

# Report to Finance Committee – Decision Required

**File No:** 01 14 13F  
**Date:** 25 August 2014  
**To:** Chief Executive Officer  
**From:** Chief Financial Officer  
**Subject:** Annual Report for the year ended 30 June 2014  
**Section** B (For recommendation to Council)

## 1 Purpose

This report provides the committee with an update on the financial and non-financial performance for the 2013/14 financial year, and presents the attached 2013/14 Annual Report to the committee for approval and recommendation to the council for adoption. Please note that the annual report is subject to final formatting.

### Recommendation:

1. That the report “Annual Report for the year ended 30 June 2014” (Doc #3144671 dated 25 August 2014) be received, and
2. That the committee approve the draft 2013/14 Annual Report (Doc #3154480) as presented, and
3. That the committee approve the allocation of \$153,000 from the 2013/14 surplus to the completion of the Waikato regional catchment risks and priority assessment to allow this work to be completed by March 2015, and
4. That the committee recommends the adoption of the draft 2013/14 Annual Report to the council.

## 2 Financial performance

Staff presented the management accounts and draft financial outcome for the 2013/14 financial year to the August Finance committee meeting. An operating surplus of \$3.121 million was reported at that point in time, with \$2.61 million being transferred to reserves to give a net increase in retained earnings of \$511,000. This position excluded the net revaluation loss on land and buildings and forestry assets (\$306,000).

Since then:

- the operating surplus for the Lake Taupo Protection Trust (a non-cash item) has been recognised (\$3.027 million),
- an adjustment has been made to the drawdown from the Transport Policy reserve to reflect year end expenditure (\$151,000) and
- other minor changes (\$25,000) have been made as year end processes have been completed.

The Lake Taupo Protection Trust surplus represents a timing difference between revenue and expenditure between years and is fully funded from reserves.

Staff have also recalculated the transfer to the investment preservation reserve to ensure that the CPI movement takes into account internal borrowings. This recalculation results in a transfer from the investment equalisation reserve to the investment preservation reserve of \$322,939, being the CPI adjustment on the value of internal borrowings for the last three financial years.

The updated Statement of Comprehensive Income shows that the council has ended the 2012/13 financial year with an operating surplus of \$5.551 million, against a budgeted deficit of \$3.92 million. The budgeted deficit was to be funded from reserve drawdowns (\$1.063 million) and prior year surpluses applied to offset the general rate requirement (\$2.868 million). Of the variance:

- \$2.178 million relates to the positive performance of the investment fund over the course of the year
- \$620,000 related to salary savings in relation to recruitment delays for both existing and new staff positions as a result of the Fit for Purpose review
- Approximately \$3 million relates to lower than budgeted direct cost expenditure. Of this \$2.347 million has been approved by the Committee as a carry over to 2014/15 to enable planned work to be completed,

The council is required to recognise a 33 per cent share of the operating surplus of the Lake Taupo Protection Trust, which amounts to \$3.027 million this financial year and is included in the net operating position. The remaining value of the Trust reflected in the council's balance sheet is \$3.534 million.

Of the operating surplus noted, \$2.445 million has been transferred to reserves. Key reserve transfers were:

- \$3.537 million to investment fund equalisation and preservation reserves
- \$2.863 million transferred to River and Catchment scheme reserves, including \$1.151 million to disaster recovery reserves
- \$637,000 transferred to the Public Transport reserve
- \$300,000 transferred from the Transport Policy reserve
- \$4.606 million from the Protecting Lake Taupo reserve, reflecting the release of the accumulated reserve funds to the Lake Taupo Protection Trust.

Reserve transfers noted in the annual report include the transfer of capital expenditure funding from reserves to retained earnings. A total of \$180,000 has been transferred in relation to the IRIS project.

During the preparation of the 2013/14 Annual Plan \$2.858 million of forecast surplus was carried forward from previous financial years, and used to offset rating requirements.

