2012/13 Annual Report Summary

from your Mayor and Chief Executive

Although the Council has had to implement some difficult decisions in the past year around what we do and don't fund, we have in the main met or exceeded the goals we set ourselves.

We are pleased to present the summarised results and to let you know that we are back on track to balance the books by 2017.

We came in $43 million under our debt target for the year at $397 million and also under our budgeted borrowings. Deferred expenditure impacts the borrowing position but this year is the lowest it has ever been.

Our 10-Year Plan includes a limited programme of capital expenditure, which is in keeping with current financial constraints. The focus is on looking after the assets the Council already owns, completing projects we are committed to and providing for future growth in the city.

In the past year we have invested in a number of strategic reviews of city facilities to ensure they meet the standards and needs of a modern city. We have reviewed our theatres, sports facilities, libraries, and Hamilton Gardens.

We hope by the end of reading this summary you are informed about your council's performance in the last year.

Julie Hardaker
Mayor

Barry Harris
Chief Executive

Finances On Track

The Council is working towards three financial goals:

1. Balancing the budget by 2017.
2. Keeping debt at around $440 million for 10 years.
3. Providing certainty to ratepayers with a total rates rise of 3.8% each year to existing ratepayers for 10 years.

We met our targets for 2012/13:

1. We are on track to be 'in the black' by 2017, with a balanced budget result $4.5 million ahead of target.
2. Total overall debt was $397 million - $43 million under the cap of $440 million.
3. The total rates rise was held at 3.8% for existing ratepayers.

Reporting Back

Our 2012-22 10-Year Plan sets out the Council's programme for the next decade, how much it will cost and what will be delivered to the city.

We are reporting back to you on how we did against the first year of this plan.

The Council is working to a programme of sound financial management – spend less, make savings and manage the city's debt.

Our results for the year show that we are well on the way to achieving our financial goals.

To live within our means and achieve our financial goals a range of measures were agreed through the 10-Year Plan. They included cuts to services, reducing what it costs to run the Council and increasing user pays in some areas.

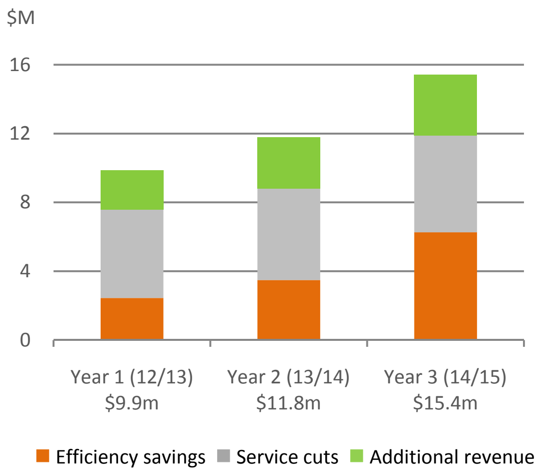
You can read about these changes in detail in our 10-Year Plan document, which is on our website at www.hamilton.co.nz/10yearplan.

By 2015, and each year after that, we will have reduced what it costs to run the city by over $15 million compared to 2011/12. The following graph shows how we are working towards this over three years.

We achieved our target of $9.9 million savings in 2012/13.

The following pages provide more detail on our results against what we said we would do during 2012/13.

Cumulative savings over three years



Balancing the Books

Since 2007/08 Council has been running at a loss, which means spending more than it is earning and borrowing to pay the difference.

To address this, our 2012-22 10-Year Plan includes the goal to balance the books by 2017.

Total rates increases of 3.8% per year to existing ratepayers for 10 years, combined with a programme of reduced spending will achieve this goal.

