

NORTHLAND REGIONAL COUNCIL

Agenda

For extraordinary meeting to be held in the Council Chamber,
36 Water Street, Whangārei, on Monday 3 October 2016,
commencing at 10 am

**Recommendations contained in the council agenda are NOT council decisions.
Please refer to council minutes for resolutions.**

OPEN MEETING

Item		Page
1.0	APOLOGIES (Councillors Ramsey, Bain, and Brown)	-
2.0	DECLARATIONS OF CONFLICTS OF INTEREST	-
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3.2	Presentation – Kawakawa Hundertwasser Project: Update on the Development of the Business Case	9–10

ISSUE: Council Adoption of the 2015–16 Annual Report**ID:** A874597**To:** Council Meeting, 3 October 2016**From:** Simon Crabb, Finance Manager**Date:** 27 September 2016

Report Type:	<input type="checkbox"/>	Normal operations	<input type="checkbox"/>	Information	<input checked="" type="checkbox"/>	Decision
Purpose:	<input type="checkbox"/>	Infrastructure	<input type="checkbox"/>	Public service	<input type="checkbox"/>	Regulatory function
	<input checked="" type="checkbox"/>	Legislative function	<input type="checkbox"/>	Annual\Long Term Plan	<input type="checkbox"/>	Other
Significance:	<input type="checkbox"/>	Triggered	<input checked="" type="checkbox"/>	Not Triggered		

Executive summary:

The purpose of this report is to seek formal adoption of the 2015–16 Annual Report (2016 Report).

The 2016 Report (**Attachment One**) is separately attached.

The independent member of the Finance Committee, Geoff Copstick, has performed a full review of the 2016 Report. His written report summarising his observations is **attached as Attachment Two**.

Audit NZ issued verbal clearance and a draft audit report on 27 September 2016, **attached as Attachment Three**. The final signed audit report will be released upon the council's approval of the 2016 Report, and provision of the signed letter of representation to Audit NZ.

Legal compliance and significance assessment:

The activities detailed in this report are provided for in the council's 2015–2025 Long Term Plan, and as such are in accordance with the council's decision making process and sections 76–82 of the Local Government Act 2002. In accordance with section 76 of the Local Government Act, this matter is not considered to be significant.

The adoption of the Annual Report is required by section 98 of the Local Government Act 2002 and is considered to be of low significance because it is standard council process.

Recommendations:

1. That the report 'Council Adoption of the 2015–16 Annual Report' by Simon Crabb, Finance Manager, dated 27 September 2016, be received.
2. That the council's audited Annual Report and Financial Statements for the year ended 30 June 2016 be adopted pursuant to section 98(3) of the Local Government Act 2002.

ITEM: 3.1

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3. That the Chief Executive Officer and Chairman be authorised to sign the 2015–16 Annual Report compliance statement, the letter of representation in relation to the 2015–16 Annual Report, and the letter of representation in relation to the 2015–16 debenture trust deed assurance report.
4. That the Chief Executive Officer be authorised to make any minor editorial and presentation changes if required.
5. That the Chief Executive Officer be authorised to approve the release of the 2015–16 Summary Annual Report.

Report:

Council posted a total comprehensive revenue and expense surplus for the 2015–16 financial year of \$5.28 million compared to a budgeted annual surplus of \$2.44 million, representing a total variance to budget of \$2.8 million.

At the August 2016 Finance Committee meeting, the draft annual accounts presented a net surplus after transfers from/(to) Special Reserves of \$225,033. The movement from the draft result to the total comprehensive revenue and expense reported in the 2016 Report is explained in Table One below.

Table One	\$
2015-16 Net surplus reported in the August 2016 Finance Committee Agenda (item 3.5)	225,033
Add back the transfers (from)/to Special reserves presented in the draft accounts as these do not form part of the Statutory reporting format	3,454,334
Add non cash gains on the revaluation of councils investment properties and owner occupied properties	1,584,023
Add non cash gains on the revaluation of councils forestry assets	356,425
Add gains/(losses) on net vested/(divested) assets	(339,179)
Total Comprehensive revenue and expense reported in the 2015-16 Annual Report	5,280,636

Upon the council's approval and adoption, the Annual Report will be printed and distributed to councillors and the statutory recipients in Wellington. These include the Minister and Secretary for Local Government, the Auditor-General and the Parliamentary Library. Northland Members of Parliament and other interested organisations are also issued with copies, and the document will also be published on the council's website.

The Annual Report and the Summary Annual Report must be publicly available by 3 November 2016, this being one month after adopting the Annual Report. It is proposed that the Chief Executive Officer be authorised to approve the Summary Annual Report so this can also be publicly available by 3 November 2016 (this was done with the Summary Annual Report last year).

