

Adoption of the draft Annual Report 2018/19

(Memo from Chief Financial Officer 7/10/2019)

Purpose

This report to inform the Council of the final financial and non-financial results for the year ended 30 June 2019 and for the Council to adopt the Annual Report.

Background

- 1 The Annual Report for the year ended 30 June 2019 is attached for the Council's consideration.

The financial statements record a modest surplus of \$31,000. However, this includes a non-cash write-down in the value of the Council's interest rate swaps of \$980,000 and a non-cash loss on the disposal of the old high-pressure sodium streetlights of \$302,000. Adding back these items reveals the underlying operating surplus of \$1.3 million against a budget of \$1.96 million. The reasons for the difference is explored below.

Audit

The Deloitte audit team spent approximately five weeks auditing the Council's accounts, including a total of 5 weeks on-site (one week in June and four in September).

Deloitte has issued an unqualified audit opinion and met with the Audit and Risk Committee on 3 October to discuss the audit process and their findings.

The finance team are proud of the fact that despite the tighter timeframe due to the election and the asset revaluation, the audit process ran relatively smoothly.

Financial performance

Revenue

Overall revenue is lower than budgeted by 1.2 million. Contributing to this is less revenue from subsidies and grants largely due to the Pyramid Bridge project rolling over into the next financial year. Although other revenue is higher than budgeted, much of the extra funding are reimbursements for Project ARK or operating and capital improvements for the MVM industrial hub. This is countered by the absence of section sales from Matai Ridge as the project is permanently on hold.

Expenses

Overall, expenses are higher than budget by \$675,000. Much of the additional expenditure relates to project ARK, for which the Council is reimbursed. Also contributing to the variance was the cost of assessing the Council's buildings for asbestos. These costs were offset by lower interest costs as the Council has borrowed less than forecast.

Assets

As a result of the triennial asset valuation, the value of the Council's assets has increased significantly. The increase is driven by the fact that infrastructure is becoming more expensive to build, better knowledge about our underground network, including the discovery of further underground assets.

Liabilities

Overall, liabilities are lower than forecast by \$3.5 million because delays to capital projects have meant the Council had not borrowed as much. Total debt at 30 June 2019 is \$19 million, which includes \$2 million of debt borrowed in advance. These funds are on term deposit with interest earned offsetting the interest paid.

Cash flow

The Cash Flow Statement shows how the Council performed on a cash basis. It removes the effect of any non-cash items like the write-down in interest rate swaps and gains or losses on assets. It also shows what the Council spent on its assets and changes in debt.

Overall the Cash Flow Statement shows that the Council started the year with just over \$5 million of cash in the bank, which decreased by \$2.1 million to just over \$2.8 million. This shows the effect of the Council using some of its reserves and the spending of funds previously borrowed in advance on capital projects.

Financial prudence benchmarks

The Council met all but two of the eight financial prudence benchmarks for the year. As planned, the Council exceeded its self-imposed rating cap of 5% with an average rate increase of 6.15%. The higher increase was to fund interest separately from depreciation.

The Council also did not meet the operations control benchmark for the year due to the lower revenues previously mentioned.

Statement of service performance (non-financial performance measures)

The Annual Report also records the Council's non-financial performance for the year. The Council achieved 31 out of 45 performance measures, or 69%. This excludes three performance measures relating to water quality, which are not applicable until the 2021 year when the Council has completed the planned upgrades of its water treatment plants.

The performance of individual departments is summarised below:

Department	Achieved	Measures	%
Water	7	10	70%
Wastewater	7	10	70%
Stormwater	8	8	100%
Roading	3	7	43%
Parks, Reserves, Aquatic Facilities, Civic Buildings & Recreation	1	2	50%
Other District Assets including Solid Waste and Civil defence	0	1	0%
Community Services – Arts & heritage, libraries, Promotions and Grants	3	3	100%
Regulatory and planning	2	3	67%
Democracy and Administration	0	1	0%
Total	31	45	69%

Conclusion

The 2018/19 financial year has had its share of challenges. The Council had to respond to several matters not contained in its 10 Year Plan, like the relocation of the library and the remedial work required for the bleachers and roof at the MLT Event Centre. However, the Council still achieved many of its objectives, making significant progress on several key projects like the Ajax pump station, replacement of Pyramid bridge and the solutions for the Gore water treatment plant.

There were other highlights, like securing \$3.7 million in funding from the Provincial Growth Fund for the Muruwai and Hokonui Huanui projects. The Council also consolidated its relationship with Mataura Valley Milk with the signing of the agreement for the company's financial contribution of \$958,000 and successfully secured a contract to remove the Ouvea premix from the Mataura paper mill.

RECOMMENDATION

THAT the report be received.

AND THAT the annual report for the year ended 30 June 2019 be adopted.

AND THAT the Chief Executive is empowered to make typographical and layout changes necessary for publishing the document.