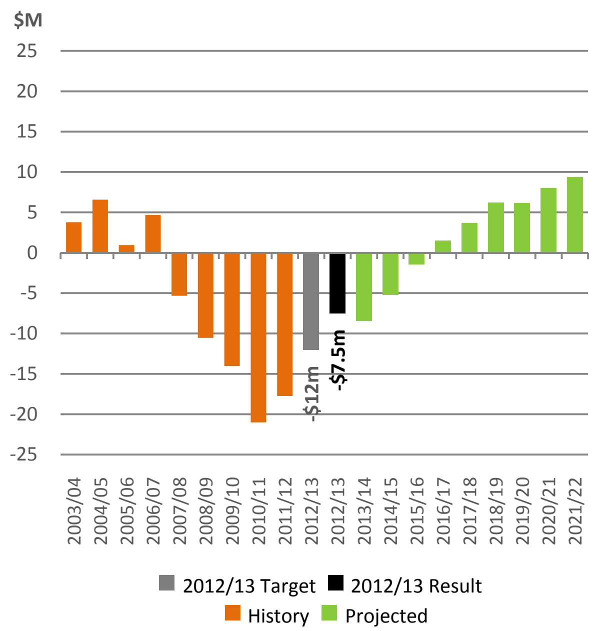
With the budget 'back in the black' the Council will be able to pay for new assets and upgrades without the same amount of borrowing, leaving a better legacy for future generations.

Our 2012/13 result was $4.5 million ahead of budget. The main reasons for this are better than expected income from developer contributions and lower interest rates on our borrowing. Any additional income goes towards paying off debt.

We are taking a conservative approach to measuring our financial sustainability. In addition to our balanced budget measure, our financial statements report the Council's operating surplus. The difference is the operating surplus includes one-off income, such as subsidies for projects.

Our balanced budget measure excludes these one-off funds to reflect a more transparent financial position. We will return to an operating surplus by 2015, but we won't balance the budget until 2017.

Balanced Budget



Rates

The Council is balancing the city's long-term financial health with the need to keep rates to a minimum and important services maintained.

We also want to provide certainty to ratepayers about their rates bills.

To achieve this, the 2012-22 10-Year Plan increases the total rates collected from existing ratepayers by 3.8% each year.

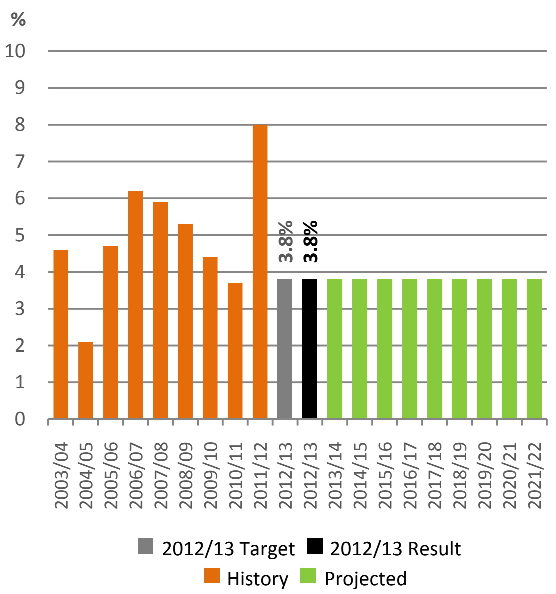
Setting rates at this level is an important part of improving the city's financial position.

To manage debt and balance the books, the Council needs to reduce its reliance on borrowing and pay for more through rates.

As well as increasing rates, we will be saving over $15 million each year from 2014/15 through service cuts, fee increases and reducing what it costs to run the Council organisation.

To achieve lower rates increases, more cuts to Council services would be needed.

Total Rates Increases to Existing Ratepayers



FOR AN UPDATE ON ASSET SALES, SEE OUR FULL 2012/13 ANNUAL REPORT
www.hamilton.co.nz/annualreport

Debt

Closely managing debt is a high priority and asset sales are also being considered to reduce the debt balance.

In past years the city has grown rapidly and the Council made significant investments in infrastructure, facilities and services. These were funded by borrowing, which means that debt rose to an unsustainable level.

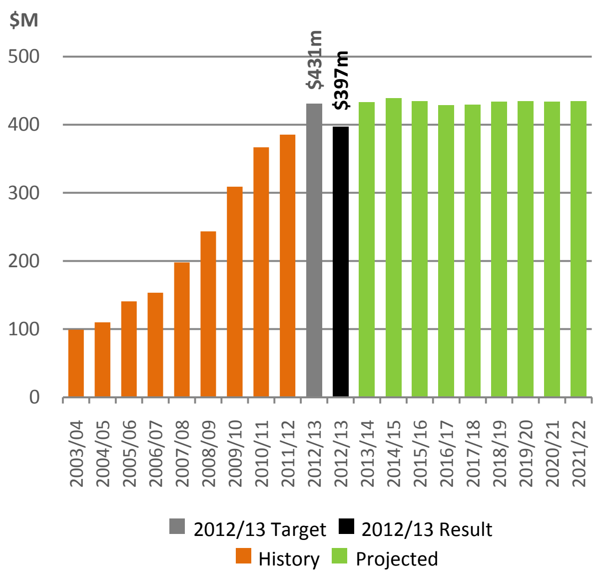
Our 2012-22 10-Year Plan capped total overall debt at about $440 million for 10 years.

