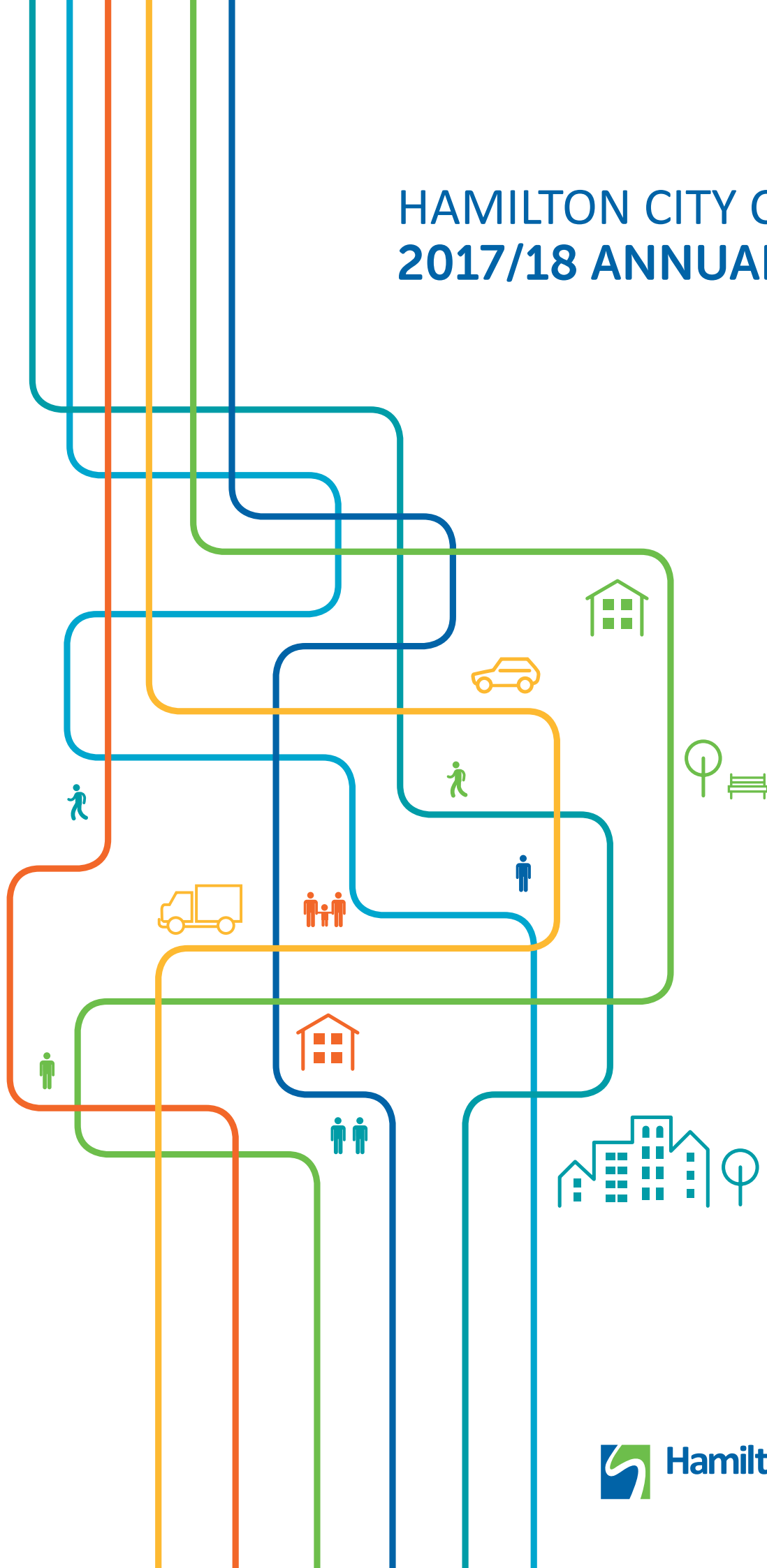


HAMILTON CITY COUNCIL'S 2017/18 ANNUAL REPORT SUMMARY



Hamilton City Council

Te kaunihera o Kirikiriroa

CONTENTS

- 3 Introduction
- 4 Our Financial Strategy
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This is a summary of the Annual Report. It provides a snapshot of our results for 2017/18.

The full document is available at hamilton.govt.nz/annualreport

Both documents have been audited by independent auditors.



INTRODUCTION

Hamilton City Council's Annual Report presents our financial results as measured against the financial strategy set out for year three of our 2015-25 10-Year Plan and the 2017/18 Annual Plan. It also shows how we performed in terms of the targets set for our service delivery.

This document summarises our 2017/18 Annual Report. The full report can be found at hamilton.govt.nz/annualreport

2017/18 has seen continued growth in Hamilton and we see this as an opportunity to be embraced for the long-term prosperity of Hamiltonians. More people coming to Hamilton brings a wealth of benefits in terms of greater diversity in our communities and workforce, more opportunities for businesses and tourism and as such boosts our economy.

We have seen good progression on our capital works programme and delivered \$102.1M in capital projects during 2017/18. This included \$39.3M on water, sewerage and stormwater infrastructure, \$31.3M on transport projects and \$21.3M on parks, recreation and visitor attractions.

It has been a good year in terms of financial management and service performance. We have kept within our financial measures set for 2017/18 and achieved good results for most of our targets.

However, necessary repair work and seismic upgrades meant we had to close the central library and some Waterworld facilities during the year and were therefore unable to achieve all our targets for these services. Increases in service requests and resourcing difficulties also affected our ability to achieve some targets. The 2018-28 10-Year Plan includes funding to address many of these issues.

The 2017/18 financial year has been a year in which we made important and prudent financial decisions and ensured we continue to improve the wellbeing of Hamiltonians.



The Hamilton community lost one of its most passionate advocates with the passing of Councillor Philip Yeung in September 2017, after a short battle with cancer. Known for his tireless work and strong connections in the community, his passing was a great loss to the city. Councillor Ryan Hamilton succeeded Councillor Yeung following a by-election in early 2018.

OUR FINANCIAL STRATEGY

Our 2015-25 10-Year Plan included a financial strategy around rates certainty, balancing the books and debt. The financial strategy:

- holds total rates rises at 3.8% for existing ratepayers each year for ten years
- balances the books from 2016 onwards
- reduces our debt-to-revenue ratio to 200% or below by 2020. In other words, this caps debt at \$2 for every \$1 collected in rates and user charges.

Against this strategy, we exceeded our balancing the books target and ended the financial year with a total overall debt balance \$65M lower than the projected target.

