

# Hamilton City Council's 2013/14 ANNUAL REPORT SUMMARY

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# REPORTING BACK

**WE ARE PLEASED TO REPORT THAT IN 2013/14 COUNCIL HAS CONTINUED TO PERFORM WELL AGAINST ITS FINANCIAL PLAN.**

We have ended 2013/14 in a much stronger position than expected.

Our finances are becoming more sustainable and we are on track to deliver on our commitments.

This Annual Report provides the Council's results for 2013/14. We are reporting back on our commitments set out in year two of the 2012-22 10-Year Plan and 2013/14 Annual Plan.

At the heart of these plans are our financial goals, which set out a programme of sound financial management – spend less, make savings and manage the city's debt.

We have successfully met our financial targets for 2013/14:

1. We have 'balanced the books' this year due to some unexpected revenue and we are on track to 'balance the books' on an ongoing basis from 2016 - one year ahead of schedule.
2. Total overall debt was \$383 million - \$57 million under our debt cap of \$440 million.
3. The total rates rise was held at 3.8% for existing ratepayers.

We have also continued to increase our savings through a range of measures that were introduced in 2012 to help the Council live within its means. These measures reduced what it costs to run the Council and included cuts to services and increases to user charges in some areas.

Our savings target for 2013/14 was \$11.8 million. Council has achieved this target and this is reflected in the positive operating result Council has reported for the year.

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

## Keeping to the financial plan

**2016** Council will **BALANCE THE BOOKS** one year ahead of schedule

**\$383m** TOTAL OVERALL DEBT  
\$57m under our DEBT CAP of \$440m

**3.8%** RATES RISE for existing ratepayers

## Where to find out more....

Visit our website [www.hamilton.govt.nz](http://www.hamilton.govt.nz) for more detailed information about Council.

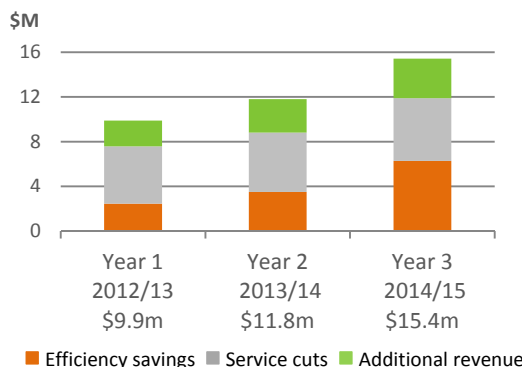
It also includes copies of the following documents:

- 2012-22 10-Year Plan
- 2013/14 Annual Plan
- Annual Reports

You can find these documents at:

[www.hamilton.govt.nz/our-council/council-publications](http://www.hamilton.govt.nz/our-council/council-publications)

## Cumulative savings over 3 years



## Balancing the books

Since 2007/08 the Council has been running at a loss, which means spending more than it is earning and borrowing to pay the difference. Our goal is to address this by balancing the books. 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.

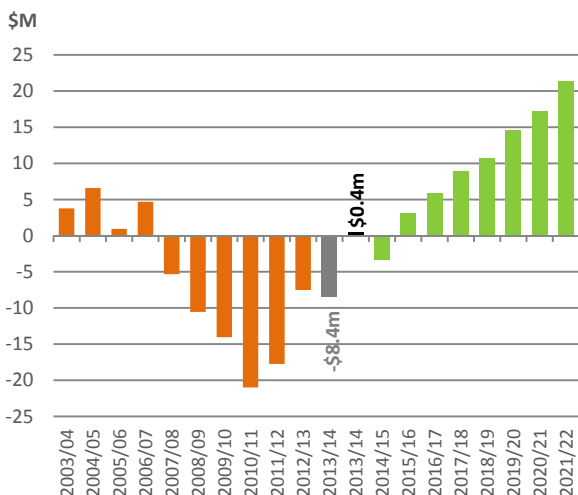
We originally planned to achieve this by 2017, but we have done better than expected and have 'balanced the books' this year. This is largely due to our revenue being greater than expected in 2013/14, putting us \$8.8 million ahead of budget. The main reasons for this result are:

- Better than expected income from developer contributions.
- Less interest paid because we have borrowed less than planned.
- Better than expected interest rates for our borrowing.
- A reduction in depreciation costs following revaluations of significant infrastructure assets.
- Sticking to the programme of reduced spending.