Our total overall debt was $34 million less than what was budgeted for 2012/13 due to asset sales, additional income from developer contributions and deferred capital expenditure because of factors outside the Council's control.

In everyday dollars, this means we have borrowed about $2.22 instead of $2.50 for every dollar collected in rates, user charges and other income streams. By 2022 it is planned that we will have borrowed about $1.80 for every dollar collected.

This will provide more capacity to borrow in the event of any unforeseen events. It also means that the Council will be in a better position in the future to consider investing in new city infrastructure when the time is right.

Total Overall Debt



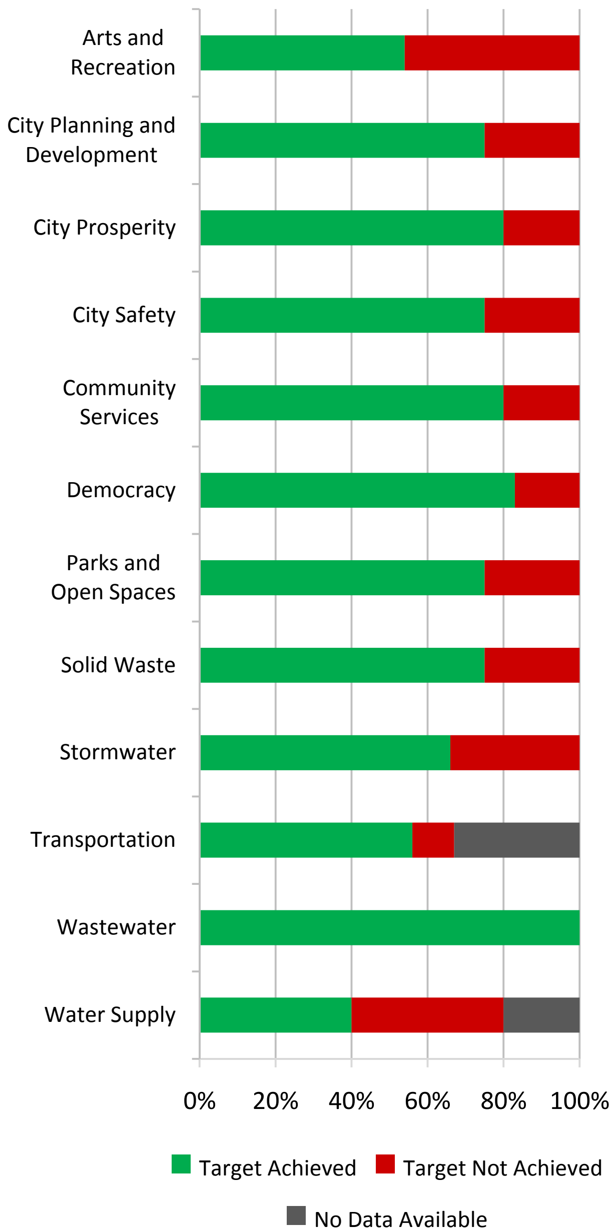
Service Performance

The Council's business is divided into 12 service groups. Each service group has a set of performance measures. Our 10-Year Plan includes over 80 measures that we use to report back on our service performance.

This is a snapshot of our results, showing the percentage of targets achieved (green) and not achieved (red). It also shows where we do not have data available to report results (grey).

Our full 2012/13 Annual Report includes detailed reporting on each of the measures.

Performance Measures



Capital Projects

We invested $75 million in capital projects during 2012/13. Some of the major expenditure included:

- The Ring Road ($18.4 million).
- Waikato Expressway – Te Rapa ($1 million).
- Looking after the city's transport network assets ($8.4 million).
- New roads in the Rototuna, Rotokauri and Peacocke growth areas ($1.9 million).
- Looking after the city's water supply assets ($2 million), wastewater assets ($3 million) and stormwater assets ($1 million).
- Purchasing land for future parks and open spaces ($7 million).
- Looking after parks assets ($1.1 million).
- Upgrading the Wastewater Treatment Plant ($2.8 million).
- Upgrading the Council's IT systems ($1.3 million).

