

Central Hawke's Bay District Council 2013/2014 Annual Report Summary

From your Mayor and Chief Executive

We are pleased to present the 2013/14 Annual Report for Central Hawke's Bay District Council.

Strong financial management has been a focus for the year which represents year two of the 2012-22 Long Term Plan. Council has made good progress in implementing a review of its Treasury function and has proactively restructured its debt and investment portfolio. Through the utilisation of cash investments, Council has reduced external debt from \$11.63m at 30 June 2013 to \$7.17m at 30 June 2014 and through that made interest cost savings against budget of \$260,000.

This saving was transferred into the catastrophic reserve fund to build up this reserve to a level consistent with Council's Special Fund Policy.

Council considers these changes in treasury management to be an excellent result. This along with a continuous focus on efficiency gains, joint ventures, whole of life asset management and more innovative contracts are seeing greater value for money outcomes for our community.

On August 25th 2014 Council was extremely disappointed to have to make the very difficult decision along with Tararua District Council to place Infracon Limited into liquidation. Central Hawke's Bay District Council held a 34% share in Infracon and after a number of discussions with the liquidators and fellow shareholder Tararua District Council it was decided to write off Council's investment in Infracon. As at the time of preparing the annual accounts there was insufficient information to suggest any return to the shareholders following the liquidation process. As a consequence Council has written \$3.718m off its investment, of which \$921,000 relates to Central Hawke's Bay's share of losses incurred by Infracon Limited in 2013/14.

Throughout 2013/14 a major focus was on establishing the Waipawa Wastewater Treatment facility and constructing a replica facility for Waipukurau, albeit somewhat larger. Both facilities are now operating, and Council has met the 30th September 2014 regulatory deadline.

Council has continued to maintain its other core infrastructure with Waipukurau water treatment improvements, commencement of a new landfill cell extension and the construction of two roundabouts in Waipukurau during the year. Upgrades to community facilities have also occurred during the year with Pourerere camping ground, Takapau toilets, Elsthorpe Cemetery and the start of the Russell Park playground.

The development of the Ruataniwha Water Storage Scheme (RWSS) continues to loom large on our minds with the impacts on our community from such a project many and varied. Staff and Councillors will continue to assess the future impact of the RWSS on Council's infrastructure and that of the Central Hawke's Bay economy as we develop the 2015-25 Long Term Plan.

While the outcome of the current local government reorganisation process continues to be unknown, we do expect that a poll will be undertaken sometime in early 2015. Meanwhile Council continues to explore opportunities for shared services and shared procurement with the other Hawke's Bay councils and with Tararua District Council.

This Annual Report provides a good insight into the activities of Council and is a representation of the good work undertaken by the Central Hawke's Bay District Council staff and the prudent guidance provided by the elected members, for which we are very grateful.



Peter Butler
Peter Butler
Mayor



John Freeman
John Freeman
Chief Executive

About this summary

This summary is a snapshot of the Council's activities and finances for 2013/2014. The information it contains has been extracted from our 2013/2014 Annual Report which was prepared in accordance with NZ GAAP and in compliance with NZ IFRS applicable to a Public Benefit Entity, and contains detailed information about our finances and service performance.

This summary financial report has been prepared in accordance with FRS – 43, but cannot be expected to provide as complete an understanding as provided by the full financial report of the financial and service performance, financial position and cash flows of the Central Hawke's Bay District Council.

Copies of the full 2013/2014 Annual Report can be obtained from the Council office, Ruataniwha Street, Waipawa or viewed online at www.chbdc.govt.nz

This summary represents fairly and consistently the major matters dealt with in the Annual Report 2013/2014 which was issued on 31 October 2014. The Annual Report was audited and received an unqualified audit opinion with an explanatory paragraph which is explained on page 5 of this summary.

Review of Impairment of the Investment in Infracon Limited

Council equity accounts for its investment in Infracon Limited. Infracon was placed into Liquidation by its shareholders on 25 August 2014 after the company failed to secure bank funding to enable it to continue trading.

Infracon Limited's financial information presented in the full Annual Report has been taken from the company's unaudited annual accounts as at 30 June 2014. Due to the timing of the liquidation process, the audit of the company's annual report was never completed.

In the three years prior to being liquidated, Infracon incurred operating losses in excess of \$6m which had been incurred in part due to the loss of major maintenance contracts with Hastings, CHB and Tararua District Councils. This left the company unable to fund the necessary restructuring costs required to enable the business to downsize and continue trading.

At the beginning of the financial year Council had valued its investment in Infracon Limited at \$3.718m. Council's share of 2013/14 losses incurred by Infracon Limited amounted to \$921,000 reducing the value of that investment at 30 June 2014 to \$2.787m.