If we continue to stick to our financial plan we will be able to consistently deliver a 'balanced books' result from 2016 - one year ahead of schedule.

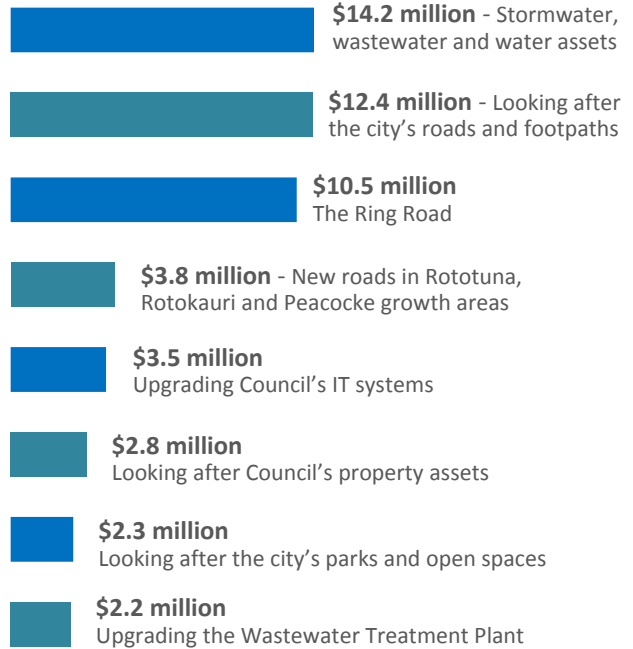
We are taking a conservative approach to measuring our financial sustainability. In addition to our balancing the books measure, our financial statements report the Council's operating surplus. The operating surplus includes one-off income, such as subsidies for major capital projects like the Ring Road. Our balancing the books target excludes these one-off funds to reflect a more transparent financial position.

### Balancing the Books



## Capital Projects

We invested \$59.8 million in capital projects during 2013/14. Some of our major expenditure included:



Spending on thirty-three projects with a total value of \$13.2 million has been deferred to next year - this is the lowest level of deferred capital projects in five years. Projects are deferred for reasons such as the timing of development, other parties or progress on contracts.

Of these thirty-three projects, 97% are already underway and are expected to be completed in the 2014/15 financial year.



## Rates

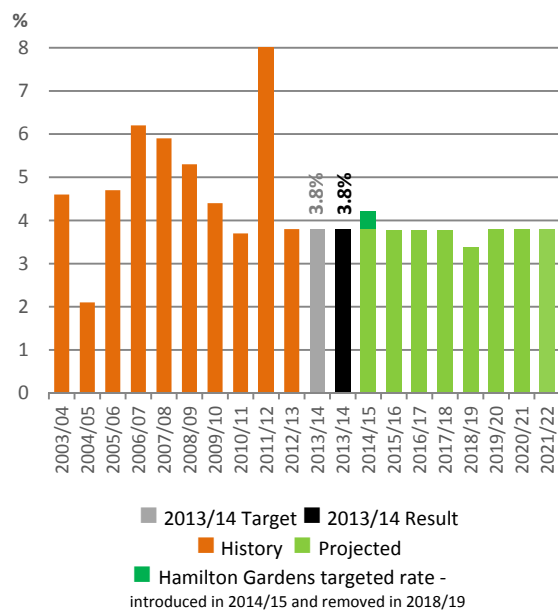
To keep us on track with our financial plan, the total rates increase to existing ratepayers was held at 3.8% for 2013/14.

To manage debt and balance the books, we need to reduce our reliance on borrowing and pay for more through rates. This is an important part of improving our financial position.

In 2014/15 the Council also introduced an additional targeted rate of \$10 plus GST per property, per year over four years to complete five new themed gardens and additional infrastructure at Hamilton Gardens. You will see this reflected in the graph below.

A targeted rate is considered the best way to fund this development. It is the same amount for every ratepayer and you can see exactly where your money will be spent.