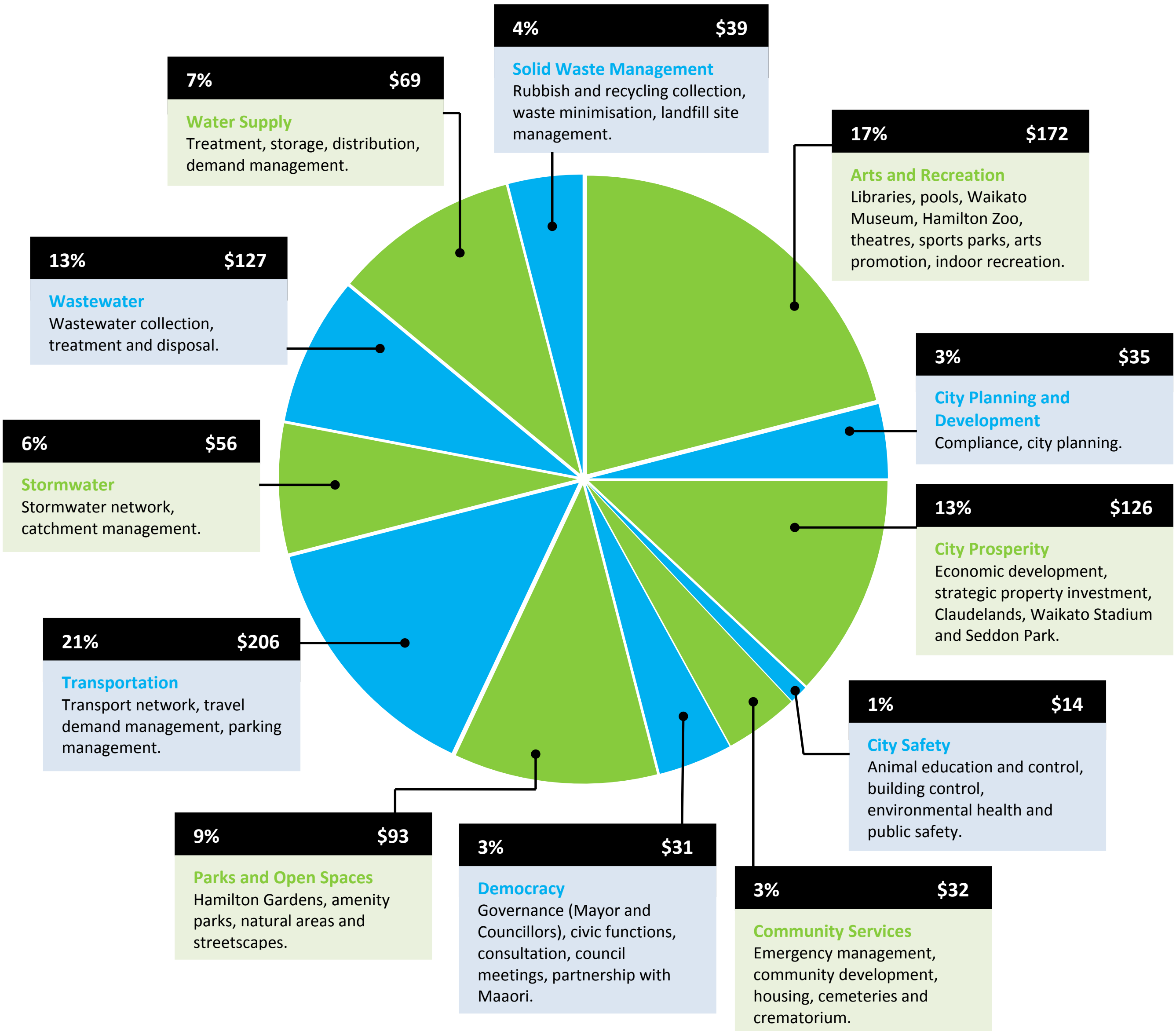
Spending on a number of capital projects was deferred where they are dependent on developers or other parties or contract phasing to progress.