Northland Regional Council - 2015/16 Annual Report

Geoff Copstick – Independent Member, Finance Committee

I have had meetings with Simon Crabb, Dave Tams and members of the Audit NZ team throughout the preparation of this report and attended a 'sign off' meeting with the Audit Working Party and I make the following observations and comments in relation to the report and to NRC staff engagement with the Audit NZ team:

1. In this election year the timetable to prepare the report was shortened to allow the current council to issue the report. Councillors and NRC should formally acknowledge the extra work Simon Crabb and the finance team have done to prepare for, and work through this huge task.
2. The Statement of Comprehensive Revenue and expense reports a favourable result against Long Term Plan largely due to unbudgeted revaluations and gains on disposal of properties, forestry assets and other investments; NRC has made good decisions associated with the allocation of assets within the portfolio and can continue to exploit NZs current low interest rate environment to the benefit of its constituents
3. The council 2016 result is behind the prior year result despite higher rates income (10% up) and other favourable areas of council earnings. The picture is complicated as reported income is shifting between captions eg rents from investment properties are reported on a different line from the fund returns earned (or revalued) when a property is sold and the proceeds invested. Expenses are up 10% on the prior year across the board and up on the budget/LTP including \$400K unbudgeted interest costs and \$400K of above budget forest harvest costs.
4. Note that savings in lower than plan grants paid out to Northland Inc although superficially boosting NRCs result underpin the need for NRC to press Northland Inc to meet the quota of investment ready proposals per their Sol.
5. At the consolidated level (including the results of Marsden Maritime Holdings) the year on year result is distorted by the \$11Million turnaround in the revaluations of MHHs property portfolio (2015: \$10.7M loss 2016:\$300K gain).
6. Changes in Equity reflect the \$8M and \$6M transfers in the year to the Property Reinvestment and Infrastructure Investment Fund reserves. Performance management of these substantial funds should be a continuing focus for the incoming council.
7. As the Chairman/CEO report notes NRC has a very strong balance sheet with little debt and a diverse asset portfolio. Changes to reporting standards have required the reclassification of 'investment properties' to 'investments held for sale' which again may confuse readers of the accounts.
8. Balance sheet strength poses a challenge to NRC and the finance committee and its working parties need to work with management to ensure assets continue to work hard on behalf of the region.
9. The report now runs to a 176 page publication and a document of this scale obviously implies a lot of work for Dave's finance team and costs to NRC in terms of getting audit sign

off; with a tender for NRCs audit underway it should be a priority to ensure the document is as concise as it can be given legislated financial and non financial reporting requirements and NRCs own assessment of reader understanding of key performance metrics (asking the auditor, incoming or incumbent, to do it is like asking panel beaters to design road junctions)

Independent Auditor's Report

To the readers of Northland Regional Council and group's annual report for the year ended 30 June 2016

The Auditor-General is the auditor of Northland Regional Council (the Regional Council) and group. The Auditor-General has appointed me, Karen MacKenzie, using the staff and resources of Audit New Zealand, on her behalf, to:

- audit the information included in the Regional Council and group's annual report that we are required to audit under the Local Government Act 2002 (the audited information);
- report on whether the Regional Council and group has complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report and the Local Government (Financial Reporting and Prudence) Regulations 2014.

Opinion on the audited information

In our opinion:

- the financial statements on pages 78 to 156:
 - present fairly, in all material respects:
 - the Regional Council and group's financial position as at 30 June 2016;
 - the results of its operations and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance Public Benefit Entity Standards;
- the funding impact statement on page 71, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Regional Council's Long-term plan;
- the statement of service provision of the Regional Council, which is referred to in the annual report as the Council's Activities, on pages 23 to 70:
 - presents fairly, in all material respects, the Regional Council's levels of service for each group of activities for the year ended 30 June 2016, including:
 - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;

- the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
 - complies with generally accepted accounting practice in New Zealand;
- the statement about capital expenditure for each group of activities on pages 23 to 70, present fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Regional Council's Long-term plan;
- the funding impact statement for each group of activities on pages 23 to 70, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Regional Council's Long-term plan.

Compliance with requirements

The Regional Council and group has:

- complied with the requirements of schedule 10 of the Local Government Act 2002 that apply to the annual report; and
- made the disclosures on pages 28 to 141 which are required by the Local Government (Financial Reporting and Prudence) Regulations 2014 which represent a complete list of required disclosures and accurately reflects the information drawn from the Regional Council and group's audited information.

Our audit was completed on 3 October 2016. This 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 our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the information we audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the audited information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Regional Council and group's preparation of the information we audited in order to design procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Regional Council and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Council;
- the adequacy of the disclosures in the information we audited;
- determining the appropriateness of the reported performance information, referred to in the annual report as the Council's Activities, within the Regional Council's framework for reporting performance; and
- the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited.

When reporting on whether the Regional Council and group complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report, we limited our procedures to making sure the annual report included the required information and identifying material inconsistencies, if any, with the information we audited. We carried out this work in accordance with International Standard on Auditing (New Zealand) 720; The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

We did not evaluate the security and controls over the electronic publication of the information we are required to audit and report on. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Council

The Council is responsible for meeting all legal requirements that apply to its annual report.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Council is responsible for such internal control as it determines is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Council is also responsible for the publication of the annual report, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the annual report in accordance with the reporting requirements of the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out our audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. Other than this audit, we have no relationship with or interests in the Regional Council or any of its subsidiaries.

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

**ISSUE: Presentation – Kawakawa Hundertwasser
Project: Update on the Development of the
Business Case**

ID: A878543

To: Extraordinary Council Meeting, 3 October 2016

From: Darryl Jones, Economist

Date: 22 September 2016

Vaughan Cooper, Northland Inc., will give a presentation to council on progress being made on the development of the business case for the Kawakawa Hundertwasser park and visitor centre project.

Recommendation:

That the presentation be received.