### Total rates increases



## Debt

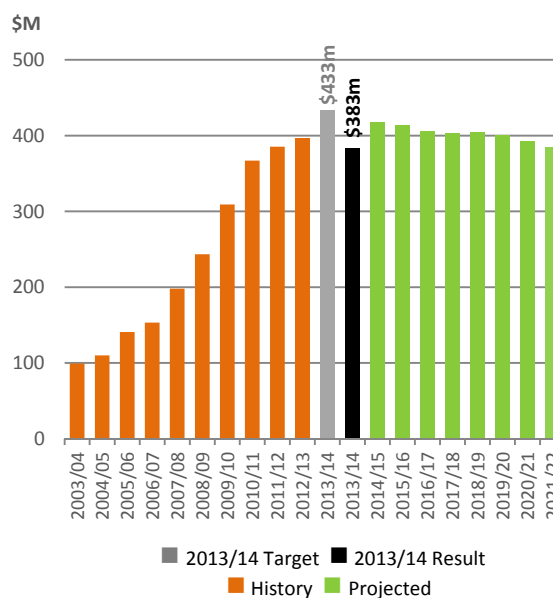
The Council has set itself a total overall debt cap of \$440 million.

We ended the 2013/14 financial year with a total overall debt balance of \$383 million, almost \$50 million less than what was planned and well under our debt cap. The main reasons for this are:

- We started the 2013/14 financial year with a positive opening position.
- Further asset sales, totalling \$15 million. The Asset Sales section over the page provides more detail on this.
- Additional income from developer contributions.
- Deferral of some capital expenditure.

In everyday dollars, we have borrowed about \$2.08 instead of \$2.38 for every dollar collected in rates, user charges and other income streams.

### Total overall debt



## Asset Sales

Council is considering selling some assets to pay off debt. The estimated value of these properties is \$50 million.

We are in the process of reviewing these assets and deciding whether or not to sell. The following list provides an update on the review process.

### Assets sold in 2013/14

This year we sold a number of assets:

- Our 41.38% shareholding in Hamilton Riverview Hotel Ltd (Novotel and Ibis Hotels) to Tainui Development Ltd (a subsidiary of Tainui Group Holdings Ltd), for \$12 million.
- The Hamilton Holiday Park for \$1.9 million.
- The land and buildings containing the Citizens Advice Bureau on Kent Street for \$235,000.
- Six lots of surplus land from roading projects (three vacant lots and two lots with dwellings) for \$3.57 million. These lots were sold in 2013/14 with settlement completed 2013/14, or expected in early 2014/15.
- We also transferred the use and operation of The Meteor Theatre to The One Victoria Street Trust for use as a community based performing arts hub.

The Council sold the following assets during Year 1 of the 2012-22 10-Year Plan:

- Three lower standard pensioner housing complexes for \$3.7 million. Two of these complexes were sold on the open market, and one was purchased by a social housing provider. Proceeds after costs are going towards looking after the remaining pensioner housing stock.
- The YMCA and neighbouring sites in Pembroke Street. These properties were sold to YMCA Auckland for \$1.9 million.
- Two lots of surplus vacant land and one lot of surplus land with a dwelling for \$1.4 million.

With the exception of the pensioner housing complexes, all proceeds from the sale of these assets were used to pay off debt.

### Assets approved for sale

The following assets have been approved for sale and are either on the market or the sale process is pending:

- Two lots of surplus land from roading projects.
- Land behind Artspost.
- Commercial properties on Brooklyn Road.
- Sonning car park (River Road).
- Victoria on the River site.

### Assets the Council has decided not to sell

The Council has decided not to sell the following properties because it makes sense financially to keep them, or there are community benefits in keeping them.

- Go Bus Depot.
- Jag 2000 Anglesea Street (commercial).
- Mill Street land.
- Metro Judo Hall (land and building).

### Assets still to be reviewed

The review of these remaining properties and decisions on whether or not to sell them will continue in 2014/15 and future years:

- Horotiu Lifestyle Blocks (land).
- Garden Place car park.
- Knox Street car park.
- Organic Recycling Centre (land and building).
- Refuse Transfer Station.
- Peacockes Lane (land and buildings).
- The Council is currently carrying out a review of its theatres, and decisions on whether or not to sell the Clarence Street Theatre and land on Riverlea Road adjoining the Riverlea theatre will depend on the outcome of that review.
- A decision on whether to sell the 5.1 hectares of land adjacent to Waiwhakareke Natural Heritage Park, or incorporate the land into the park, has been deferred to allow further investigation of the options.