This deferred expenditure totals $24.2 million and the projects it relates to are expected to be completed in the 2013/14 financial year.

HOW YOUR RATES WERE SPENT

The Council divides its business into 12 service groups. Each service group is funded by a combination of rates, user charges, loans and subsidies.

This graph shows the percentage of rates (commercial and residential) spent on each service group. The figures are for every $1,000 of rates paid.



Summary Financial Statements

For the Year Ended 30 June 2013

	Note	Group			Comments
		Actual 2013 *$000*	Budget** 2013 *$000*	Actual 2012 *$000*	
STATEMENT OF COMPREHENSIVE INCOME TO 30 JUNE					
Rates revenue	1	129,449	128,291	123,243	
Other revenue	2	76,402	60,861	101,063	Includes operating revenue, capital contributions, and sundry income.
Gains	3	12,209	-	352	Includes fair value gain on interest rate swaps.
Total revenue		**218,060**	**189,152**	**224,658**	
Personnel costs		54,541	54,512	54,882	Includes salaries, wages and any other employee benefits.
Depreciation and amortisation		54,464	56,388	53,789	
Other expenses	4	67,219	61,422	80,244	All other operating expenses.
Finance costs		23,544	23,734	23,001	Interest on borrowings.
Losses	5	12,351	-	17,954	Includes losses on disposal of assets
Total expenditure		**212,119**	**196,056**	**229,870**	
Surplus/(deficit) before tax		5,941	(6,904)	(5,212)	
Income tax expense		-	-	-	
Share of associate's retained surplus/(deficit)		72	-	471	
Net surplus/(deficit)		**6,013**	**(6,904)**	**(4,741)**	
Other comprehensive income		6,013	(6,904)	(4,741)	
(Loss)/gain on property revaluations		(97)	137,807	(362,216)	Includes gains on property revaluations
Share of associates' other comprehensive income		375	-	-	Includes Hamilton Riverview Hotel Ltd, Waikato Regional Airport Ltd and Hamilton Fibre Network Ltd.
Total comprehensive income		**6,291**	**130,903**	**(366,957)**	
STATEMENT OF CHANGES IN EQUITY TO 30 JUNE 2013					
Equity at the beginning of the year		2,749,403	3,116,578	3,116,360	
Total comprehensive income		6,291	130,903	(366,957)	
Equity at the end of the year		**2,755,694**	**3,247,481**	**2,749,403**	Represents the net value of assets owned by the city.
Components of Equity					
Accumulated funds		1,582,133	1,581,331	1,569,838	
Other reserves		1,173,561	1,666,150	1,179,565	
Total Equity		**2,755,694**	**3,247,481**	**2,749,403**	
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE					
Current assets		78,274	48,500	47,078	Assets expected to be converted to cash over the next 12 months, e.g. cash, accounts receivable.
Non-current assets		3,181,920	3,681,747	3,176,896	Assets expected to be held for longer than 1 year.
Total assets		**3,260,194**	**3,730,247**	**3,223,974**	
Current liabilities		145,703	136,613	118,364	Due for repayment within 12 months, e.g. payables, current portion of loan repayments.
Non-current liabilities		358,797	346,153	356,207	
Equity		2,755,694	3,247,481	2,749,403	
Total equity and liabilities		**3,260,194**	**3,730,247**	**3,223,974**	
STATEMENT OF CASH FLOWS TO 30 JUNE					
Opening cash and cash equivalents balance at 1 July		26,835	32,000	31,281	
Net cash flows from operating activities		46,321	38,967	64,081	Includes rates, subsidies, receipts from customers, capital contributions, payments to suppliers, employees, and interest on loans.
Net cash flows from investing activities		(63,020)	(57,993)	(74,888)	Includes capital expenditure and investments.
Net cash flows from financing activities		39,986	19,026	6,361	Includes loans uplifted and repaid.
Closing cash and cash equivalents balance at 30 June		**50,122**	**32,000**	**26,835**	

Notes to the Summary Financial Statement

1. Rates revenue was greater than budget mainly due to higher sales volume of water to commercial customers.
2. Other revenue was greater than budget by $15.6 million, mainly due from capital subsidies applied to roading and contributions received from developers.
3. Other gains represent non cash gains from movements in interest rate swaps.
4. Other expenses were $5.8 million greater than budget due mainly to services areas of Transportation and Wastewater. Council also reclassified a portion of work in progress as operating expenditure.
5. Losses are non cash and represent loss on disposal of assets particularly around assets replaced as part of renewal and replacement programmes from our infrastructure and property.