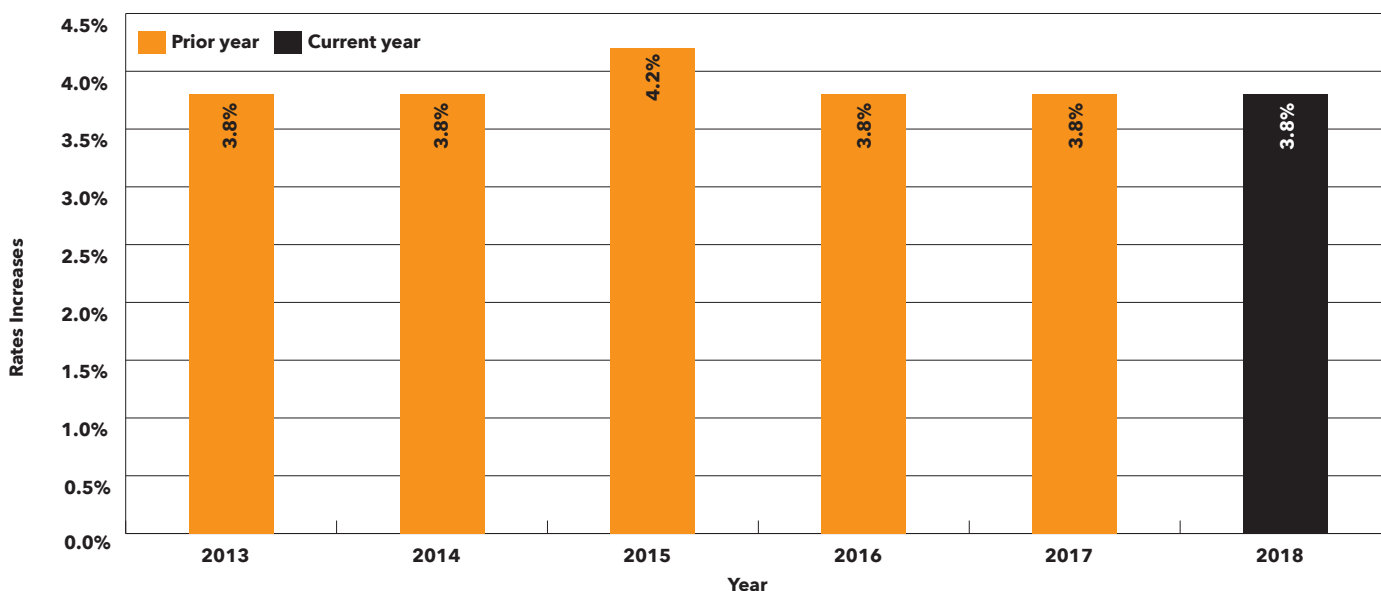
We have performed well against our financial targets. However, recent population growth and that projected in the future emphasises the need to ensure that capital revenue from growth is not paying for our everyday expenses.

Our existing financial strategy was put in place in 2012 and this is the final year it will be reported against. In June 2018 we approved a new 2018-28 10-Year Plan and will report against this from July 2018. The new 10-Year Plan makes significant changes to the measures used and the benchmarks we will report against.

RATES

Our 2015-25 10-Year Plan held total rates rises at 3.8% each year for ten years with the aim of creating better certainty for ratepayers and improving our financial position. Increasing rates at this level has helped us to pay for more of our day-to-day costs through rates and reduced our reliance on borrowing. The rates increase in 2015 was 4.2% due to the introduction of the Hamilton Gardens targeted rate which was on top of the 3.8% increase for that year.

Total rates increases to existing ratepayers



BALANCING THE BOOKS

The balancing the books measure is a way of assessing our operating performance. You can see how our balancing the books measure is calculated in the full Annual Report. There are other ways to measure operating performance, including the Government's balanced budget measure, which we also report against in the Disclosure Statement within the Annual Report.

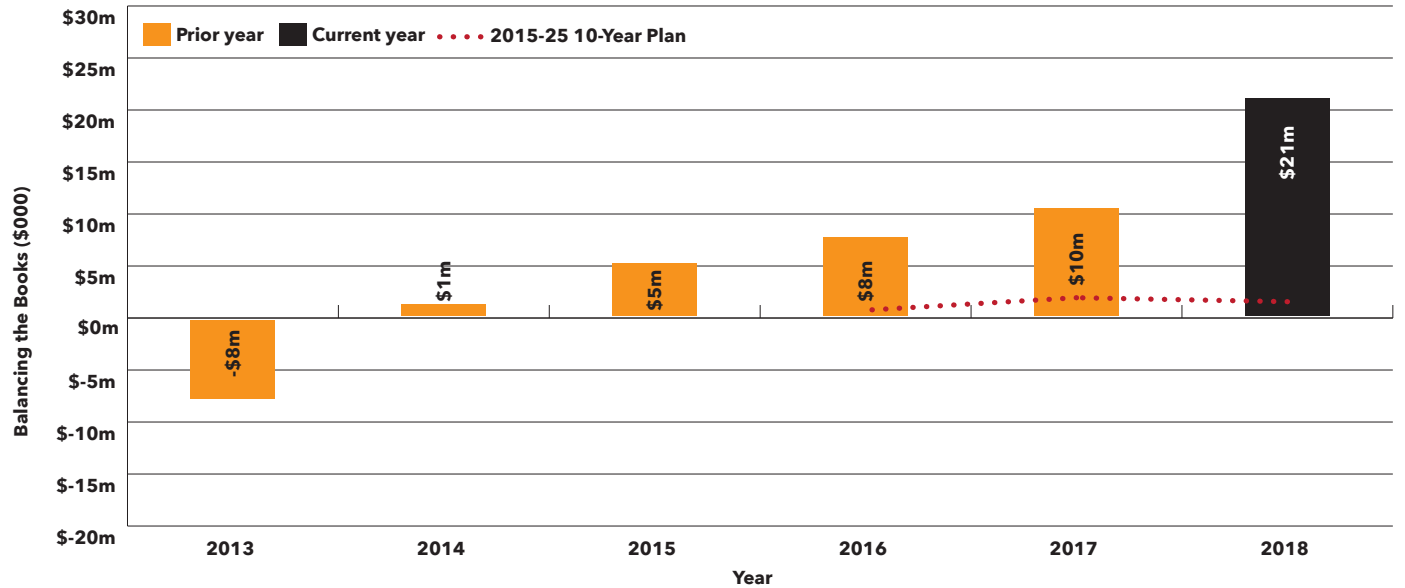
The main difference between the two measures is the Government's balanced budget measure excludes revenue from development contributions and our measure includes it. This makes the Government's measure more conservative.

We exceeded our balancing the books target, with an adjusted operating surplus of \$20.6M against a target of breakeven. The Government’s balanced budget measure, a measure that excludes development contributions, is a deficit of \$5.0M against a budget deficit of \$11.1M.