Reporting from Infracon's liquidators indicate that the company is likely to be sold as a going concern, however for the purposes of assessing the likely impairment of Council's investment, it has been assumed that there will not be any distribution to shareholders following the liquidation process. Council therefore does not expect there to be any residual value remaining in the company once all secured and unsecured creditors and staff liabilities have been met. Council has taken the prudent approach of writing off the remaining \$2.797m from their investment in Infracon Limited.

Key Initiatives and Projects

Takapau Toilets

Takapau was the only township in Central Hawke's Bay not to have a public toilet. After submissions and consultation with the community, Council jointly worked with the community to provide a toilet and rest area complete with a shelter on a disused Council property on the corner of Charlotte and Sydney Streets.



The official opening of the toilet included a Karakia, a ribbon cutting ceremony and performances from the local schools.

Utility Services Upgrades

Porangahau Road – Utility Services were upgraded during the Porangahau Road area wide pavement treatment contract. Technical Services worked in



tandem with Council's Land Transport department to carry out the replacement of the sewer gravity main and the property service laterals. At the same time the water

network was upgraded with new water valves and fire hydrants. Each property serviced within this section had their individual service connections upgraded.

Herbert Street – During investigation work for the Peel Street intersection upgrade by the New Zealand Transport Agency, the service connections to the eastern side properties were found to be in poor condition. It was decided to install a new water rider main along the eastern side and hook up the properties to this rider main via new service lateral connections. Council worked in tandem with Centralines who employed the services of Council's contractor to install power and communication ducting in the grass berm at the same time.



Coughlan Road – A replacement water rider main was installed along the western side of Coughlan Road to replace an old galvanized pipe. The old pipe had proven to be problematic over the past few years with numerous water leaks. All properties on the western side were reconnected via new service laterals and manifolds.



Mount Herbert Road – Stage three of the Mount Herbert storm water upgrade was carried out using trenchless technology. While Council has been using trenchless methods over the past four years in the sewer main relining program, it would be the first time within the storm water network. For this, Council selected Interflow New Zealand to install their spiral wound Rib-Loc product.



Sewer Reline 2013/14 Year – Council continues to identify sewer gravity pipes that require upgrading by relining. During the past year a total of 700m of pipe relining was completed. Part of the work undertaken included the installing of new or replacement sewer manholes along the reline routes.



Council continues to identify pipes for relining and it is proposed a further 900m be carried out in the next financial year.

Landfill Extension

A landfill extension at the Central Hawke's Bay District landfill on Farm Road was substantially completed by Infracon during the 2013/2014 financial year. This extension will provide approximately 130,000m³ of landfill space, which is expected to last up to 14 years at the current fill rate. The extension is scheduled to be completed by the end of 2014.



Playground Upgrades

The Takapau and Otane playgrounds got much needed facelifts in 2013. This work included the removal and replacement of some of the older worn out and dangerous equipment, safety improvements to the playground surface and revamping the existing equipment. The equipment is now bright and inviting and is getting well used by the communities.



Elsthorpe Cemetery Upgrade

As part of the cemetery renewal programme the Elsthorpe cemetery received a long overdue makeover. A new access track, off road car parking, tree work and fencing were all completed to make the cemetery more usable and preserve the history of the area. This tranquil rural setting offers a cemetery option for local and coastal communities.



Roundabouts

During the year two roundabouts have been installed in Waipukurau.



The roundabout connecting Wellington Road, Holyrood Terrace and Wallace Street to Porangahau Road was done by the Council to improve safety while the Ruataniwha Street, Herbert Street, Porangahau Road roundabout was done in conjunction with NZTA for improved traffic flow and safety.

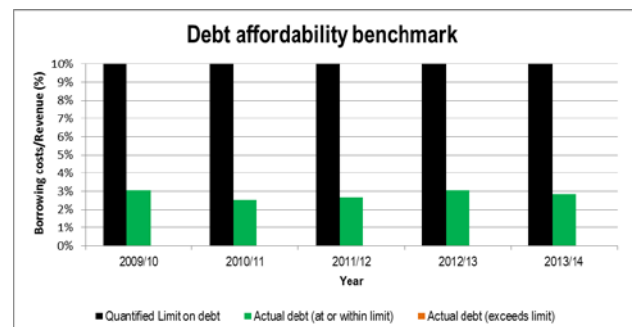
Annual Report Benchmark Disclosures

The following graphs are examples of recently introduced benchmark reporting requirements that Council must now report against in the full Annual Report. The full set of benchmark disclosures are included in the full Annual Report.

Debt affordability benchmark

Council meets the debt affordability benchmark if its actual borrowing is within each quantified limit on borrowing.