Budget carryovers of \$2.423 million were approved by the committee in August 2013. These amounts allowed for work commenced during the 2012/13 financial year to be completed.

### Summary of financial performance

Financial performance at 30 June 2014 (\$000)	Actual	FY Forecast	FY variance from forecast
Revenue	115,794	114,469	1,325
Operating expenditure	113,270	119,075	5,805
<b>Net operating surplus / (deficit)</b>	<b>2,524</b>	<b>(4,606)</b>	<b>7,130</b>
Transfer to / (from) reserves*	2,445	(1,115)	(3,560)
<b>Increase / (decrease) in retained earnings (excluding share of associate surplus)</b>	<b>79</b>	<b>(3,491)</b>	<b>3,570</b>
Funded by:			
- Prior year surplus carried forward	2,858	2,858	-
- Carry overs from 2012/13	2,423	2,423	-
	5,281	5,281	-
<b>Cumulative increase / (decrease) in retained earnings</b>	<b>5,360</b>	<b>1,790</b>	<b>3,570</b>
Applied to:			
- Capital expenditure funding	(143)	(143)	
- FY forecast provisionally tagged to FFP implementation	(1,237)		
- Carry over of project funding to 2014/15	(2,347)		
- 2014/15 annual plan	(410)	(410)	
Add back non-cash revaluation losses	306		
<b>Unallocated surplus remaining</b>	<b>1,529</b>	<b>1,237</b>	<b>292</b>

It was noted for the Finance committee that further costs associated with the implementation of the Fit for Purpose review, which are not yet quantifiable, would be funded from the unallocated surplus.

In addition, it was noted that funding would be required to support the completion of the Waikato regional catchment risks and priority assessment (a CEO KPI) by March 2015. Staff estimate that the additional funding required to complete this work is \$153,000, and request that the committee approve this work to be funded through the 2013/14 surplus.

Approval of funding for this item leaves \$1.376 million available to be considered through 2014/15 forecasts, or as part of the 2015 – 2025 long term plan.

### 3 Infrastructure asset valuation

A report covering the key accounting estimates included in the annual report was presented to the Audit and Risk subcommittee meeting in August 2014. The major matter addressed through this report was the revaluation of the council's infrastructure assets. The subcommittee requested additional information be provided before the valuation was approved. This additional information is presented as a separate report to this committee. Feedback from the independent subcommittee members will be presented at the meeting.

### 4 Non-financial performance

When the draft end of year non-financial performance results were reported to the Finance Committee on 14 August, it was reported that the council had achieved 92 per cent of the long term plan performance measures. Since that time one measure has changed from 'achieved' to 'not achieved' and one measure has changed from 'achieved' to 'not measurable' as

calculations and methodology were checked through the auditing process. This means the final results show we have achieved 89 per cent of our long term plan performance measures, which is below the CEO KPI target of 90 per cent.

#### Transport connections group of activities

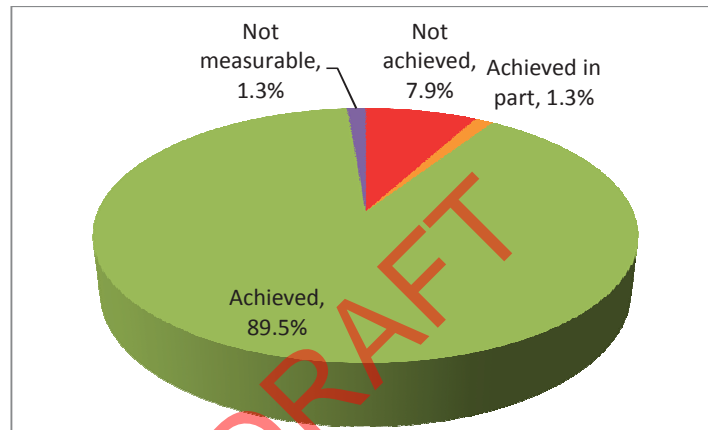
1. Measure: patronage growth in Hamilton.