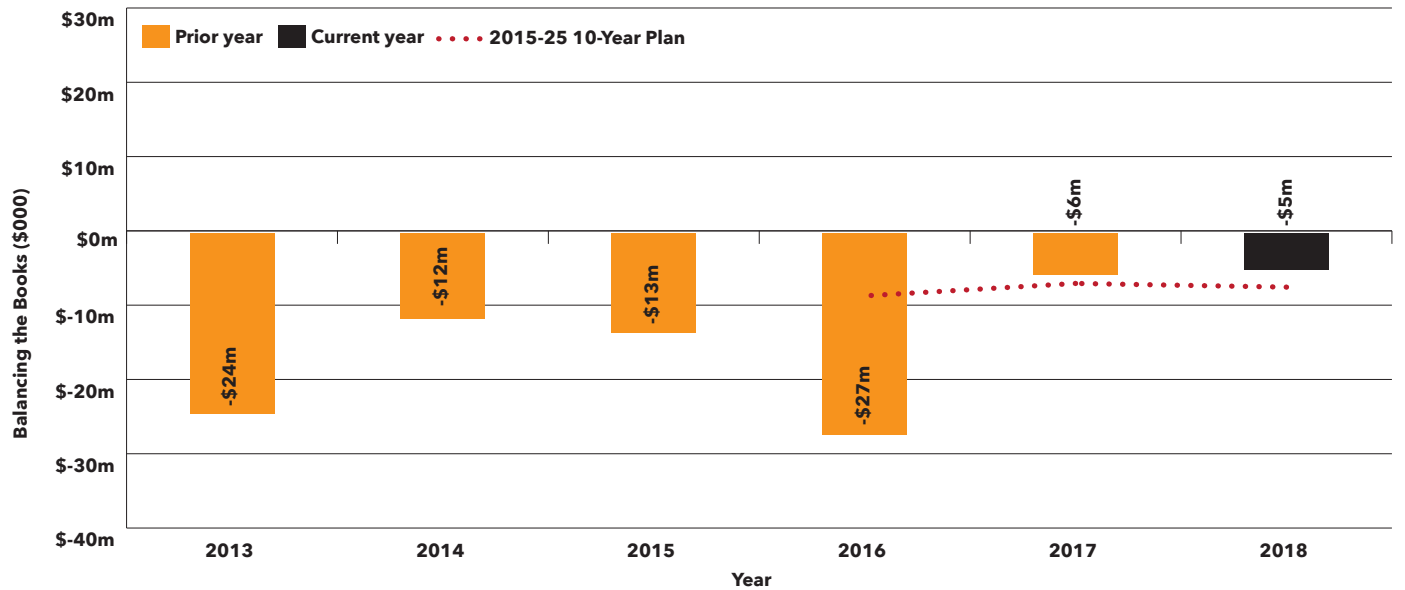
As part of developing our 2018-28 10-Year Plan, we reviewed our financial strategy, including how we measure our operating performance. This will change as of the 2018/19 year.

- The significant revenue and expenditure variances that contributed to our balancing the books result include:
- higher than budgeted revenue from fees and charges (\$4.1M), from across the organisation due to the high levels of activity in the city
 - higher than budgeted revenue from third party capital contributions and New Zealand Transport Agency capital subsidies (\$10.4M)
 - higher than budgeted revenue from development contributions (\$14.7M)
 - higher than budgeted revenue from vested land and infrastructure from property development (\$33.2M)
 - lower than budgeted finance costs (\$3.0M) and higher interest revenue due to lower debt and interest rates
 - higher than budgeted operating expenses (\$9.5M), which includes additional depreciation due to asset revaluations, additional staff remuneration costs and additional expenditure on asset maintenance and service costs.

Balancing the books – Hamilton City Council measure



Balanced budget – Government measure



DEBT

The definition we use for debt is money we owe the bank, less cash. We refer to this as total overall debt.

We ended the financial year with a total overall debt balance of \$370M, lower than the projected target of \$435M. Our debt is now 167% of revenue against a performance target of 205%.

The main reasons for this favourable result are:

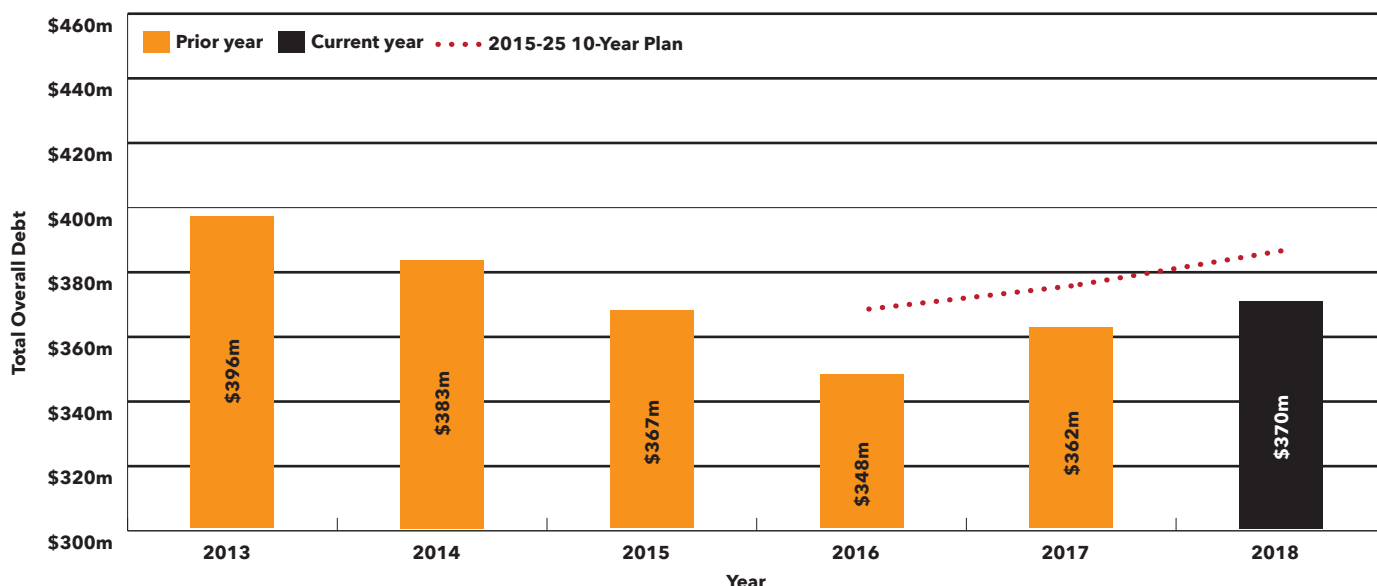
- higher than budgeted revenue from development contributions
- higher than budgeted revenue from user charges, subsidies and grants
- lower than expected cost of 17 capital projects with a value of \$8.8M in the 2017/18 financial year
- deferral of 42 capital expenditure projects with a value of \$32.1M to the 2018/19 financial year.