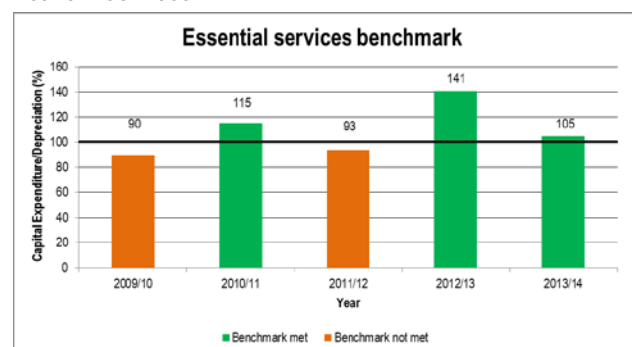
The following graph compares Council's actual borrowing with a quantified limit on borrowing stated in the financial strategy included in Council's Long Term Plan. The quantified limit as detailed in the financial strategy is that Council's debt service costs will not exceed 10% of total revenue.



Council consistently performs well against this quantified limit as set in the Financial Strategy due to well managed and prudent debt management.

Essential Services benchmark

The following graph displays Council's capital expenditure on network services as a proportion of depreciation on network services. Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



Summary of Financial Statements

Statement of Comprehensive Income Summary					
2013	2013		2014	2014	2014
Council	Group		Council	Council	Group
Actual	Actual		Budget	Actual	Actual
\$'000	\$'000		\$'000	\$'000	\$'000
27,025	27,025	Total Revenue	27,287	28,470	28,470
24,957	25,422	Operating expenditure	27,141	29,025	29,025
2,068	1,603	Operating Surplus/(Deficit)	146	(555)	(555)
-	-	Income Tax	-	-	-
1,548	1,576	Other Comprehensive Income	30,069	35,085	35,085
3,616	3,179	Total Comprehensive Income	30,215	34,530	34,530

Statement of Financial Position Summary					
2013	2013		2014	2014	2014
Council	Group		Council	Council	Group
Actual	Actual		Budget	Actual	Actual
\$'000	\$'000		\$'000	\$'000	\$'000
14,612	10,894	Total Current Assets	18,443	4,738	4,738
721,946	725,662	Total Non-Current Assets	824,189	757,014	757,014
736,558	736,556	Total Assets	842,632	761,752	761,752
10,037	10,037	Total Current Liabilities	11,406	7,408	7,408
13,231	13,231	Total Non-Current Liabilities	13,572	6,523	6,523
23,268	23,268	Total Liabilities	24,978	13,931	13,931
713,290	713,288	Total Equity	817,652	747,821	747,821

Statement of Changes in Equity Summary					
2013	2013		2014	2014	2014
Council	Group		Council	Council	Group
Actual	Actual		Budget	Actual	Actual
\$'000	\$'000		\$'000	\$'000	\$'000
709,674	710,109	Equity at the Beginning of the Year	787,436	713,290	713,288
3,616	3,179	Total Comprehensive Income	30,215	34,530	34,530
3,616	3,179	Total Change in Equity	30,215	34,530	34,530
713,290	713,288	Equity at the End of the Year	817,651	747,820	747,818

Statement of Cash Flows Summary					
2013	2013		2014	2014	2014
Council	Group		Council	Council	Group
Actual	Actual		Budget	Actual	Actual
\$'000	\$'000		\$'000	\$'000	\$'000
14,430	13,952	Net Cash from Operating Activities	13,703	15,173	15,173
(15,865)	(15,387)	Net Cash from Investing Activities	(13,123)	(15,240)	(15,240)
3,060	3,060	Net Cash from Financing Activities	399	(6,344)	(6,344)
1,624	1,624	Net Increase/(Decrease) in Cash	979	(6,411)	(6,411)
6,417	6,417	Cash at the Beginning of the Year	8,254	8,041	8,041
8,041	8,041	Cash at the End of the Year	9,233	1,630	1,630

Financial Performance Overview

For the financial year Council had a deficit of \$555,000 compared to a \$146,000 budgeted surplus. Overall income was above budget by \$1,183,000 with operating expenditure under budget by \$1,150,000. The table and explanations below illustrate this.