## City Growth

All of New Zealand’s big cities are grappling with how to pay for the infrastructure needed for growth. Development contributions are what we charge developers to recoup some of the costs of the growth infrastructure that the Council provides, e.g. new roads, more water pipes and new parks.

In our 10-Year Plan we were conservative about the amount of income we expected to receive from development contributions.

During 2013/14 there has been an increase in development activity. A number of large scale developments that have been in progress over the last few years were completed during the year.

Income from development contributions for 2013/14 was \$15 million, \$8.6 million more than anticipated. These additional funds will go towards paying off debt related to growth and will help to pay for future projects in the growth areas.

Economic indicators suggest that the market is still uncertain, and new legislation will have some impact on development contributions income. We are continuing to take a conservative approach for 2014/15.

During 2014/15 we will be preparing the 2015-25 10-Year Plan and a 30-year Infrastructure Strategy. These will look at the latest information on where Hamilton is growing, what infrastructure will be required to service the city and how it will be paid for.

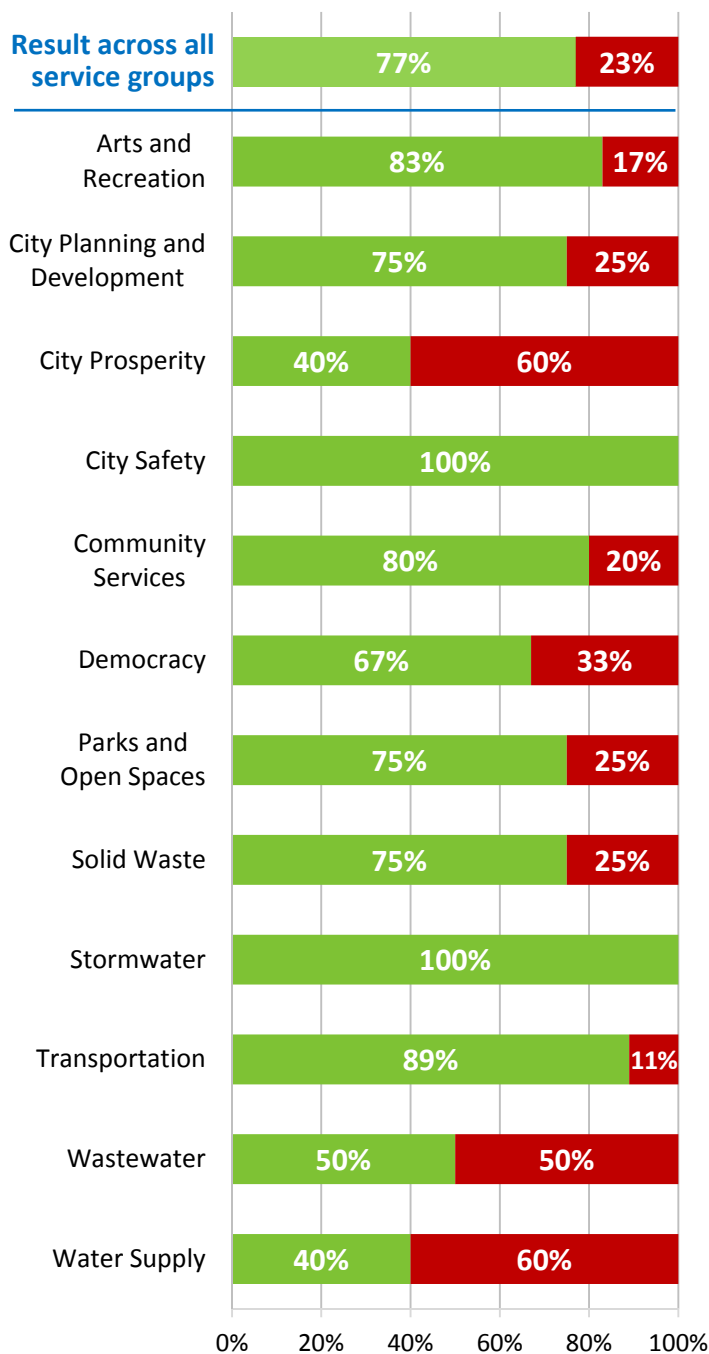


## Performance Measures

The Council’s business is divided into 12 service groups. Our 10-Year Plan sets out over 80 measures that we use to report back on our service performance across these service groups.