Project deferrals have a favourable impact on our financial result. However, it is only a timing impact as the expenditure will still be incurred, but later than was originally planned.

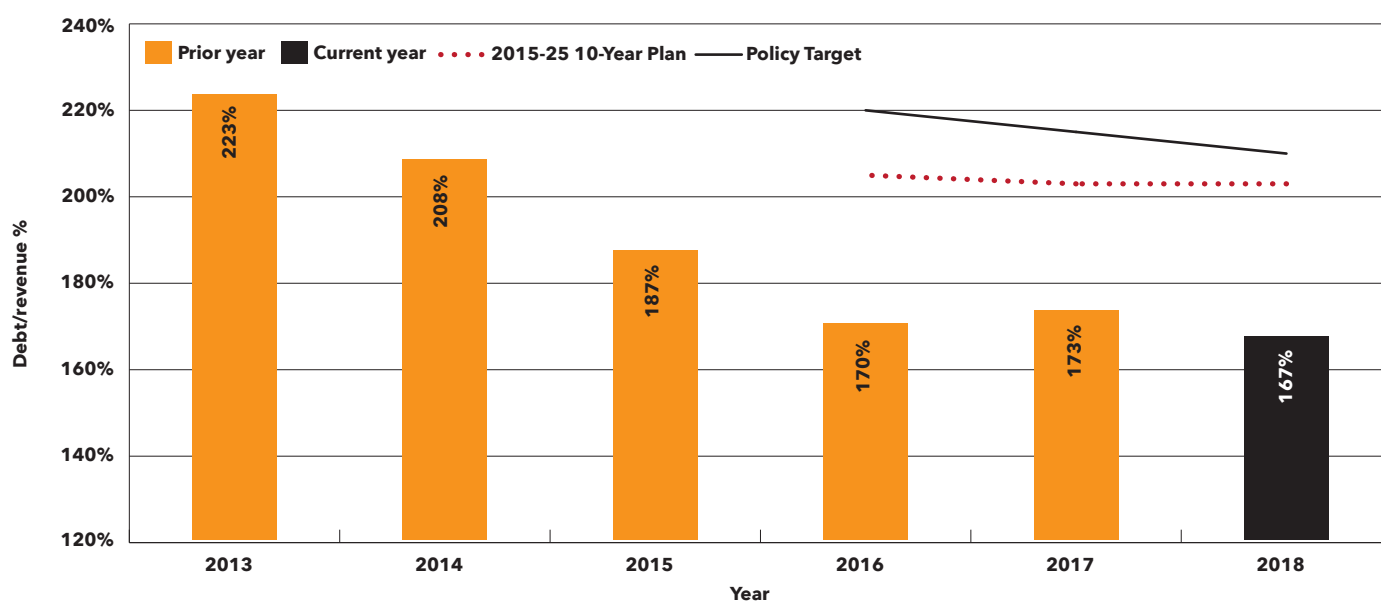
Projects were deferred due to:

- third party delays, e.g. infrastructure that is dependent on developers
- contractual delays, e.g. a design issue or delay in the tender process
- delays due to change in the project scope or prioritisation.

