

Financial overview

This section provides an overview of the Council and Group's financial results for the period. For further detailed information refer to the financial statements on pages 107 to 157.

The Council reports its financial results under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). These standards represent generally accepted accounting practice in New Zealand. They prescribe the way we must recognise and disclose all financial transactions in our financial accounts.

UNDERSTANDING THE COUNCIL'S REPORTED ACCOUNTING SURPLUS FOR THE YEAR ENDED 30 JUNE 2009

The Council has reported an accounting net surplus of \$18.24M compared with a budgeted surplus of \$8.19M, an overall favourable variance of \$10.05M. The budget does not include significant income from vested assets and additional roading grants as the timing and amounts are difficult to predict and they do not have a direct impact on rates.

Why has the Council made a surplus?

The majority of the Council's reported surplus is not cash and arises from income for capital projects, vested assets and the fair value movements in our assets and liabilities.

Under NZ IFRS, \$11.63M of revenue received for capital projects is treated as income. The capital expenditure that the income relates to is not recognised at the same time as the income. Instead we show the loss in value of the asset over the life of the asset as "depreciation".

Council also received \$8.44M of vested assets and treats the value of vested assets that it received as income even though Council does not actually receive any additional cash. The major source of vested assets is subdivisions where the developer vests the roading, sewerage, stormwater and water supply in Council. Council is then responsible for the future maintenance and replacement of these assets. These assets are also depreciated.

The movement in the fair value of the assets is recognised as income in our financial accounts even though Council has not actually received any additional cash. The majority of fair value increase for the current year relates to the Council's forestry assets.

For the year ended 30 June 2009 the Council's forestry assets grew in value by \$0.285M. The Council does not budget for any increase in the value of our forestry assets as we do not consider it prudent to do so because we have no reliable way to predict anticipated movement in the value of forestry assets during the year. Any increase in value will represent a favourable variance against budget.

Can the Council use this additional surplus to offset the amount of rates required?

No. The majority of the additional reported surplus does not represent additional cash collected by the Council. The majority of the additional surplus is accounted for by the reasons outlined above and therefore cannot be used to offset rates or fund the Council's planned expenditure in future financial years.

How would the Council's accounts look without the fair value adjustments for capital revenue and vested assets?

To assess the Council's underlying rates funded financial performance the following table takes the reported income and expenditure and identifies the various fair value transactions that are included in these reports and account balances. By separately identifying these items we are able to show the Council's underlying operational financial performance against that which had been budgeted for and therefore rates funded.

The underlying financial performance shows a deficit of \$554,000. This was largely due to higher than budgeted depreciation costs as a result of the revaluation of assets after the budget and rates were set.

Reconciliation of Accounting Financial Performance to Underlying Financial Performance - Year Ended 30 June 2009

	Note	Accounting Financial Performance \$000	Adjustments \$000	Underlying Financial Performance \$000
INCOME				
Rates		41,457		41,457
Grants and Subsidies	1	22,767	(11,626)	11,141
Operating Activities Revenue	2	22,205	(8,962)	13,243
Other Gains/(Losses)	3	967	(259)	708
Total Operating Income		87,396	(20,847)	66,549
OPERATING EXPENDITURE				
Employee Benefit Expenses		12,287		12,287
Depreciation and Amortisation		14,872		14,872
Expenditure on Operating Activities		38,403		38,403
Finance Costs	4	3,594	(2,053)	1,541
Total Operating Expenditure		69,156	(2,053)	67,103
Net Surplus/(Deficit) before Taxation		18,240	(18,794)	(554)
Income Tax Expense		0	0	0
Net Surplus/(Deficit) after Taxation		18,240	(18,794)	(554)

1. Grants revenue received for Capital Projects (\$11.63M).
2. Reserve Contributions (\$0.49M), Capital Contribution (\$0.03M) and Vested Assets from subdivision (\$8.44M).
3. Forestry fair value gain (\$0.259M).
4. Interest rate swap movements (\$2.05M).

What factors have contributed to the underlying favourable accounting variance?
Explanation of Underlying Variance : Significant Changes in Revenue/Expenditure Compared to 2008/09 Annual Plan

	Note	\$000
Additional rates revenue received		108
Unbudgeted grant funding towards capital projects		661
Unbudgeted NZTA funding towards roading costs		3,541
Vested Assets (Non-cash in nature)	1	8,441
Increase in development contributions revenue		186
Increase in reserve contributions contributions revenue		491
Increase in rates penalties revenue		199
Increase in water by meter revenue		282
Increase in miscellaneous revenue		111
Gain on disposal of property plant and equipment		608
Gain in fair value of biological (forestry) assets		259
Decrease in interest costs		420
Decrease in employee benefit costs		116
Decrease in other operating expenses		53
TOTAL POSITIVE VARIANCES		15,476
Less		
Loss in fair value of Non-current receivable		(12)
Loss in fair value of interest rate swaps		(2,053)
Increase in depreciation costs		(1,498)
Increase in rates and trade debtor impairment provisions		(557)
Wastewater Treatment Plant project costs		(722)
Roading operating activity costs		(581)
TOTAL NEGATIVE VARIANCES		(5,423)
TOTAL FACTORS CONTRIBUTING TO THE UNDERLYING VARIANCE		10,053

1. Vested assets are those assets where ownership and control are transferred to Council from a third party (usually as a result of a subdivision).

AUDIT REPORT
TO THE READERS OF
THE GISBORNE DISTRICT COUNCIL AND GROUP'S
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2009

The Auditor-General is the auditor of the Gisborne District Council (the "Council") and group. The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to carry out an audit on his behalf. The audit covers the Council's compliance with the requirements of Schedule 10 of the Local Government Act 2002 that applies to the annual report of the Council and group for the year ended 30 June 2009, including the financial statements.

Unqualified Opinion

In our opinion:

- ▶ The financial statements of the Council and group on pages 110 to 157:
 - ▶ comply with generally accepted accounting practice in New Zealand; and
 - ▶ fairly reflect :
 - ▶ the Council and group's financial position as at 30 June 2009; and
 - ▶ the results of operations and cash flows for the year ended on that date.
- ▶ The service performance information of the Council and group on pages 45 to 105 fairly reflects the levels of service performance as measured against the intended levels of service performance adopted, as well as the reasons for any significant variances, for the year ended on that date; and
- ▶ The Council has complied with the other requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report (the "other requirements")

The audit was completed on 29 October 2009, and is the date at which our opinion is expressed. The basis of our opinion is explained below. In addition, we outline the responsibilities of the Council and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and the other requirements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and the other requirements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and the other requirements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▶ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▶ verifying samples of transactions and account balances;
- ▶ performing analyses to identify anomalies in the reported data;
- ▶ reviewing significant estimates and judgements made by the Council;
- ▶ confirming year-end balances;
- ▶ determining whether accounting policies are appropriate and consistently applied; and
- ▶ determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the other requirements.

We evaluated the overall adequacy of the presentation of information in the financial statements and the other requirements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Council and the Auditor

The Council is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Council and group as at 30 June 2009. They must also fairly reflect the results of operations and cash flows and the levels of service performance for the year ended on that date. The Council is also responsible for meeting the other requirements of Schedule 10 and including that information in the annual report. The Council's responsibilities arise from Section 98 and Schedule 10 of the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements, performance information and the other requirements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 99 of the Local Government Act 2002.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit and in conducting the audit of the Long Term Council Community Plan, we have no relationship with or interests in the Council or any of its subsidiaries.

A handwritten signature in blue ink, appearing to read "Grant Taylor".

Grant Taylor
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand