6. 2007 ANNUAL REPORT

General Manager responsible:	General Manager Corporate Services, DDI 941-8540
Officer responsible:	Corporate Finance Manager
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PURPOSE OF REPORT

1. The purpose of this report is to present for review by the Audit and Risk Management Subcommittee the draft financial statements forming part of the annual report of the Christchurch City Council (CCC) for the year ended 30 June 2007.

2. Under section 98 of the Local Government Act 2002 a local authority must prepare and adopt in respect of each financial year an annual report. Each annual report must be completed and adopted by resolution, and within one month after the adoption of its annual report, the local authority must make publicly available:

   (a) its annual report; and

   (b) a summary of the information contained in its annual report.

3. These are the first accounts presented under the New Zealand Equivalents to International Financial Reporting Standards, (NZ IFRS). The Council adopted NZ IFRS as at 1 July 2006. The main differences between NZ IFRS and the previous reporting standard, NZ GAAP are;

   (a) deferred taxation; under NZ IFRS deferred tax balances are calculated on a balance sheet approach which recognises where there is difference between the carrying value of an asset or liability and its tax base.

   (b) reclassification of cash and cash equivalents; under NZ IFRS cash and cash equivalents include short term investments with a maturity of less than 90 days, (previously less than one year).

   (c) derivatives are recognised on the balance sheet.

   (d) impairment testing, all assets including investments are now annually tested for impairment and where necessary their value adjusted.

EXECUTIVE SUMMARY

4. At the time of forwarding this draft report to the Subcommittee, Audit NZ has examined the financial statements of the parent but has not yet signed off on the report. The main outstanding issue is that the final revaluation data is not yet finalised and we have still not received the last of the related party information.

5. The financial statements of the group have been omitted from this report because of delays in receiving them from the subsidiaries. It is intended to hold a conference call later next week so that the committee can sign off on the group accounts.

6. A representative of Audit NZ will be in attendance at the committee meeting to answer any questions regarding the accounts.

7. Attached as Appendix 1 is a copy of the financial statements of the draft annual report for the year ended 30 June 2006. Parent numbers only are included, group results have been omitted as they are not complete.

8. Council's operating surplus before asset contributions for the year was $27.2m, $19.6m ahead of plan. $11m of the additional surplus is the result of higher than expected revenue and the balance from lower than expected costs. Contributions to this variance are outlined in note 35 of the detailed accounts and include:

- higher than budgeted development contributions of $4.2m. This needs to be considered along with the vested asset receipts which were $10.7m below budget. This net revenue shortfall is a timing difference. The Council's new development contributions policy was scheduled to come into effect on 1 July 2006 and many developers brought forward their applications in order to avoid the increased fees.
- higher than budgeted rates of $1.6m.
- interest received of $1.4m. This is due to higher interest rates.
- higher than budgeted LTNZ subsidy of $1.5m.

The main cost savings were:

- lower than budgeted personnel costs of $1.4m
- lower than budgeted professional and contract fees of $3.3m,
- lower than budgeted interest expense of $2.0m due to lower intergroup loans.

9. The net surplus for the year after vested assets is $39.3m, $9.1m over plan.

10. Much of the focus for the year was on cost control and efficiencies, and for 10 of the 13 Groups of Activities actual expenditure was less than plan. These savings were largely achieved through better contract management, although in some areas a difficulty in recruiting skilled staff led to projects being postponed. Of the remaining 3 groups, 2 were affected by unbudgeted costs including a $2.3m write-off for Jellie Park buildings, and a $0.8m provision for leaky home claims. In the Streets activity, expenses were $5.6m over budget due to increased maintenance costs and unbudgeted costs associated with the replacement of the old parking meters.

11. Equity increased by $155m, $115m of which results from asset revaluations.

12. Amongst the many capital projects completed for the year are the Blenheim Road deviation, ($5.7m), upgrade of the parking meters, ($2.6m) and strategic land purchases of $8.5m.

13. Projects progressed include the Ocean outfall pipeline at South New Brighton ($30.7m), Gowerton Place housing development ($2.4m), the Burwood Landfill gas project ($2.6m), construction of the 5th and 6th digesters, ($10.4m), the upgrade of pump station 11 ($3.9m), and the redevelopment of the Jellie Park swimming complex, ($1.3m).

14. Of the balance, most went on providing the Council's basic services including $6.1m on carriageway resurfacing, $3.9m on footpath resurfacing, $14.3m on kerb and channel, $6.3m on road networks $4.9m on renewals and replacements of water reticulation, $16.5m on parks and $4.3m on library books.

15. The Council has four financial ratios which form a key part of its financial risk management strategy. For all four actual results fell well within policy limits.

FINANCIAL AND LEGAL CONSIDERATIONS

16. There are no legal implications.

STAFF RECOMMENDATIONS

It is recommended:

(a) That the General Manager Corporate Services be authorised to make changes as required by Audit to complete the accounts once the revaluation and related party data is finalised, or to correct errors in preparation for presentation of the report to the Council on 20 September 2007.

(b) That the Christchurch City Council 2007 Annual Report be forwarded to the Council for adoption.