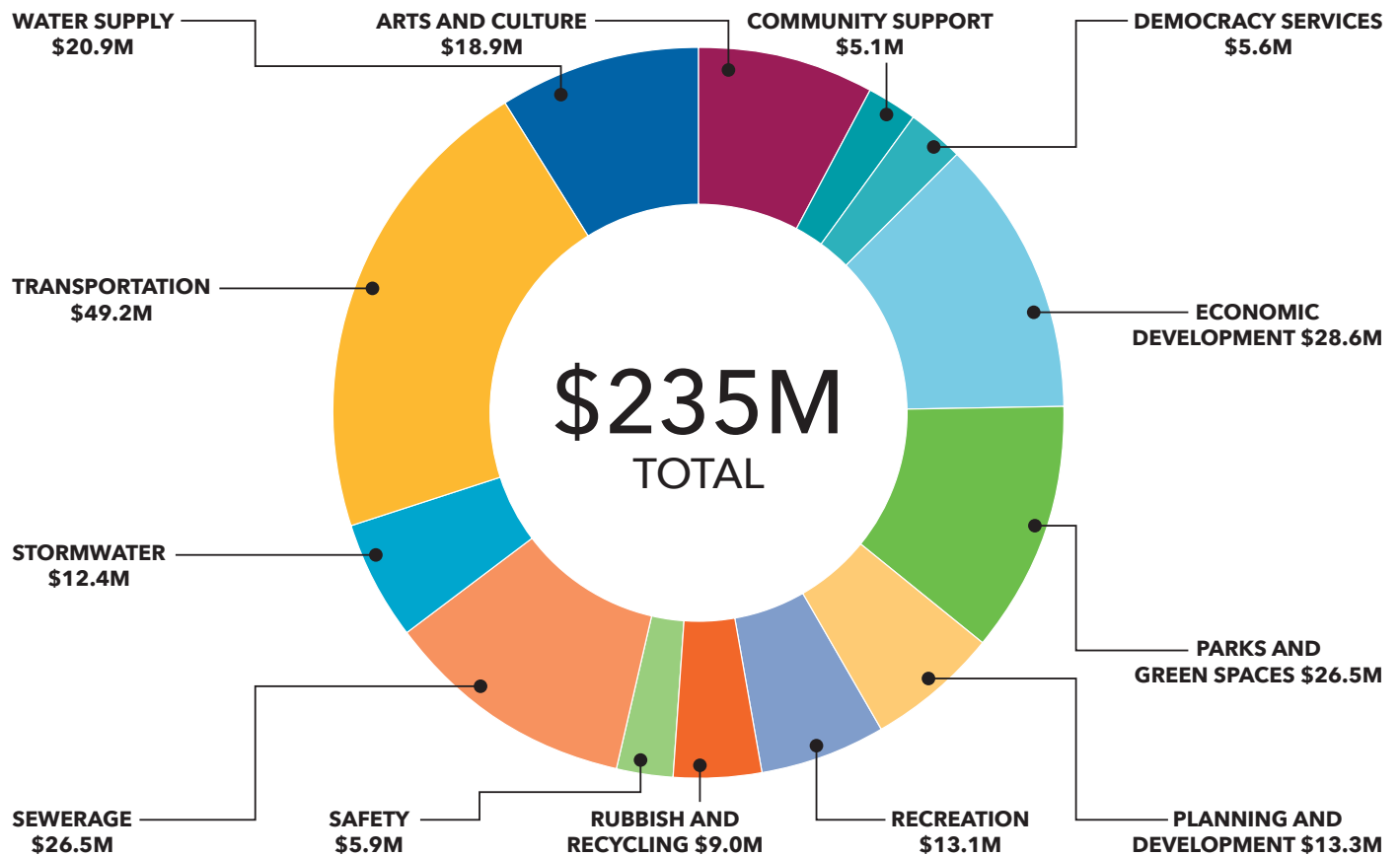
Total overall debt



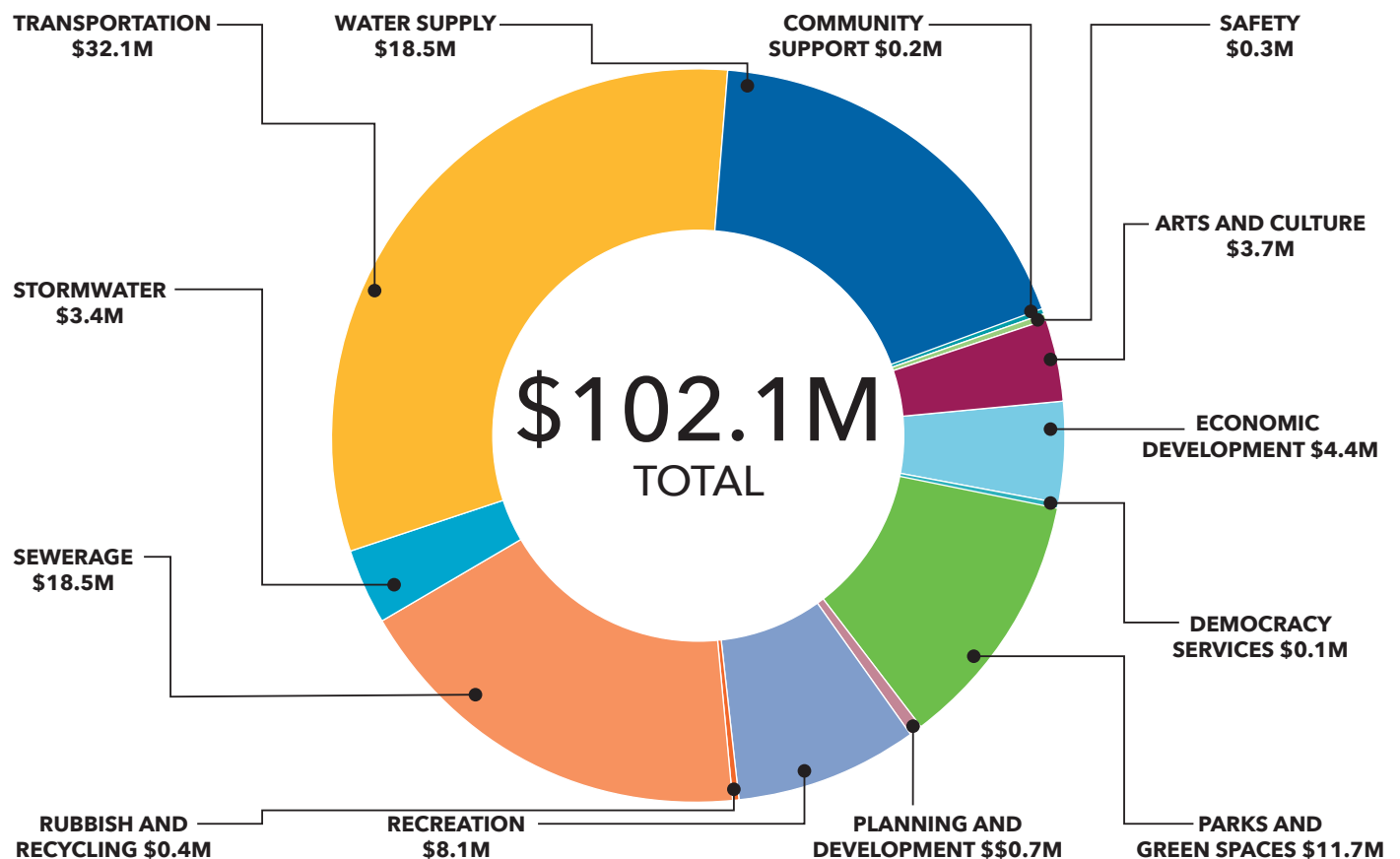
Debt-to-revenue ratio



2017/18 OPERATING EXPENDITURE



2017/18 CAPITAL EXPENDITURE



John Armstrong

OUR COMMUNITY OUTCOMES

Our strong population growth shows more and more people are recognising our city as a great place to live, work, play and visit. We are embracing this growth and the opportunities it brings and are working to deliver the best outcomes for our communities.

Hamilton's success is reflected in its growing population as more people are attracted by the lifestyle and economic opportunities on offer in our great river city.

Hamilton is already home to around 165,000 people and the city's population is expected to reach more than 187,600 in another ten years. This is both exciting and challenging for the community and for us.

The Hamilton Plan represented our Community Outcomes in the 2015-25 10-Year Plan and the vision for Hamilton's future in that plan. The ten priorities were about building a stronger economy and a more attractive city for families and talked about where we wanted to be in the future. These are listed below:

HAMILTON PLAN PRIORITIES (2015-2017):

- Our books are balanced
- The third city economy in New Zealand
- Providing outstanding infrastructure
- Strongly connected to the river
- Best garden in the world
- An active, strong commercial central city with distinctive suburban villages
- An urban garden
- Access to affordable housing
- Celebrated for our arts and culture
- Waikato is the capital of high performance sport

REVIEWING OUR COMMUNITY OUTCOMES

All our activities last year contributed to the Hamilton Plan priorities in various ways. In October 2017, the Council approved a revised set of Community Outcomes as part of agreeing the strategic direction of the 2018-28 10-Year Plan. The new outcomes are:

COMMUNITY OUTCOMES (2017/2018)

A great river city –

Our city embraces its natural environment and has green spaces, features and community facilities that make it a great place to live, work, play and visit.

A city that embraces growth –

Our city has infrastructure that meets our current demands, supports growth and helps build a strong economy.

A council that is best in business –

Our council is customer focussed, financially sustainable and has the best people delivering the best outcomes for the city.

As the new Community Outcomes were agreed in the first half of the 2017/18 year, our Annual Report shows not only how our activities contributed to the Hamilton Plan priorities, but also how they give effect to our new Community Outcomes.

