

Report To: Audit and Risk Committee



Meeting Date: 15 October 2024

Subject: **Draft Annual Report 2023/24 – Recommendation to Council**

Type: Decision Required

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1. Purpose of Report

- 1.1 The purpose of this business paper is to present the Draft Annual Report 2023/24 for consideration and, subject to amendment, recommendation to Council for adoption.

2. Suggested Resolutions

- 2.1 The following are suggested resolutions only and do not represent Council policy until such time as they are adopted by formal resolution.
- 1 The business paper on Draft Annual Report 2023/24 – Recommendation to Council be received.
 - 2 The Audit and Risk Committee recommend to the Council the adoption of the Annual Report 2023/24, subject to any amendments agreed at this meeting and any further changes required as a result of completing the audit.
 - 4 Any matters of significance which may arise relating to the Draft Annual Report 2023/24 between this meeting and the Council meeting on 29 October 2024 be referred to the Independent Chairperson.

3. Background

- 3.1 The Draft Annual Report 2023/24 (Draft AR) shows the financial and non-financial performance of Waitomo District Council for the year ended 30 June 2024.
- 3.2 A copy of the Draft Annual Report 2023/24 is enclosed separately and forms part of this business paper.

4. Commentary

4.1 AUDIT PROGRESS

- 4.2 At the time of writing this business paper, the audit of the Annual Report is in its final stages and because of this the Draft AR may be subject to change. Any further changes are expected to be minor in nature including roundings or minor edits to disclosures and not expected to impact on the performance results or key financial elements of the Draft AR.
- 4.3 Representatives from Deloitte will provide an update on the audit as part of a separate paper in this agenda.

4.4 DRAFT 2023-24 ANNUAL REPORT HIGHLIGHTS

4.5 Non-Financial Performance

- 4.6 The Service Performance section provides detailed information on the performance measures and targets for each of the significant activities. The performance summary provides the overall results while more detailed information is provided within each activities section.
- 4.7 Of the 54 Key Performance Indicators (KPIs) measured, 42 (78%) were achieved, this is an improvement from 65% in the previous financial year. To recognise KPI's that were very close to meeting their target, those within 5% of the target are recorded as nearly achieved, there were 3 (5.5%) of these. The remainder 9 (16.5%), were not achieved, which was an improvement from 19 in the previous financial year.
- 4.8 The measures nearly achieved or not achieved were:
- Percentage of residents satisfied with the effectiveness and usefulness of Council communications was nearly achieved with 87% just 3% below the target of 90%.
 - The Youth Council undertakes two youth related projects per years was not achieved. The decision was made to not resume the Youth Council this year. WDC staff have engaged with youth to find out the best way for them to have input into Council on what matters to them. Council will facilitate this youth engagement through an alternative pathway based on the feedback.
 - Building consents are processed in a timely fashion was nearly achieved; four consents out of 147 were delayed.
 - LIMs are processed within statutory timeframe was nearly achieved; one application out of 120 was delayed.
 - There was one flooding event in October 2023 impacting Te Kuiti, therefore this KPI was not achieved.
 - During this event 17 habitable floors were recorded as being flooded due to overflow of stormwater therefore this KPI was also not achieved.
 - The flooding event resulted in 22 complaints about the performance of the urban stormwater in Te Kuiti which resulted in this KPI being not achieved.
 - There were 55 complaints about Piopio wastewater odour, system faults, or blockages largely related to system faults with septic tanks, however these are still recorded as system faults as part of the Council network so this KPI is not achieved.
 - Water quality was non-compliant with the drinking water rules for (a) bacteria as did not comply on technical criteria with Drinking Water Quality Assurance rules 2022, therefore this KPI was not achieved.
 - Water quality was non-compliant with the drinking water standards for (b) protozoa, as did not comply on technical criteria with Drinking Water Quality Assurance rules 2022, therefore this KPI was not achieved.
 - Water consumption KPI was not achieved although consumption in Te Kūiti and Piopio have reduced in recent months.
 - The KPI for percentage of Waitomo District's sealed local road network that is resurfaced each year was not achieved due having to reduce the programme reflecting the significant increased costs to carry out this work.

4.9 Financial Reporting and Prudence Benchmarks

- 4.10 Financial reporting and prudence benchmarks are measured annually to enable an assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

- 4.11 These measures are made up of mandatory measures set by regulation and Council specific measures set in the Finance Strategy.
- 4.12 All measures, with the exception of the Operations Control benchmark, were successfully achieved and well within the limits set.
- 4.13 The Operations Control benchmark measures the actual net cashflow from operations as a proportion of planned net cashflows. The benchmark is met if the actual net cashflow meets or is greater than the planned net cashflow. For 2023/24 payments to suppliers and staff were more than forecast due in part to the additional operational costs incurred in response to flooding events during the year and the impacts of inflation on expenditures.