The result for this measure has gone from achieved to not achieved due to a calculation error which was discovered through the auditing process. The result was incorrectly reported as 1 per cent increase. The accurate result is 0.25 per cent increase, which does not meet the 1 per cent target.

#### Flood control and protection works group of activities

2. Measure: Pump station and floodgate failures

The result for this measure has gone from achieved to not measureable as the back up documentation for this measure was not able to be verified through the auditing process. Measurement against this performance target will be addressed through the 2015 Long Term Plan.



## 5 Audit

Audit New Zealand commenced their final audit visit in relation to the 2013/14 Annual Report on 18<sup>th</sup> August 2014. Staff will report to the committee on any key changes identified through the audit process. Verbal audit clearance confirming that there are no major unresolved matters is expected ahead of the Finance committee meeting.

## 6 Annual report summary

Staff are working to complete the annual report summary and this will be circulated to councillors to get feedback prior to finalising the version to be submitted to the adoption meeting. This year the timing of the annual report adoption does not coincide with an edition of 'Your Waikato'. The summary will be posted on the council website, distributed to the regional council offices around the region and a media release sent out to promote its availability.

Janine Becker  
**Manager, Finance**

Mike Garrett  
**Chief Financial Officer**

### Attachment

Draft 2013/14 Annual Report (Doc #3154480)

# Transport connections

## WHY WE DO IT

The transport connections group of activities comprises one activity, public transport operations. Waikato Regional Council provides a public transport system to:

- give the public an alternative to private vehicle travel
- provide access for the transport disadvantaged
- support urban growth objectives
- reduce congestion by reducing vehicle movements
- provide rural communities with better access to essential services
- enhance access to special events.

The transport connections group of activities primarily contributes towards the community outcome of:

- safe and resilient communities.

This group of activities contributes to safe and resilient communities by ensuring that we have reliable, efficient and well planned infrastructure and services. It has had a positive effect on the community by providing access to essential services, reducing congestion and enabling those who may not have access to a private vehicle a way to get around. The fare increase at the beginning of the year could have had a negative economic effect on the community.

## What we did

In line with the aims of the community outcome of having safe and resilient communities, public transport route optimisation work has been undertaken during the 2013/14 year to achieve more efficient services. The route optimisation, along with the targeted fare increase that occurred on 1 January 2014, has resulted in significant improvements in farebox recovery, with a final result of 39.23 per cent at the end of the financial year. This is in line with the implementation of the strategic network review which will continue through the 2014/15 year.

As part of the route optimisation, some underutilised services were removed and the frequency of some services was altered to ensure network efficiency. Urban patronage in Hamilton was 4,594,090 passenger trips, which is 1 per cent higher when compared to 2012/13 patronage. As part of this optimisation, the No. 6 Mahoe was made a key route in April 2014 and it now operates 7 days a week.

In early 2014 the regional council mailed a survey to 700 Total Mobility users in Hamilton, Taupō and Tokoroa. From this, we received 257 completed surveys, with 78 per cent rating their overall satisfaction with the Total Mobility service as very good or excellent. This excellent result comes after improvements to the service were rolled out in October 2013 to further increase the mobility of people with disabilities and to allow equitable access to the community.

The annual survey of 1000 bus users held in September 2013 showed that 95 per cent of passengers were satisfied or very satisfied with their bus trip, 92 per cent were satisfied or very satisfied with the helpfulness and attitude of the driver, and 87 per cent were satisfied or very satisfied with the bus being on time. The survey will be repeated throughout August and September for the 2014/15 year.

Farebox recovery also had an excellent end of year result of 39.23 per cent, exceeding the 2013/14 target of 35 per cent. This means that 39.23 per cent of the cost of operating the region's public bus services is covered by fares. The remainder of the cost is subsidised by rates and the NZ Transport Agency. A change in the way fares are charged and ongoing route optimisation were key contributing factors.