DELIVERING FOR OUR COMMUNITY IN 2017/18

We have delivered many projects and initiatives in 2017/18 that have contributed towards achieving the Hamilton Plan priorities and our Community Outcomes. Several of these have been delivered in partnership with the community and stakeholders and their success is evidence of the value of partnerships.

POSITIVE PARTNERSHIPS

There are many ways we work with our partners, sometimes this involves funding arrangements and support but not always.



An Age Friendly City

In May 2018 Hamilton became the first city in New Zealand and the 600th city in the world to join the World Health Organisation's Age Friendly Global Network. This involves commitment from a range of organisations and stakeholders across the city to make Hamilton more age-friendly by 2021.



Supporting arts and culture

The partnership with Momentum on the Waikato Regional Theatre has continued to take shape and build strength, with the Council confirming its financial commitment to the project in the 2018-28 10-Year Plan.



Indoor recreation

The Peak indoor recreation centre in Rototuna opened in September 2017 and has been a very successful collaboration with the Ministry of Education and Rototuna Junior and Senior High Schools. We contributed \$4.5M in 2017/18 to the build and fund an annual operating grant of \$120,000.



Major events

FMG Stadium Waikato hosted the HSBC NZ Rugby Sevens in February 2018 in partnership with 37 South, the Council and NZ Rugby. This event was a big success for Hamilton and sold out with 47,000 people attending over both days- reinforcing the city's reputation as a 'can do' city when it comes to major events.



Housing Infrastructure Fund

We were successful in our bid to receive funding from the Government's Housing Infrastructure Fund (HIF)- a 10-year interest free fund available to high growth councils to progress infrastructure required for new housing developments. In securing HIF funding we have been able to access more than \$290M. This includes \$110M of NZ Transport Agency subsidies for the development of the Peacocke suburb in the south of the city and represents a significant win in terms of funding support and reduces pressure on existing ratepayers to fund this necessary development.

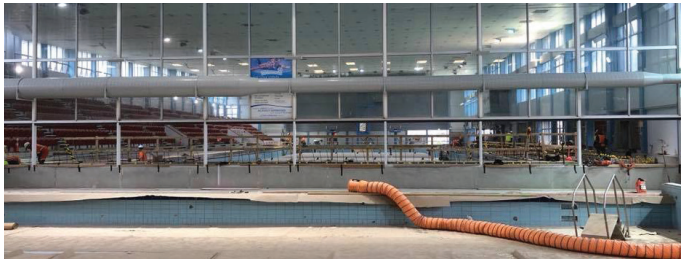


Special Housing Areas

More housing is also being supported by the Special Housing Areas (SHAs) initiative that allows the rezoning of land for residential development to be fast tracked. Since the first call for expressions of interest in SHAs in September 2017, five proposals have been approved for submission to the Government for review. The proposals represent 2,695 more potential homes in Hamilton.

ENHANCING COMMUNITY SPACES

There was a good level of activity focused on enhancing our community infrastructure last year with \$21.3M spent on capital projects for parks, recreation and visitor attractions.



Taking care of what we've got

Key infrastructure projects included a seismic upgrade of the Central Library in Garden Place which then reopened in July 2018 to welcome over 2,500 people on re-opening day and 8,000 visitors in the first week alone.

A major refurbishment of the Waterworld complex also got underway with \$6.6M invested in 2017/18.



Victoria on the River

Victoria on the River park opened in January 2018 and is a fantastic example of how we can enhance our city's connection to the river and encourage activity in our central city spaces as we grow. This amphitheatre-style park has proven popular with residents and is a finalist for a New Zealand Institute of Architects Award. Victoria on the River – VOTR, for short – is also one of the central city locations set to host events and activities through an agreement between the Council and the Central Business Association.



Hamilton Gardens

\$2.7M was spent on the Hamilton Gardens development programme and physical works for five gardens are now complete and will be opening shortly once the plants have grown enough. The jetty was upgraded to improve access and safety, while a new Changing Places accessible bathroom was constructed next to the popular Destination Playground.



Playgrounds of the Future

We continue to invest in making Hamilton a great place for families by delivering the Playgrounds of the Future Plan. Last year a new neighbourhood playground was opened in Te Huia in the northeast of the city as well as a new Destination Playground in Hare Puke Park in Rototuna that is proving very popular.



Parks and green spaces

In 2017/18 we increased the area of public green space in the city by more than 4ha to 1,157ha and increased the number of street trees by 420. More than 50,122 native plants were planted in natural areas by 2,800 volunteers committing over 7,800 volunteer hours. This includes 18,000 that were planted by 1,600 volunteers at Waiwhakareke Natural Heritage Park on Arbour Day.

RIGHT INFRASTRUCTURE AT THE RIGHT TIME

It is important that we not only look after what we have and ensure that infrastructure is fit for purpose for our community, but that we also plan carefully so future infrastructure is in place for when it will be needed.



Transport infrastructure

Last year we spent \$31.3M on transport projects. This included \$8.3M for roading upgrades and development in growth areas as well as \$9.7M on looking after existing roads, including road resurfacing and replacing worn out footpaths.

A key project was the completion of the new Cobham Dr underpass in October 2017. The NZ Transport Agency project provides walkers and cyclists a more convenient and safe link between Hamilton East and Hamilton Gardens and to the city centre.



Intelligent infrastructure

As part of the Smart Hamilton programme we are looking at how we can be more efficient in running our growing city. One of the ways we have been doing this is through the installation of 7,500 more efficient and lower maintenance LED bulbs in residential streets last year. This project will deliver estimated annual cost savings to the city of \$250,000 through lower maintenance and power consumption.



Water infrastructure

All of Hamilton's graded drinking water is of 'Aa' standard. This means both our water treatment and distribution have consistently had one of the highest grades since the system started in the 1960s. We are committed to maintaining this quality. We spent \$39.3M on water, sewerage and stormwater infrastructure in 2017/18 to look after existing assets and in order to meet expected increases in demand.

Several major projects were completed last year including the completion of a dedicated water supply pipeline from the Waiora Water Treatment Plant to the Hamilton South Reservoir and the construction of the new Rototuna Reservoir – the largest in the city.