** The Budget figures in Council’s 2012/2013 Annual Plan are for Hamilton City Council parent only, not the Group. Therefore there is a variance between the actual 2012/13 group figures and the budget figures as the actual reflects investment in associates’ of $26 million.

Accounting Policies

Hamilton City Council is a territorial authority governed by the Local Government Act 2002.

The group consists of the ultimate parent, Council, and its subsidiaries, Hamilton Properties Limited (100% owned) and Vibrant Hamilton Trust. The following associates, Waikato Regional Airport Ltd and Hamilton Riverview Hotel Ltd are equity accounted.

The summary financial statements of the Group are for the year ended 30 June 2013.

Council has designated itself and the Group as a public benefit as defined under the New Zealand Internal Financial Reporting Standards (NZ IFRS).

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

Council’s Summary Annual Report complies with Financial Reporting Standards 43 (FRS43) Summary Financial Statements.

All amounts are shown in New Zealand dollars and as such are rounded to the nearest thousand dollars ($`000).

Capital Commitments and Contingent Liabilities

Council has contracts committing it to spend $42.2 million (2012 $63.4 million) on capital works.

Contingent liabilities, which are dependent on other future events, are $7.1 million (2012 $7.6 million). The uncalled capital in the Waikato Regional Airport Ltd represents the majority of the contingent liability.

Subsequent Events after Balance Date

Council resolved on the 4th of July to commence a formal sales process of its shareholding in Hamilton Riverview Hotels (Novotel).

On the 15th of August 2013 Council resolved that Innovation Waikato Limited and Waikato Innovation Park Limited will be recognised as Council Controlled Organisations under the Local Government Act 2002. This resulted from accepting the transfer of all of the assets from Katolyst Trust making Council the sole shareholder in both companies.

Disclaimer

The specific disclosures included in this Summary Annual Report have been extracted from the full Annual Report.

This summary cannot be expected to provide as complete an understanding as provided by the full Annual Report of the financial and service performance, financial position and cash flows of Hamilton City Council.

The Summary has been examined for consistency with the full Annual Report and was audited by Audit New Zealand on behalf of the Office of the Auditor-General. The full Annual Report and Summary received an unqualified audit opinion in September 2013.

The full Annual Report can be obtained from the website - www.hamilton.co.nz or from the Hamilton City Council main office.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Hamilton City Council and group's summary of the annual report for the year ended 30 June 2013

We have audited the summary of the annual report (the summary) as set out on pages 1 to 7, which was derived from the audited statements in the annual report of the Hamilton City Council (the City Council) and group for the year ended 30 June 2013 on which we expressed an unmodified audit opinion in our report dated 26 September 2013.

The summary comprises:

- the summary statement of financial position as at 30 June 2013, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the summary financial statements that include accounting policies and other explanatory information; and

- the summary of the City Council and group's non-financial performance information and summaries of other information contained in its annual report.

Opinion

In our opinion, the information reported in the summary complies with FRS-43: Summary Financial Statements and represents, fairly and consistently, the information regarding the major matters dealt with in the annual report.

Basis of opinion

The audit was conducted in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand).

The summary and the audited statements from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 26 September 2013 on the audited statements.

The summary does not contain all the disclosures required for audited statements under generally accepted accounting practice in New Zealand. Reading the summary, therefore, is not a substitute for reading the audited statements in the annual report of the City Council and group.

Responsibilities of the Council and the Auditor

The Council is responsible for preparing the summary in accordance with FRS-43: Summary Financial Statements. The Council is also responsible for the publication of the summary, whether in printed or electronic form. We are responsible for expressing an opinion on the summary, based on the procedures required by the Auditor-General's auditing standards and the

International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements.

In addition to the audit, which includes our report of the Other Requirements, we have carried out assignments to provide project management assurance over the City Council's system replacement project (Project Phoenix) and the City Council's wider programme of IT projects and provide probity assurance over the procurement of a Transportation Corridor Maintenance contract, which are compatible with those independence requirements. Other than these assignments, we have no relationship with or interests in the City Council or any of its subsidiaries.

Karen MacKenzie
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand
26 September 2013