4.14 Financial Performance

- 4.15 For the financial year, we report a net surplus of \$6.6 million against a budgeted surplus of \$2.3 million.
- 4.16 Revenue was \$4.5 million more than budget. Subsidies and grants revenue was \$4.0 million above forecast due to the timing of road renewals, particularly for storm damage, which is part funded by NZTA Waka Kotahi subsidy revenue.
- 4.17 Fees and charge revenue were below budget for solid waste as waste volumes received at the landfill were less than forecast, quarry royalties and building service revenue were also lower. This was partly offset by additional revenue for shared services for animal control and higher trade waste revenue.
- 4.18 Other revenue was more than forecast for waste minimisation levy. Vested asset revenue was also recognised for the recognition of gym equipment and chattels for the Gallagher Recreation Centre as part of the property sharing agreement.
- 4.19 Operating expenditure was \$0.2 million above forecast. Staff costs were more than forecast for additional resourcing for shared services for animal control services, freedom camping monitoring and Three Waters Reform. Additional external fees and charges and subsidy revenue were received to fund these expenses. Less staff costs were added to capital projects than forecast resulting in these costs being recognised as operating expenditure. Partly offsetting this were less sludge being removed from the wastewater ponds, the timing of the district plan development costs against budget, lower Mayors Taskforce for Jobs costs (and funding) and unspent regulatory budgets for legal expenses and earthquake prone buildings.
- 4.20 Total other comprehensive revenue and expense of \$2.1 million was recognised for the year. This includes the gain on the revaluation of the investment in Inframax Construction Ltd (ICL) of \$2.28 million, offset by losses on cashflow hedges of \$220,000.
- 4.21 Total equity was \$172.3 million more than forecast. This was due mostly to the increase in the revaluation reserve from the revaluation of roads and solid waste assets in June 2023. These revaluations resulted in a significant uplift in asset values which was not anticipated in the Annual Plan forecasts. Other reserves also increased due mostly to the increase in the valuation of investment in Inframax Construction Ltd.
- 4.22 Borrowings at 30 June 2024 were \$33.3 million, which was significantly lower than the forecast in the 2023-24 Annual Plan of \$40.3 million. Borrowings were lower due mainly to the delay of two large capital projects; the landfill development is currently under review and the Te Kuiti water resilience project has been re-sequenced with construction now expected to commence in the 2024/25 year.
- 4.23 Further explanations of variations to budget can be found in Note 33 of the Draft AR.

4.24 Group Performance

- 4.25 At 30 June 2024, total equity for the Group was \$669.2 million, an increase of \$6.4 million from the prior year.
- 4.26 The Group's after-tax surplus is \$6.6 million.

4.27 ICL reported a net profit after tax of \$683,000 for the year ended 30 June 2024. Revenue increased by 22% on prior year to \$49 million, with growth in revenue for both maintenance and construction. The equity of the company increased to \$13.2 million, with an equity ratio of 53%.

4.28 Capital Expenditure

4.29 Total capital expenditure for the year ended 30 June 2024 was \$19.2 million, which was 85% of the budget.

4.30 Some of the major projects completed were:

- Improvement works completed on Te Kuiti Stormwater network included installation of concrete wingwalls with grates/screens, and scruffy domes.
- The sewer truck main sewer crossing under SH3 and railway track at Te Kuiti was also completed.
- Renewal of wastewater main was completed at Seddon and Alexandra Streets, Te Kuiti.
- Four pavement rehabilitation sites were delivered, Waimiha Road, Te Anga Road, and two sites on Taharoa Road. Waimiha Road pavement rehabilitation completed, and Seddon and Lawrence Streets commenced.
- The footpath contract was delivered around the district, delivering 2668m of new footpaths.

5. Analysis of Options

5.1 The Committee has the option of recommending the adoption of the Annual Report to Council or requesting further information/changes from its staff and auditors

5.2 Under the Local Government Act 2002, Council must adopt the Annual Report by the end of October 2024, and it is therefore recommended that the Annual Report be adopted at 29 October 2024 Council meeting.

6. Considerations

6.1 RISK

6.2 There is a risk that some revenue included in the financial statements is subsequently not converted to cash. The raising of invoices and recognition of income is carried out with management review and approval to minimise this risk. Debtors and other receivables are actively monitored and reviewed. The risk is also mitigated by the recognition of an expected credit loss allowance at 30 June 2024.

6.3 There is a risk that the accounting estimates and judgments used when performing valuations over assets may not reflect the asset's actual condition or, the useful lives do not reflect the actual consumption of benefits of the asset. To minimise this risk, infrastructural asset valuations have been determined in reference to industry guidelines and adjusted for local conditions. Asset inspections, deterioration and condition modeling are also carried out as part of asset management planning.

6.4 In the financial statements, a value of \$12.883 million is recognised for the investment in ICL. There is a risk that the accounting estimates and judgements used in the valuation of the investment in ICL may result in the actual value of the investment being different than the fair value reflected in the Annual Report. In deriving the valuation, a number of developments were noted by the valuers. These included the renewal of the road

maintenance contract for Waitomo and also the end of the Taupo District Council contract, the disestablishment of the company's operations in Taupo and the dispute resolution process was ongoing for the quarry flood event in February 2022. Valuers noted remedial work undertaken during the year from adverse weather events is unlikely to continue at the same levels in the future.

- 6.5 There is a risk that some financial assets may become impaired, but that the impairment amount is unknown. This will cause an overstatement of carrying value of the asset in this report, which would subsequently need to be corrected in a later report.

6.6 CONSISTENCY WITH EXISTING PLANS AND POLICIES

- 6.7 This Draft AR measures our performance against year three of the 2021-2031 Ten Year Plan, and nothing in this Draft AR is inconsistent with existing plans and policies.

6.8 SIGNIFICANCE AND COMMUNITY VIEWS

- 6.9 The financial performance of Council in the past year is a significant matter to be shared with the District Community. The Annual Report and Summary Annual Report will be available on Council's website and in Council offices and library.

7. Recommendation

- 7.1 The Audit and Risk Committee recommend to the Council the adoption of the Annual Report 2023/24.

8. Attachments/Separate Enclosures

Separate Enclosures:

- 1 Draft Annual Report 2023/24