SERVICE PERFORMANCE SUMMARY

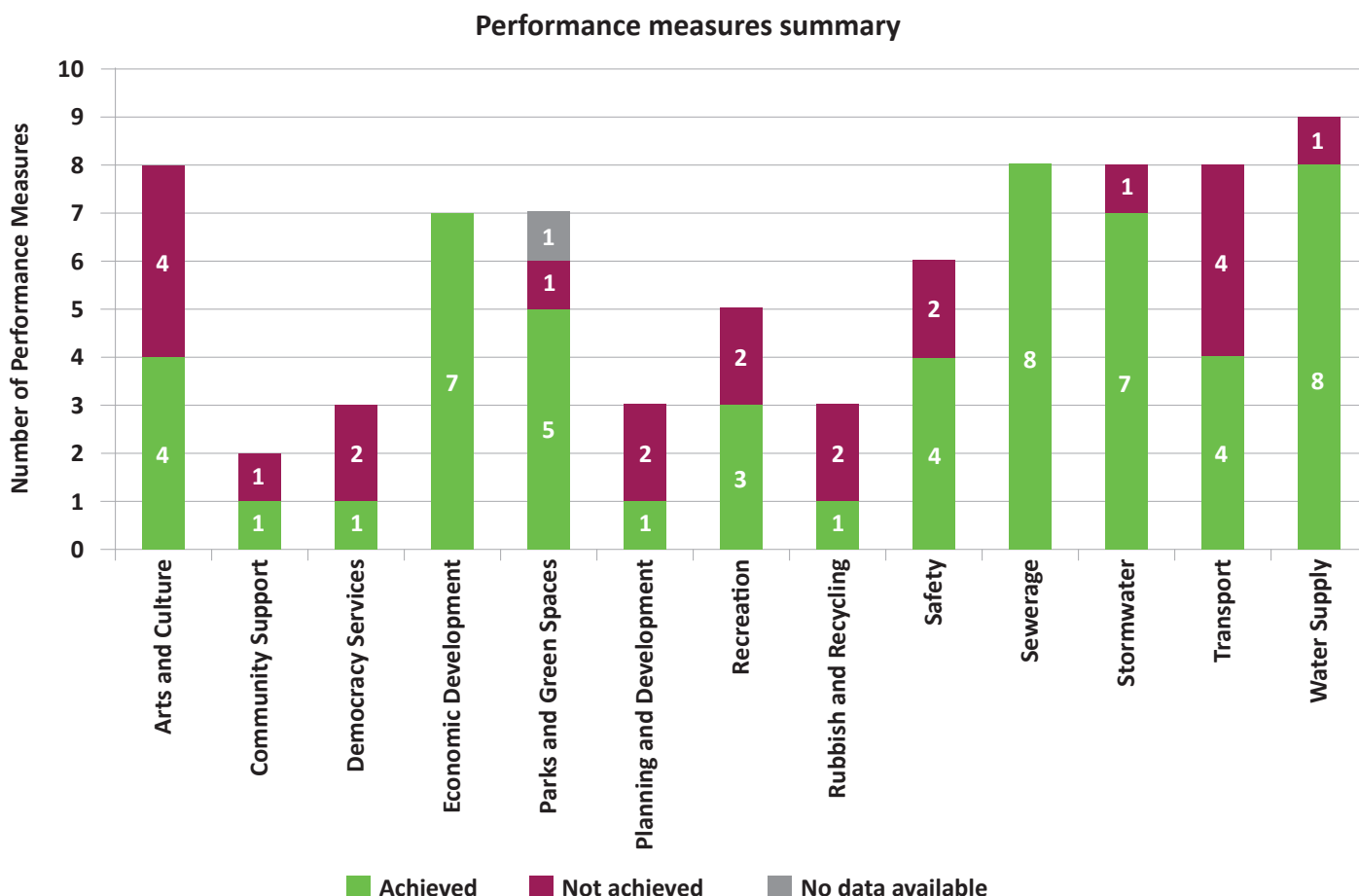
Our 2015-25 10-Year Plan divided the business into 13 activity groups based on the services they provide. Each group has performance measures that show how well we are delivering our services to the community.

The performance measures and targets shown here are from Year 3 (2017/18) of our 2015-25 10-Year Plan, which you can find on our website or through this link: hamilton.govt.nz/former-10-year-plans

Of the 77 measures that we use to track performance, the summary graph below shows that:

- we have met the targets for 54 measures
- we have not met the targets for 22 measures
- no data is available for the hours of play provided on sportsfields in winter due to data issues.

The full Annual Report provides more detail for each of these activity groups including an overview of the year that has been and a description of what sits behind the results.



SUMMARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Council			Group	
		Actual 2018	Budget 2018	Actual 2017	Actual 2018	Actual 2017
		\$000	\$000	\$000	\$000	\$000
FINANCIAL PERFORMANCE TO 30 JUNE						
Rates revenue		161,356	160,765	153,696	161,320	153,593
Other revenue	1	138,629	75,172	102,483	147,305	113,373
Total revenue		299,985	235,937	256,179	308,625	266,966
Personnel costs		74,993	73,884	70,672	77,410	73,119
Depreciation and amortisation	2	65,567	63,870	61,306	66,776	62,515
Finance costs		20,006	21,819	20,114	20,627	21,381
Other expenses	3	74,486	67,783	70,816	78,639	75,205
Total expenditure		235,052	227,356	222,908	243,452	232,220
Operating Surplus/(deficit)		64,933	8,581	33,271	65,173	34,746
Net gain/(loss)		(4,705)	-	18,614	(4,166)	19,109
Share of associates' surplus/(deficit)		-	-	-	1,433	1,887
Net surplus/(deficit) before tax		60,228	8,581	51,885	62,440	55,742
Income tax expense		-	-	-	(217)	(520)
Net surplus/(deficit) after tax		60,228	8,581	51,885	62,223	55,222
Other comprehensive revenue and expense						
Financial assets at fair value through other comprehensive revenue and expense		845	-	2,646	845	2,646
Gain on property, plant and equipment revaluations	4	1,114	52,857	276,554	1,114	283,482
Impairment of revalued property, plant and equipment		(2,545)	-	-	(2,545)	-
Other revaluation reserve movements		(612)	-	-	(92)	-
Total comprehensive revenue and expense		59,030	61,438	331,085	61,545	341,350
<i>Total comprehensive revenue and expense attributable to:</i>						
Hamilton City Council		59,030	61,438	331,085	61,420	341,210
Non-controlling interest		-	-	-	125	140
CHANGES IN EQUITY TO 30 JUNE						
Equity at the beginning of the year		3,530,060	3,179,121	3,198,975	3,580,191	3,238,841
Total comprehensive revenue and expense attributable to Hamilton City Council		59,030	61,438	331,085	61,420	341,210
Total comprehensive revenue and expense attributable to non-controlling interest		-	-	-	125	140
Non controlling interest de-recognition		-	-	-	(3,547)	-
Pre-completion dividend		-	-	-	608	-
Issue of NZFIW shares		-	-	-	1,200	-
Equity at the end of the year		3,589,090	3,240,559	3,530,060	3,639,997	3,580,191
FINANCIAL POSITION AS AT 30 JUNE						
Current assets		123,245	55,856	124,767	133,466	130,963
Non-current assets		3,976,766	3,690,014	3,921,923	4,026,547	3,993,729
Total assets		4,100,011	3,745,870	4,046,690	4,160,013	4,124,692
Current liabilities		127,986	98,545	153,412	129,695	154,914
Non-current liabilities		382,935	406,766	363,218	390,841	389,587
Accumulated funds		1,756,116	1,639,564	1,689,174	1,776,282	1,710,992
Reserves		1,832,974	1,600,995	1,840,886	1,859,842	1,867,259
Non-controlling interest		-	-	-	3,353	1,940
Total equity and liabilities		4,100,011	3,745,870	4,046,690	4,160,013	4,124,692
CASH FLOWS TO 30 JUNE						
Opening cash and cash equivalents balance at 1 July		27,121	45,000	6,964	28,021	9,080
Net cash inflows/(outflows) from operating activities		90,350	64,527	70,578	90,065	72,051
Net cash inflows/(outflows) from investing activities		(54,546)	(89,884)	(115,520)	(50,921)	(116,353)
Net cash inflows/(outflows) from financing activities		(14,511)	15,357	65,099	(18,258)	63,243
Closing cash and cash equivalents balance at 30 June		48,414	35,000	27,121	48,907	28,021