Below is a snapshot of our results for 2013/14, showing the percentage of targets achieved (green) and not achieved (red).

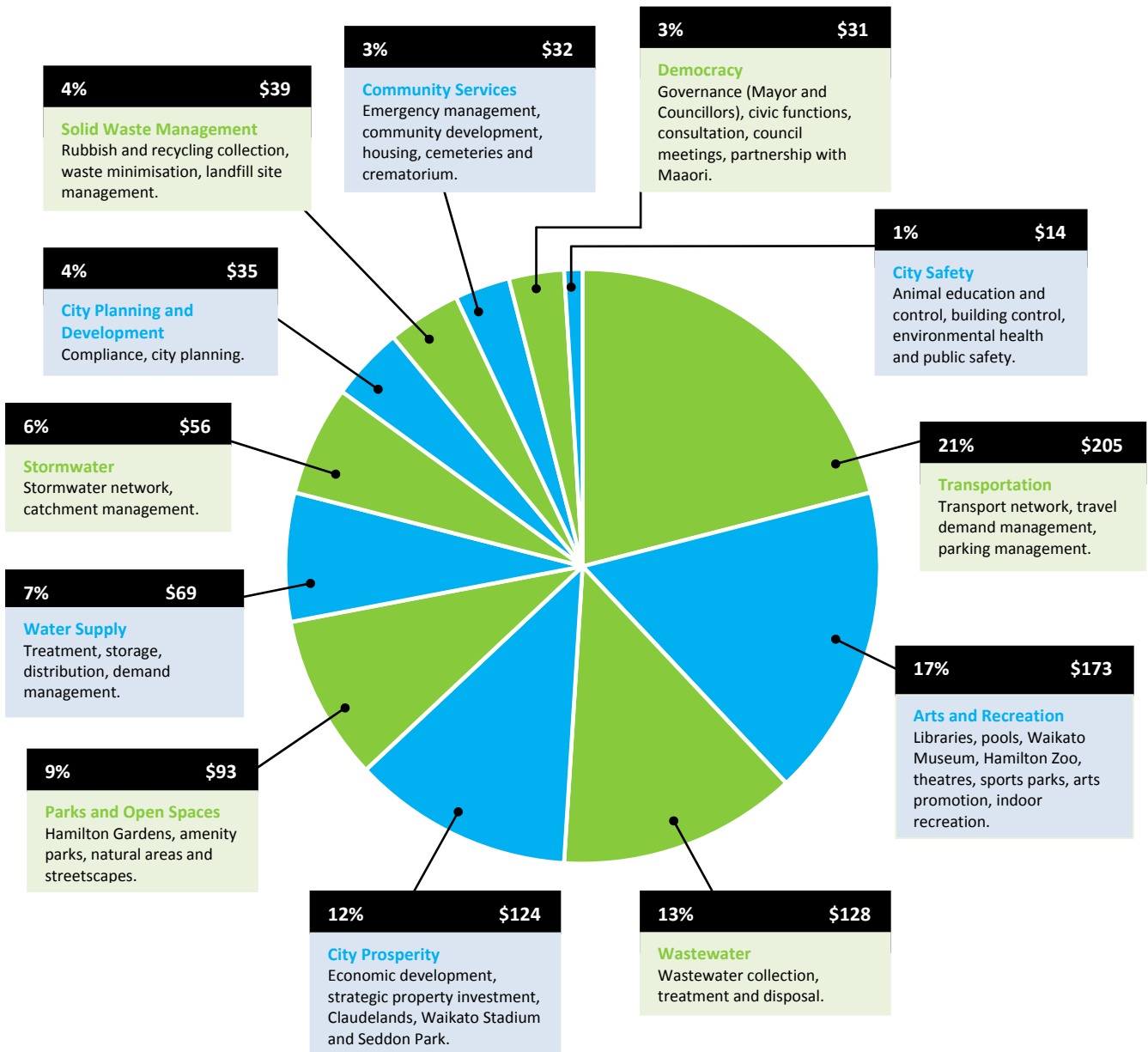
Our full 2013/14 Annual Report includes detailed reporting on each of these measures.