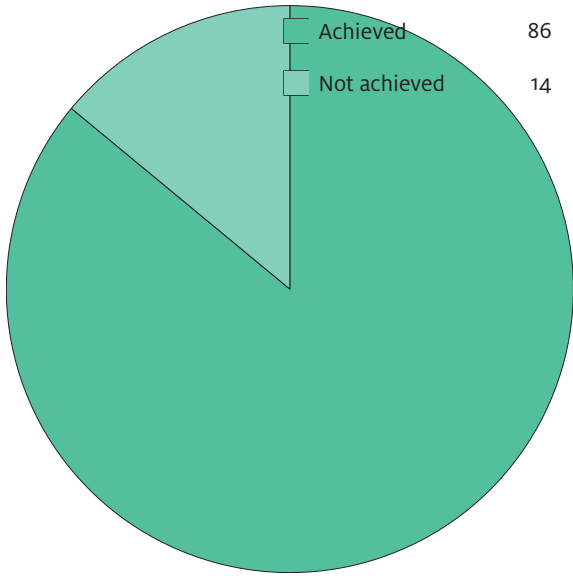
## Looking forward

Over the next year, areas of focus for the council within this group of activities will be:

- The review of the Regional Public Transport Plan commenced in 2013/14 and will be completed in 2014/15. The review will take into account the findings of the strategic network review which was completed in 2013. This will enable best alignment with anticipated land use and population changes, the achievement of farebox recovery targets, and development of supporting infrastructure programmes. The draft plan will be released for public consultation in November 2014 with the final plan due to be adopted by the council by April 2015. Work will then start on the implementation of the plan which may include a fare structure review.
- The regional council has been working collaboratively with other regions and the NZ Transport Agency to procure a new ticketing system. We are a member of the technical working group which is investigating options with other regions to progress a collective approach to integrated ticketing procurement. Electronic ticketing is necessary for the accurate collection of fares revenue, the recording of passenger data and monitoring of services. The tendering process for this will take place over the 2014/15 year.

## What we delivered

The total number of transport connections measures is eight. One of the measures was not applicable to the 2013/14 year. Of the seven applicable measures remaining, six were achieved (86 per cent) and one was not achieved (14 per cent) in the 2013/14 year. Detailed commentary for all these measures can be found in the table below.



**Activity: Transport operations**

Level of service: To provide vehicle quality standards that promote a high level of amenity and accessibility.

Performance measure	Target	Actual	Commentary
<b>Bus fleet vehicle quality</b>			
Percentage of bus fleet that meets NZTA standards for vehicle quality as set out in the Requirement for Urban Buses in NZ 2011.	75%	100%, achieved  2012/13: 80%, achieved 2011/12: achieved	100% of the urban fleet complies with NZ Transport Agency's requirement for urban buses. 10 new buses were added to the fleet on 20 January 2014, making our fleet fully accessible and compliant with the requirement for urban buses.

Level of service: To provide the Waikato community with an affordable, efficient and effective public transport system that enables an alternative to private vehicle travel and access to essential services.

Performance measure	Target	Actual	Commentary
<b>Farebox recovery</b>			
Proportion of total service costs that are covered by passenger fares (farebox recovery)	35%	39.23%, achieved  2012/13: 37.6%, achieved 2011/12: not applicable - new measure	At the end of the 2013/14 year, farebox recovery was 39.23%. The targeted fare increase which was implemented on 1 January 2014 and the ongoing network optimisation has contributed to the council being ahead of farebox recovery targets.
<b>Public transport - customer satisfaction</b>			
Percentage of customers who are 'satisfied' or better with the public transport service (Source:	85%	95%, achieved	The customer satisfaction survey was completed in September 2013. Results showed that 95% of bus passengers were satisfied or very satisfied. The survey was done face to face with 1000 bus passengers participating. -92% are satisfied/very satisfied with the helpfulness/attitude of the driver -87% are satisfied/very satisfied with the bus being on time.