Notes

1. Other revenue has exceeded budget by \$38.5m. This is due to development contributions and vested assets both of which are related to high growth in the city, and revenue for unbudgeted state highway contributions for the Ring Road.
2. Depreciation and amortisation was \$1.7m above budget due to an increase in the revaluation of operational property assets.
3. Other expenses were higher than budget by \$6.7m due to an increase in professional fees, particularly for legal services, increase in provisions for closed landfills, weathertight homes and organisational realignment, increase in maintenance costs across the organisation, and grants paid to Waikato Regional Theatre Trust and Clarence Street Theatre Trust.
4. The net gain on revaluations is due to asset classes being budgeted to be revalued but were not revalued in the 2017/18 financial year.

Accounting policies

Hamilton City Council is a territorial authority governed by the Local Government Act 2002.

The group consists of the ultimate parent, Council, and its subsidiaries, Vibrant Hamilton Trust (100% controlled) and Waikato Innovation Growth Ltd (100% owned). The associate, Waikato Regional Airport Ltd is equity accounted.

The summary financial statements of the Council and Group are for the year ended 30 June 2018.

Council has designated itself and the Group as a public benefit entity as defined under the PBE International Public Sector Accounting Standards (PBE IPSAS).

The full financial statements have been prepared in accordance with Tier 1 PBE accounting statements and generally accepted accounting practice in New Zealand (NZ GAAP). The full financial statements make an explicit and unreserved statement of compliance with PBE Standards for each period presented in this summary annual report.

Council's summary annual report complies with PBE Financial Reporting Standards 43 (FRS43) Summary Financial Statements.

All amounts are shown in New Zealand dollars and are rounded to the nearest thousand dollars (\$000).

Capital commitments, contingent assets and contingent liabilities

Council has capital contract commitments of \$71.9m (2017 \$88.4m).

Council has one contingent asset, it is a 63% capital beneficiary of the WEL Energy Trust. Given the uncertainty surrounding the life of the Trust, Council is unable to accurately establish the appropriate value of its share.

Contingent liabilities, which are dependent on future events, are \$2.9m (2017 \$3.7m).

Council has identified 3 unquantified contingent liabilities. The first in respect to ongoing legal action against Carter Holt Harvey, the second in respect to a limited number of holiday related payments to employees that Council is investigating, and the third for weathertightness claims for non-residential buildings.

Reclassification adjustments for the Council and group

Reclassification adjustments were made to the Statement of Comprehensive Revenue and Expense. These included:

- Gains of \$2.7m (group \$3m) reclassified from other revenue to gains.
- Loss on disposal of property, plant and equipment reclassified from other expenses to losses.

Related parties

During the year Councillors and key management, as part of a normal customer relationship, were involved in minor transactions with Council (such as payment of rates, use of Council facilities, etc).

Subsequent events after balance date

There have been no events after balance date.

Disclaimer

The specific disclosures included in this summary annual report have been extracted from the full annual report and were authorised for issue by the Chief Executive on the 11 October 2018.

These summary financial statements do not include all of the disclosures provided in the full financial statements and can not be expected to provide as complete an understanding as provided by the full annual report.

This summary can not be expected to provide as complete an understanding as provided by the full annual report of the financial and service performance, financial position and cash flows of Hamilton City Council.

The summary has been examined for consistency with the full annual report and was audited by Audit New Zealand on behalf of the Office of the Auditor-General. The full annual report and summary received an unqualified audit opinion on the 11 October 2018.

The full annual report can be obtained from our website hamilton.co.nz or from the Hamilton City Council main office.

Independent Auditor's Report

To the readers of Hamilton City Council and group's summary of the annual report for the year ended 30 June 2018

The summary of the annual report was derived from the annual report of the Hamilton City Council (the City Council) and group for the year ended 30 June 2018.

The summary of the annual report comprises the following summary statements on pages 12 to 14:

- the summary statement of financial position as at 30 June 2018;
- the summaries of the statement of financial performance, statement of changes in equity and statement of cash flows for the year ended 30 June 2018;
- the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary service performance.

Opinion

In our opinion:

- the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the annual report; and
- the summary statements comply with PBE FRS-43: Summary Financial Statements.

Summary of the annual report

The summary of the annual report does not contain all the disclosures required by generally accepted accounting practice in New Zealand. Reading the summary of the annual report and the auditor's report thereon, therefore, is not a substitute for reading the full annual report and the auditor's report thereon.

The full annual report and our audit report thereon

We expressed an unmodified audit opinion on the information we audited in the full annual report for the year ended 30 June 2018 in our auditor's report dated 11 October 2018.

Council's responsibility for the summary of the annual report

The Council is responsible for preparing the summary of the annual report which includes preparing summary statements, in accordance with PBE FRS-43: *Summary Financial Statements*.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary of the annual report represents, fairly and consistently, the information regarding the major matters dealt with in the full annual report and whether the summary statements comply with PBE FRS 43: *Summary Financial Statements*.

Our opinion on the summary of the annual report is based on our procedures, which were carried out in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit of the annual report and our report on the disclosure requirements contained within the City Council's full annual report, we have audited the City Council's 2018-28 long term plan, performed a limited assurance engagement related to the City Council's debenture trust deed, and performed assurance work related to Victoria on the River and Peacocks procurement. Other than in our capacity as auditor, we have no relationship with, or interests in the City Council or its subsidiaries and controlled entities.



Leon Pieterse,
Audit New Zealand
On behalf of the Auditor General
Auckland, New Zealand
11 October 2018

