$773,000. Management is of the opinion that it is prudent to have such a provision as there have been occasions in the past when there have been shortfalls in our rates. The auditors disagree with this position. There are also some minor unadjusted errors in the Group, these relate entirely to CentrePort.

Copies of the representation letters are attached (**Attachment 5**).

8. Reserves

A detailed analysis of reserve movements during the 2006/07 year is provided, along with explanations of variances between budgeted and actual reserve movements (**Attachment 4**). All variances between budgeted and actual reserve movements will need to be approved by the Council 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 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. Communications

A press release has been prepared and will be circulated to Councillors.

11. Recommendations

That the Committee 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)	<i>Akura Nursery Reserve</i>	4,405
(x)	<i>Bioworks</i>	(127,629)
(y)	<i>River Rate Reserve-Hutt City</i>	51,281
(z)	<i>River Rate Reserve-Kapiti Coast</i>	97,794
(aa)	<i>River Rate Reserve-Porirua City</i>	3,801
(bb)	<i>River Rate Reserve-Upper Hutt City</i>	59,783
(cc)	<i>River Rate Reserve-Wellington City</i>	(11,261)
(dd)	<i>Flood Contingency Wairarapa</i>	(446,979)
(ee)	<i>Treasury and Planning systems reserve</i>	(54,694)
(ff)	<i>Finance System Reserve</i>	485,496
(gg)	<i>Rebudget to 06/07- Korokoro tree removal</i>	50,000
(hh)	<i>Rebudget to 06/07- Emergency equipment</i>	(195,000)
(ii)	<i>Rebudget to 07/08-Metlink Signage</i>	225,000
(jj)	<i>Rebudget to 07/08-Level 6 fitout</i>	323,000
(kk)	<i>Rebudget to 07/08-Bus & Ferry Procurement Review</i>	50,000
(ll)	<i>Rebudget to 07/08-RLTS Review</i>	120,000
(mm)	<i>Rebudget to 07/08-Transport Model Update</i>	31,500
(nn)	<i>Rebudget to 07/08-Whiteria Park Ranger Service</i>	216,000
(oo)	<i>Rebudget to 07/08-Boundary Fence Akatarawa Forest</i>	45,000
(pp)	<i>Rebudget to 07/08-Wainuiomata Mainland Forest Island</i>	30,000
(qq)	<i>Rebudget to 07/08-Drycreek Possum Operation</i>	15,000
(rr)	<i>Rebudget to 07/08-QE2 private land protection</i>	83,000

(4) **Agrees** that the requirements for the forestry business unit to pay a dividend be waived for the 2006/07 year.

(5) **Adopts** the Annual Report and Summary Annual Report for the year ended 30 June 2007.

Report prepared by:



Barry Turfrey

Chief Financial Officer

Report approved by:



David Benham
Chief Executive

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

Attachment 2: 2007 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: Representation letters