

7.1 ANNUAL REPORT 2017/18**File Number:** COU1-1408**Author:** Bronda Smith, Group Manager, Corporate Support and Services**Authoriser:** Monique Davidson, Chief Executive**Attachments:** 1. Annual Report 2017/18 Draft
2. CHBDC Auditors Letter to the Risk and Audit Committee 2018

The Council is satisfied that, pursuant to s48(1)(a)(i) of the *Local Government Act 2002*, the information to be received, discussed or considered in relation to this agenda item is:

s7(2)(a) the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons

s7(2)(f)(i) free and frank expression of opinions by or between or to members or officers or employees of any local authority.

PURPOSE

The matter for consideration by Risk and Audit Committee is the recommendation to Council that the Annual Report 2017/18 be adopted.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) **The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 be adopted.**
- b) **That this report be released following the meeting**

COMPLIANCE

Significance	This matter is assessed as being of some importance
Options	<p>This report identifies and assesses the following reasonably practicable options for addressing the matter:</p> <ol style="list-style-type: none"> 1. The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 be adopted. 2. The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 not be adopted.
Affected persons	The persons who are affected by or interested in this matter are the ratepayers of Central Hawke's Bay.
Recommendation	This report recommends option 1 for addressing the matter.
Long-Term Plan / Annual Plan Implications	None

COMPLIANCE	
Significant Policy and Plan Inconsistencies	None

BACKGROUND

The two main purposes of the Annual Report are:

- (a) To compare the actual activities and the actual performance of Council in the year with the intended activities and the intended level of performance as set out in a Long Term Plan or Annual Plan.
- (b) To promote Council's accountability to the community for the decisions made throughout the year.

According to section 98(3) of the Local Government Act 2002, the Annual Report must be adopted within four months after the end of the financial year to which it relates.

Once the Annual Report is adopted by Council, copies must be made available to the public within one month, and a summary of the Annual Report produced. Copies of both these documents must be sent to the Secretary of Local Government, the Auditor General and the Parliamentary Library.

OVERALL YEAR END RESULT

Statement of Comprehensive Income

Set out below is a summary of the financial operating results for the 2017/18 financial.

	Budget 2017/18 \$000	Actuals 2017/18 \$000	Variances \$000
Operating Income	28,192	31,555	3,363
Less Operating Expenditure	28,625	31,791	3,166
Net Surplus/(Deficit) from Operating	(433)	(236)	197
Other Expenses		53	53
(Gains)/Losses on Public Debt		(72)	(72)
(Gains)/Losses on Investments		36	36
Operating surplus/(deficit)	(433)	(243)	(190)
Gains/(losses) on the revaluation of property, plant and equipment	13,793	11,529	(2,264)
Total Comprehensive Income	13,360	11,286	(2,074)

It is important to note that the above is based on accounting results and is different from the funding requirements of Council. Funding information is provided in the Funding Impact Statement.

Summaries of the major variances are below:

Operating Income

	Budget 2017/18 \$000	Actuals 2017/18 \$000	Variances \$000
Subsidies and Grants	6,553	8,676	2,122
Fees & Charges	2,253	2,948	694

- Higher subsidies were received this from NZTA primarily from weather event funding - \$2.1m
- Higher Fees and Charges across Planning and Regulatory - \$256k
- Higher Fees and Charges across Solid Waste - \$195k
- Higher Fees and Charges across Wastewater - \$197k

Operating Expenditure

	Budget 2017/18 \$000	Actuals 2017/18 \$000	Variances \$000
Personnel Costs	4,037	4,453	(416)
Other Operating Expenditure	11,632	15,221	(3,588)

- Higher personnel costs based on reorganisation - \$201k
- Land Transport reclassification of Wages to Personnel from Other Expenditure - \$124k
- District Plan expenses that are covered by carry forwards from previous year - \$346k
- Wastewater Operational including the wastewater review partially offset by extra income - \$445
- Higher maintenance costs in Land Transport offset by a reduction in Renewals - \$1.451m
- Higher maintenance costs for Emergency Management offset by Subsidy from NZTA - \$1.08m
- Carry forward of maintenance work from June 2017 weather event spent in this financial year - \$306k

Gains/(losses) on the revaluation of property, plant and equipment

	Budget 2017/18 \$000	Actuals 2017/18 \$000	Variances \$000
Gains/(losses) on the revaluation of property, plant and equipment	13,793	11,529	2,264

All asset classes are on a revolving revaluation cycle. This year the revaluation of the Roothing assets have been the major revaluation activity.