# 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 2014

	Note	Group			Comments
		Actual 2014	Budget 2014	Actual 2013	
<b>FINANCIAL PERFORMANCE TO 30 JUNE</b>					
		\$000	\$000	\$000	
Rates revenue		134,116	134,124	129,449	
Other revenue	1	110,386	67,980	76,402	Includes operating revenue, capital contributions, and sundry other income.
Gains	2, 5	11,489	-	12,209	Includes gains on disposal of assets, gain in value of investment properties, and fair value gain on interest rate swaps.
<b>Total revenue</b>		<b>255,991</b>	<b>202,104</b>	<b>218,060</b>	
Personnel costs		58,406	55,800	54,541	Includes salaries, wages and any other employee
Depreciation and amortisation		55,644	58,072	54,464	
Other expenses	3	69,054	62,564	67,219	All other operating expenses.
Finance costs		24,004	26,012	23,544	Interest on borrowings.
Losses	4, 5	4,666	-	12,351	Includes losses on disposal of assets, loss in value of investment properties, fair value losses on interest rate swaps, and adjustments to assets on revaluation.
<b>Total expenditure</b>		<b>211,774</b>	<b>202,448</b>	<b>212,119</b>	
Surplus/(deficit) before tax		44,217	(344)	5,941	
Income tax expense		-	-	-	
Share of associate's retained surplus/(deficit)	5	(116)	-	72	Includes Waikato Regional Airport Ltd.
<b>Net surplus/(deficit)</b>		<b>44,101</b>	<b>(344)</b>	<b>6,013</b>	
Other comprehensive income		44,101	(344)	6,013	
(Loss)/gain on property revaluations	6	100,075	143,967	(97)	
Fair value through other comprehensive income		106	-	-	
Share of associates' other comprehensive income		-	-	375	
<b>Total comprehensive income</b>		<b>144,282</b>	<b>143,623</b>	<b>6,291</b>	
<b>STATEMENT OF CHANGES IN EQUITY TO 30 JUNE 2014</b>					
Total comprehensive income		144,282	143,623	6,291	
<b>Total recognised revenues and expenses for the year</b>		<b>144,282</b>	<b>143,623</b>	<b>6,291</b>	
Equity at the beginning of the year		2,755,694	3,247,481	2,749,403	
<b>Equity at the end of the year</b>		<b>2,899,976</b>	<b>3,391,104</b>	<b>2,755,694</b>	Represents the net value of assets owned by the city.
<b>FINANCIAL POSITION AS AT 30 JUNE</b>					
Current assets		68,385	49,028	80,174	Assets expected to be converted to cash over the next 12 months, e.g. cash, accounts receivable.
Non-current assets		3,319,970	3,826,234	3,180,020	Assets expected to be held for longer than one year.
<b>Total assets</b>		<b>3,388,355</b>	<b>3,875,262</b>	<b>3,260,194</b>	
Current liabilities		126,683	138,293	145,703	Due for repayment within 12 months, e.g. payables, current portion of loan repayments.
Non-current liabilities		361,696	345,865	358,797	
Accumulated funds		1,632,122	1,580,607	1,582,133	Represents the net value of assets owned by the city.
Other reserves		1,267,854	1,810,497	1,173,561	
<b>Total equity and liabilities</b>		<b>3,388,355</b>	<b>3,875,262</b>	<b>3,260,194</b>	
<b>CASH FLOWS TO 30 JUNE</b>					
Opening cash and cash equivalents balance at 1 July		50,122	32,000	26,835	
Net cash inflows/(outflows) from operating activities		67,487	48,972	46,321	Includes rates, subsidies, receipts from customers, capital contributions, payments to suppliers, employees, and interest on loans.
Net cash inflows/(outflows) from investing activities		(44,324)	(50,305)	(63,020)	Includes capital expenditure and investments.
Net cash inflows/(outflows) from financing activities		(29,959)	1,333	39,986	Includes loans uplifted and repaid.
<b>Closing cash and cash equivalents balance at 30 June</b>		<b>43,326</b>	<b>32,000</b>	<b>50,122</b>	



## Notes to the Summary Financial Statement

1. Other revenue is higher than budget by \$42.4 million, due to development and financial contributions and vested assets related to the high level of city development. Council also received 100% of shares in Innovation Waikato Ltd gifted by the Katolyst Group with a fair value of \$10.149 million.
2. Other gains include the movement in interest rate swaps of \$9.2 million (non cash) and a gain from the sale of shares in Hamilton Riverview Hotel Ltd.
3. Other expenses were \$6.5 million higher than budget due mainly to the services areas of City Safety, City Planning and Development, City Prosperity and Wastewater.
4. Losses are non cash and represent loss on disposal of assets particularly around the renewal and replacement programmes for our infrastructure and property assets.
5. The budget figures in Council's 2013/14 Annual Plan are for Hamilton City Council parent only, not the Group.