Financial Overview Summary					
2013	2013		2014	2014	
Budget	Actual		Budget	Actual	
\$'000	\$'000		\$'000	\$'000	
26,361	27,025	Total Revenue	27,287	28,470	
14,283	13,309	Operating expenditure	14,839	13,689	
765	825	Finance Cost	1,068	808	
11,313	12,891	Operating Surplus excluding non cash movements	11,380	13,973	
		Non-cash Movements			
10,916	11,345	Depreciation	11,234	11,171	
-	(522)	Other Gains and Losses	-	3,357	
397	2,068	Operating Surplus/(Deficit)	146	(555)	

Explanations

- Subsidies received were higher than budgeted due to the receipt of \$860,000 of additional revenue received from NZTA that primarily related to the prior year and a grant of \$190,000 received from the Department of Conservation for stormwater work behind the Pourerere camping ground.
- Income from fees and charges were below budget due to the loss of significant income in the Solid Waste activity. The budget included significant revenue from out of district waste, particularly from Tararua District Council, however this revenue did not eventuate.
- Operating expenditure is below budget due to the timing of works over the three year New Zealand Transport Agency claim period. Unspent budget provided by NZTA has been carried forward and the work is expected to be completed in the 2014/2015 period.
- Other gains and losses include a one off impairment of Council's 34% share in Infracon. The Annual Report has taken a \$3.7m impairment on this investment taking the expected value down to zero. On August 25th 2014 the shareholders placed Infracon into liquidation and at the time of preparing this Annual Report Council did not expect to receive any value from the liquidation process.

Non-Financial Performance Overview

Overall Council achieved great results this year in terms of the non-financial performance measures. However, there were some areas that we did not achieve what we set out to do in the 2012-22 Long Term Plan, as identified below.

Community Leadership

In the Community Leadership Group we set a measure to meet Local Government Act 2002 statutory reporting requirements. The 2012/2013 Annual Report was adopted on 20 November 2013 outside of the statutory deadline of 30 October 2013, due to Infracon Limited information not being available.



CHB Promotions closed the Information Centre on weekends due to low usage and therefore did not meet their original contract objectives, however in light of the actual weekend usage Council agreed to a variation in their contract. It has also been decided to review the Annual Lamb Country Festival with the possibility of it becoming a biennial event.

Planning and Regulatory

In the Planning and Regulatory Group under the area of District Planning we set a target to notify a new District Plan., This timeline has been changed by the District Plan Working Party as a result of Council altering the staff priorities to work on the proposed Ruataniwha Water Storage Scheme.

In Building Control there is a target to have all consents issued within 20 days of receiving the application. Council fell just short of this, achieving 244 out of 245 (99.59%) of consents within the timeframe.

In Public Health we set a target to complete 100% of the annual inspection programme. We achieved 99% of the environmental health inspections, but only achieved 38% of the liquor license inspections due to changes in the delivery of this service during the year. Staffing arrangements have been changed to improve the delivery of this service.

Land Transport

For the measure of road roughness on arterial roads, our target is to have a rating less than 70, our rating for the year was 77. We had six measures around accident statistics and targeted to have reducing trends in all areas of road accidents. Records have shown an increasing trend in the areas of "poor observation and loss of control bends" which are not necessarily a reflection on the safety of the roads, but driver error. These areas are set to be targeted through national education campaigns.



Water Supply

In the Water Supply Group we set a measure that 100% of the water outages would be repaired within the contractual timeframes, however we only managed to repair 92.86% within this timeframe. The contractual timeframes vary depending on the complexity and severity of the outage.

We complied with the Drinking Water Standards except for an interpretation on plumbosolvency (the ability of water to dissolve lead) awareness notification. The notification process has subsequently been reviewed.

Recreation and Community Facilities

In the Recreation and Community Facilities Group and within the Parks, Reserves and Swimming Pools activities a target was set that the Waipawa swimming pool would be open for 550 hours during the year, however it was only open for 208 hours. This was due to continuing issues with the paint oxidizing in the pool. Council along with the painting contractor are working to find a solution to this problem.

We set a target that 100% of requests for service are completed within timeframes. We achieved 90% for the Parks, Reserves and Swimming Pools activity.



Independent Auditor's Report

**TO THE READERS OF
SUMMARY ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014**

The summary annual report was derived from the annual report of the Central Hawke's Bay District Council (the District Council) and group 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 6:

- 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 provision (referred to as the Non-Financial Performance Overview) of the District Council and group.

We expressed an unmodified audit opinion with an explanatory paragraph emphasising the uncertainty over the valuation of the District Council's investment in Infracon Limited on the District Council and group's full audited statements in our report dated 31 October 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*.

Uncertainty over the valuation of the District Council's investment in Infracon Limited

In our audit report dated 31 October 2014 without modifying our opinion and consistent with the audit report we issued on the District Council's audited financial statements we draw your attention to the disclosures made on page 2 of the Summary Annual Report about the District Council's decision to write-down the value of its investment in Infracon Limited to nil. This

decision was made in response to the resolution to place Infracon Limited into liquidation on 25 August 2014. The outcome of the liquidation process is uncertain and the value of the District Council's investment could be different than the nil value that has been recognised in the 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 District Council and group.

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 District Council or any of its subsidiaries.

Stuart Mutch,
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand
31 October 2014