The overall revaluation for the Roothing assets showed an \$11.5m increase in value, which represents a 1.7% increase on the base asset values.

External Debt

Council Treasury Management Policy states

“The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.”

As part of the Treasury function, external debt has been managed on an overall Council basis. Council was budgeted to raised \$2.065m in External Debt. Long Term Debt raised during the year was \$2m which was the rollover of debt repaid this year.

The External Debt as at 30 June 2018 is \$2.737m against External Debt of \$2.772m last year.

TRANSFERS TO RESERVERS

The Special Funds and Trust accounts are allocated interest annually from the interest received by Council in the way of investments and interest from activities. It is allocated based on the opening balance and in 2017/18 and a total of \$218k was allocated to the funds.

Also transferred to the Reserves is the following

Reserve	From Activity	Amount	Comment
Landfill Aftercare Reserve	Solid Waste	77,825	Annual Aftercare Provision
Capital Project Fund	Parks & Reserves	(13,828)	Expenses for the sale of reserves to be covered by the proceeds
Adverse Events Fund	Solid Waste	8,683	Landfill Fire Costs Repayment as budgeted
Catastrophic Events Fund	Land Transport	100,000	Additional funding as budgeted
Wastewater Upgrade Reserve	Wastewater	200,000	Funding for upgrade
Pourerere Reserve Land	Parks & Reserves	3,721	Balance of DOC grant still outstanding
Retirement Housing Fund	Retirement Housing	28,264	Surplus from Retirement Housing

CHANGES TO REPORTING STANDARDS

There have been no changes to the reporting standards for this annual report.

Currently the Annual Report is prepared based on the disclosure requirements of a Tier 2 Public Benefit Entity. The Council is required to move to Tier 1 disclosure reporting when the operating expenditure exceeds \$30m. As this is the first year Council has exceeded this expenditure limit we are reporting under the Tier 2 disclosure requirements. Officers have requested information and sample accounts for Tier 1 reporting based on the probability that the operating expenditure will exceed \$30m in 2018/19. Following this advice, officers will inform the Risk and Audit Committee of the changes required.

AUDIT OPINION

Mr David Borrie, Partner, Ernst and Young, will be in attendance to discuss the outcome of the audit.

The auditors have advised that they will issue an unmodified audit opinion for Annual Report 2017/18.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as **of some importance**.

OPTIONS

The following analysis applies to all options

- a) **Financial and Resourcing Implications**
There are no financial or resourcing implications identified from this report.
- b) **Risk Analysis**
The Risk and Audit committee does not have any statutory responsibilities. The risks for the adoption of the Annual Report remain with Council.
- c) **Alignment to Project Thrive and Community Outcomes**
All options align with Project Thrive and will allow us to achieve our key community outcomes
- d) **Statutory Responsibilities**
The Risk and Audit committee does not have any statutory responsibilities. The statutory responsibilities for the adoption of the Annual Report remain with Council.
- e) **Consistency with Policies and Plans**
This report is consistent with all policies and plans
- f) **Participation by Māori**
This issue is not identified as requiring specific engagement with Maori.
- g) **Community Views and Preferences**
This issue is not identified as requiring specific engagement with the community.
- h) **Advantages and Disadvantages**
The recommendation from the Risk and Audit Committee to Council that the Annual Report be adopted ensures the Terms of References for the Committee are being carried out.

Option 1 The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 be adopted.

Option 2 The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 not be adopted

Recommended Option

This report recommends option 1 for addressing the matter.

NEXT STEPS

The Annual Report 17/18 will be presented to Council at an extraordinary Council meeting on 18th October for adoption.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) The Risk and Audit Committee recommend to Council that the Annual Report for 2017/18 be adopted.**
- b) That this report be released following the meeting**