annual customer satisfaction survey)		2012/13: 98%, achieved 2011/12: 98%, achieved	Please note we cannot compare year on year with 2012 as the survey rating scales are different. This year we have worked on a 1-10 scale with 1-4 as not satisfied, 5-7 as satisfied and 8-10 as very satisfied. The next customer satisfaction survey is scheduled to take place in the last week of August and first week of September 2014.
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#### Public transport - patronage growth in Hamilton

Patronage growth increase on contracted Hamilton services	1%	0.25%, not achieved  2012/13: -1.7%, not achieved 2011/12: not applicable - new measure	The 2013/14 patronage in urban Hamilton was 4,594,090 compared to 4,582,661 last year. This is an increase of 0.25 percent.
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#### Public transport - patronage growth satellite towns

Patronage growth increase on contracted commuter services between satellite towns and Hamilton	1%	21.59%, achieved  2012/13: 1.87%, achieved 2011/12: not applicable - new measure	The 2013/14 year rural patronage in Hamilton was 555,260 compared to 456,663 last year. This is an increase of 21.59%.  The reason for this increase could be due to the the addition of the northern connector service in this financial year, as well as an increase in gold card holders using the bus network to access satellite towns in the region.
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#### Total Mobility service - customer satisfaction

Percentage of customers who are satisfied with the Total Mobility service (Source: survey of Total Mobility users)	Not applicable - no survey this year	Not applicable - due to be completed in 2014/15  2012/13: not measured 2011/12: 99%, achieved	This survey was not due to be completed in this financial year but was brought forward to April 2014. The results of this survey will be reported against the next financial year, but are also summarised here.  The survey was sent to 700 users in April 2014 - 500 in Hamilton, 100 in Taupō and 100 in Tokoroa.  The council received 257 completed surveys - 185 from users in Hamilton, 45 from Taupō and 27 from Tokoroa users.  Results showed that: -78 per cent rated their overall satisfaction with the service as very good or excellent -73 per cent rated the value for money as very good or excellent -71 percent are viewed the attitude and helpfulness of the drivers as very good or excellent.
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**Level of service: To provide a high standard of information to customers on regional bus services through the website, marketing campaigns and information brochures.**

Performance measure	Target	Actual	Commentary
<b>Public transport - BUSIT call centre</b>			
Percentage of calls to the BUSIT call centre that are answered within 20 seconds	80%	82.69%, achieved  2012/13: 86.3%, achieved 2011/12: not applicable - new measure	Over the 2013/14 year, 82.69 per cent of calls were answered within 20 seconds.

Public transport - marketing campaigns			
Number of marketing and public awareness campaigns undertaken jointly with other organisations or by the council only	1	12, achieved  2012/13: 1, achieved 2011/12: not applicable - new measure	<p>Marketing and communications activities carried out this year included:</p> <ul style="list-style-type: none"> <li>- introduction of Sunday service to Mahoe route</li> <li>- rugby shuttle promotion</li> <li>- continued improvements to printed timetables and roadside signage</li> <li>- tertiary student marketing activities.</li> <li>- continued communication for hospital users, visitors and staff about local bus services</li> <li>- balloons over Waikato.</li> <li>- introduction of the Northern Connector service</li> <li>- world Car-Free Day promotion in conjunction with HCC</li> <li>- a Busit! DVD has been created to encourage bus use</li> <li>- roadshows to retirement villages in Hamilton, Cambridge and Te Awamutu to encourage more off-peak bus use.</li> <li>- I'm Driven, a comprehensive advertising campaign featuring current passengers continues on bus back, billboards, Adshels and in newspapers in Hamilton, Cambridge and Te Awamutu to promote off-peak travel.</li> <li>- introduction of schematic (London Underground tube style) bus route map, pulling all Hamilton and regional routes into a simplified line diagram, emphasising the extent, coverage &amp; connectivity of our bus routes.</li> </ul>

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