The following items have been included in the Group actual figures, but have no corresponding budget for Council or Group:

- Gains \$11.489 million
- Losses \$4.666 million
- Share of associates' deficit of \$116,000
- Net surplus from Vibrant Hamilton Trust of \$142,000, which includes a realised gain on investments of \$477,000 and unrealised loss on investments of \$131,000.

6. The gain on property revaluation includes \$99.686 million for Council and \$389,000 for the subsidiary, Innovation Waikato Ltd.

## 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), Vibrant Hamilton Trust (100% owned) and Innovation Waikato Ltd (100% owned). The following associate, Waikato Regional Airport Ltd was equity accounted. The 41.38% interest in Hamilton Riverview Hotel Ltd was sold during 2013/14 for \$12 million.

The summary financial statements of the Council are for the year ended 30 June 2014.

Council has designated itself and the Group as a public benefit entity as defined under the New Zealand International 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 (FRS-43) 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 \$30.3 million (2013 \$42.2 million) on capital works.

Contingent liabilities, which are dependent on other future events, are \$7.5 million (2013 \$7.1 million). The uncalled capital in the Waikato Regional Airport Ltd represents the majority of the contingent liability.

## Subsequent Events after Balance Date

There have been no events after balance date.

## Disclaimer

The specific disclosures included in this Summary Annual Report have been extracted from the full Annual Report and was authorised for issue by the Chief Executive on 30 September 2014.

This summary can not 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 on 30 September 2014.

The full Annual Report can be obtained from the website - [www.hamilton.govt.nz](http://www.hamilton.govt.nz) or from the Hamilton City Council main office.

## Independent Auditor's Report

### To the readers of Hamilton City Council's summary annual report for the year ended 30 June 2014

The summary annual report was derived from the annual report of the Hamilton City Council (the City Council) for the year ended 30 June 2014. We have considered whether the summary annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report.

The annual report included full audited statements, and the summary annual report includes summary statements. We have audited the following summary statements reported in the summary annual report on pages 2 to 9:

- the summary statement of financial position as at 30 June 2014;
- the summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2014;
- the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary statement of service performance of the City Council.

We expressed an unmodified audit opinion on the City Council's full audited statements in our report dated 30 September 2014.

### Opinion

In our opinion:

- the summary annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with FRS-43 (PBE): Summary Financial Statements.

### Basis of opinion

Our audit was carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand), and in particular with the International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements. These standards require us to carry out procedures to confirm whether the summary annual report contains the information necessary, and at an appropriate level of aggregation, so as not to be misleading.

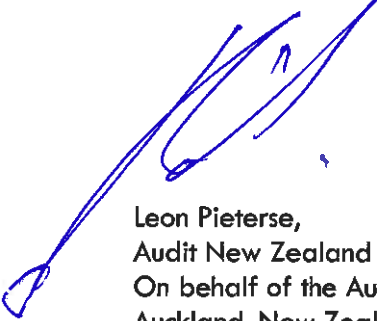
The summary statements do not contain all the disclosures required for full audited statements under generally accepted accounting practice in New Zealand. Reading the summary statements, therefore, is not a substitute for reading the full audited statements in the annual report of the City Council.

## Responsibilities of the Council and the Auditor

The Council is responsible for preparing the summary annual report so that it represents, fairly and consistently, the information regarding the major matters dealt with in the annual report. This includes preparing summary statements, in accordance with FRS-43 (PBE): Summary Financial Statements. The Council is also responsible for the publication of the summary annual report, whether in printed or electronic form.

We are responsible for expressing an opinion on whether the summary annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report and whether the summary statements comply with FRS 43 (PBE): Summary Financial Statements.

Other than in our capacity as auditor we have no relationship with, or interest in, the City Council.



Leon Pieterse,  
Audit New Zealand  
On behalf of the Auditor-General  
Auckland, New Zealand  
30 September 2014