26. ANNUAL REPORT

General Manager responsible:	General Manager Corporate Services, DDI 941-8528
Officer responsible:	Corporate Finance Manager
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1. The purpose of this report is to:

   (a) Present the 2008 Annual Report containing the audited financial statements of the Christchurch City Council for the year ended 30 June 2008, for adoption by the Council.

   (b) Obtain the Council's approval to transfer the operating cash surplus for the year ended 30 June 2008 to the debt repayment reserve to be used immediately to fund capital expenditure in lieu of borrowing.

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.

EXECUTIVE SUMMARY

3. Separately circulated as Appendix 1 is a copy of the annual report for the year ended 30 June 2008.

4. Audit NZ have examined the financial statements and accompanying reports of the group and, subject to there being no further changes, have issued an unqualified audit opinion.

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

6. The Council's operating surplus for the year, inclusive of vested asset contributions was $40.2 million, $2.2 million (5.5%) above plan. The majority of the surplus has not arisen from operating activities. Under accounting standards we are required to show all revenue, including capital revenues, as income received for the year. This year we have received $29.9 million of development contributions and vested assets which are largely held in the balance sheet either as an asset or a reserve to be offset against the cost of future development. We have also received interest on funds which are held for special purposes. After adjusting for these, the Council has made a cash operating surplus for the year of $2.9 million. With a Council resolution it is possible to apply this surplus to reduce borrowing.

7. Revenue was $10.1 million (2.5%) above plan and expenses $0.3 million, (0.1%) below. Vested assets (non-cash revenue) were $7.7 million below plan. Other than vested assets there are no material variances. A more detailed analysis is set out in note 27 of the accounts and includes:

   - higher than budgeted development contributions of $5.3 million. Offsetting this is the $7.7 million shortfall in vested assets. The net variance was 7.3%, (unfavourable).
   - higher than budgeted rates of $2.3 million driven by growth in the rating base in preparation for the revaluation.
   - higher than budgeted rental income of $2.1 million due to higher commercial rents, additional properties associated with the new bus exchange site, and higher occupancy rates in housing.
   - gain on sale of property at Blenheim road, and miscellaneous grants including $2.43 million for the development of Whakahoa Village; total variance $4.4 million.
   - lower than budgeted LTNZ subsidies of $8.9 million due to lower than expected capital works and an overestimation of the subsidy due.

The main expense variances were:

- loss on assets written off of $4.2 million; primarily carriageways and footpaths.
- higher than budgeted employee costs of $5.2 million. This variance was mainly within the building consents area where it was offset by additional revenue, and IM&CT where it was capitalised.
- lower than budgeted interest expense of $3.9 million due to lower intergroup loans and lower than planned capital expenditure. Part of the $3.9 million is offset by $1.6 million shortfall in interest received.
- lower than budgeted general operating costs of $4.6 million.

8. The Council's balance sheet reflects its strong financial position with total assets of $6.6 billion and net assets of $6.3 billion. Equity increased by $838.0 million, $801 million of which results from revaluations of assets and investments.

9. Council invested $209.3 million in capital projects during the year. Those completed include the Whakahoa Village housing development in Gowerton Place ($2.5 million), housing improvements and redecoration ($2.1 million), carriageway and footpath resurfacing ($9.6 million), and kerb and channel replacement ($14.3 million). The Council spent $18.8 million acquiring the land for the new transport interchange and $20.6 million on land at Henderson's basin and at Awatea.

10. Projects progressed include the ocean outfall pipeline ($31.1 million), redevelopment of the Jellie Park swimming complex, ($10.1 million), the City Mall upgrade ($5.3 million), ongoing work with the fifth and sixth digesters, ($4.6 million). The two largest parts of the capital programme were Streets and Transport ($65.6 million) and Wastewater Collection and Treatment ($50.4 million) together accounting for 55% of the capital programme.

11. 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.

12. The Council achieved 71% of its targets in 2008 against 80% in 2007.

LEGAL CONSIDERATIONS

13. There are no legal implications.

STAFF RECOMMENDATIONS

It is recommended that the Council:

(a) Resolve to adopt the 2008 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.

(d) Authorise the transfer of the 2008 cash operating surplus of $2.860 million to the debt repayment reserve to be used immediately to fund capital expenditure in lieu of borrowing.