7. ADOPTION OF 2007 ANNUAL REPORT

General Manager responsible:	Acting General Manager Corporate Services DDI 941-8540
Officer responsible:	Corporate Finance Manager
Author:	Diane Brandish

PURPOSE OF REPORT

1. The purpose of this report is to present the 2007 Annual Report containing the audited financial statements of the Christchurch City Council for the year ended 30 June 2007, for adoption by the Council.

EXECUTIVE SUMMARY

2. The Annual Report (separately circulated) is intended to provide financial and non-financial information regarding the Council's operations for the year ended 30 June 2007, as required by Schedule 10 of the Local Government Act 2002.

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.

PARENT FINANCIAL RESULT

4. The Council's operating surplus for the year, after vested asset contributions was $38.9m, $8.7m ahead of plan. This variance was mainly driven by reduced expenses because, although revenue was up by $11m, vested asset receipts were down by $10.6m. Contributions to this variance are outlined in note 27 of the detailed accounts and include:

   - higher than budgeted development contributions of $4.2m. This needs to be considered in conjunction with the vested asset receipts. 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 mainly due to higher market rates.

   - higher than budgeted LTNZ subsidy of $1.5m.

5. The main cost savings were:

   - lower than budgeted personnel costs of $2.2m
   - lower than budgeted professional and contract fees of $3.2m,
   - lower than budgeted interest expense of $2.0m due to lower inter-group loans.

6. As mentioned above the net surplus for the year after vested assets was $38.9m, $8.7m over plan. After adjusting for budget variances in capital revenues and for non cash items such as vested assets and depreciation, the cash surplus for the year is $11.7m.

7. The Balance Sheet reflects the Council's strength, with a growth in equity of over $464m, $423m of which results from asset revaluations.

8. 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.

9. 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).

10. Of the balance, most of the capital spend 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.

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

GROUP FINANCIAL RESULT

12. The group profit for the year was $107.2m, $21.2m above last year. The increase was primarily due to increased revenues within the Orion Group, and a $9m saving in tax, as a result of incorporating the impact of the reduced tax rate on deferred expense, into the 2007 year. In addition, the 2006 result included a $3.0m loss which related to the discontinued operations in City Care Ltd.

13. Group total assets have increased by $963m to $6.6b.

FINANCIAL AND LEGAL CONSIDERATIONS

14. Pursuant to s98 of the Local Government Act 2002, the Council must prepare and adopt an annual report in respect of each financial year. The report must be adopted by resolution within four months after the end of the financial year to which it relates.

15. Within one month of the adoption of its annual report, the Council must make publicly available:

    - its annual report; and
    - a summary of the information contained in the annual report.

STAFF RECOMMENDATION

It is recommended that the Council:

(a) Resolve to adopt the 2007 Annual Report as presented.

(b) Authorise the General Manager Corporate Services to make changes as required for publishing the Annual Report.

(c) Authorise the General Manager Corporate Services to produce and publish the Annual Report and Summary Annual Report within the statutory timeframes.