

CHAPTER ONE

Overview



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Overview of Western Bay of Plenty District Council's performance	15
Report on development of Māori capacity to contribute to decision making 2017/2018	17
Annual report disclosure statement	19
Disclosure statement calculations	24
Audit Report	26

OVERVIEW OF WESTERN BAY OF PLENTY DISTRICT COUNCIL'S PERFORMANCE

FIVE YEAR SUMMARY - FINANCIAL OVERVIEW

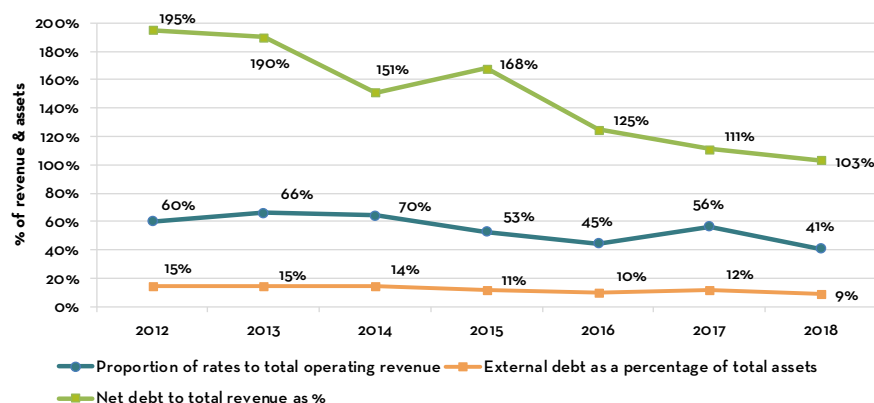
COUNCIL'S FIVE YEAR FINANCIAL PERFORMANCE SUMMARY

	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000
Rate revenue (excluding water by meter)	54,017	55,500	58,416	59,892	60,958
Vested assets revenue	979	720	42,408	3,658	10,965
Financial contributions revenue	4,177	2,607	7,862	10,993	9,506
Total expenditure	78,110	94,619	83,388	80,454	82,682
Total operating revenue	83,889	105,026	131,146	106,247	148,997
Operating surplus/(deficit)	6,124	10,338	47,733	25,587	66,299
Capital expenditure	18,378	15,449	17,142	26,826	38,377
Working capital/(deficit)	(4,425)	(12,104)	(17,068)	(12,663)	(4,054)
Total external debt	156,003	138,000	128,000	150,000	125,000
Net external debt	134,970	125,187	110,819	100,221	98,267
Property, Plant and Equipment	1,102,494	1,200,946	1,239,804	1,248,923	1,374,476
Short term investments	-	-	-	35,000	14,983
Cash on hand	21,033	12,813	17,181	14,779	11,750

COUNCIL'S FIVE YEAR FINANCIAL STATISTICS SUMMARY

	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000
¹ Proportion of rates to revenue	70%	72%	45%	56%	41%
Total external debt as a percentage of total assets	14%	11%	10%	12%	9%
External debt per rateable property (\$'000s)	7.72	6.69	6.19	7.18	5.91
Net external debt per rateable property (\$'000)	6.67	6.07	5.35	4.80	4.65
² Net debt to revenue as a percentage	151%	168%	125%	111%	103%
Total capital value of rating units within the District (\$m)	12,594	14,207	14,820	14,820	19,655
Total land value of rating units within the District (\$m)	7,216	7,828	7,851	7,851	10,783
Rateable properties	20,207	20,621	20,696	20,884	21,144

TREASURY RATIOS



This graph shows that for each rateable property in the District there was \$4,648 of net debt at 30 June 2018 this is a reduction of \$151 per property.

REPORT ON DEVELOPMENT OF MĀORI CAPACITY TO CONTRIBUTE TO DECISION MAKING 2017/2018

ON-GOING PROCESSES

Māori representation arrangements	Tauranga Moana / Te Arawa ki Takutai Partnership Forum	The Tauranga Moana and Te Arawa ki Takutai Partnership Forum have been operating as a single forum since the last Local Government election in 2016. They have undertaken significant work in that time progressing their issues of significance which were outlined in Te Ara Mua (their strategic plan). One of the key outcomes in that work was getting Council to make a decision that it would establish a Māori ward in the next election. This decision was agreed to by nine Councillors, opposed by 3. A poll on that decision was demanded by the community and ultimately Council's decision was overturned, however through the whole process significant strides were made in the relationship Council has with iwi/hapū. Iwi/hapū members of the Partnership Forum continue to advocate issues of significance to them, for example one of the member hapū initiated a review of Council's Reserves and Facilities Bylaw to take account of some of the impacts on their cultural practices caused by activities allowed under that bylaw.
Formal relationship agreements	Mana Whakahono ā Rohe agreements	Mana Whakahono ā Rohe agreements are a new mechanism provided for under recent changes to the Resource Management Act. They provide an opportunity for Council and iwi/hapū to outline how they will deal with each other (primarily in relation to resource management matters). WBOP District Council has adopted a broader approach to these agreements and they will apply across the breadth of Council's business. The Takawaenga Team developed Council's approach to developing a Mana Whakahono ā Rohe agreement which has subsequently been adopted by the Management Team. Work is underway to initiate the development of Council's first Mana Whakahono ā Rohe agreement.
Engagement with Māori communities	Tangata Whenua Consultation Guidelines	The guidelines and protocols are being updated to reflect current relationship approaches that have been taken with regard to Māori engagement including Cultural Monitoring and remuneration for iwi/hapū engagement.
	Consultation Protocols	As above.
	Consideration of Māori Interests - Roading	Status quo.
Building relationships with our Māori communities	Marae Maintenance Fund	The Marae Maintenance Fund has been very successful. Since its inception the fund has been fully utilised each year to deliver a number of maintenance initiatives for Marae across our district. Through the Long Term Plan process, the fund was increased from \$33,000 per annum to \$50,000 per annum.

ON-GOING PROCESSES

<p>Co-management regimes</p>	<ul style="list-style-type: none"> • Papamoa Hills Cultural Heritage Regional Park • TECT All Terrain Park • Panepane Point 	<p>Council is represented on Te Maru o Kaituna (the statutory co-governance established over the Kaituna River).</p> <p>Council will be represented on the Tauranga Moana Harbour co-governance body which has yet to be established.</p> <p>Council is continuing to work towards an agreement that would provide for the transfer of ownership of Panepane/ Purakau to an entity representative of relevant tangata whenua subject to certain principles being agreed including the retention of access to harbour navigational aids and that the land be used for protecting the harbour from erosion.</p> <p>A Panepane project group was established to progress the above resolution. This project group is made up of Council staff and representatives of the five hapū of Matakana and Rangiwaia Islands. Work on this matter is ongoing and will ultimately involve a formal community consultation process.</p>
<p>SmartGrowth</p>	<p>Combined Tangata Whenua (CTWF)</p>	<p>The Māori Relationships and Engagement Advisor provides support to the SmartGrowth Combined Tangata Whenua Forum, through attendance at meetings and advocating within Council relevant issues raised by the Forum.</p> <p>The Māori Relationships and Engagement Advisor together with colleagues from Tauranga City Council (TCC) and Bay of Plenty Regional Council (BOPRC) meets with CTWF members that are on the SmartGrowth Leadership Group to provide support to those members where needed.</p>
<p>Policy Development</p>	<p>Input to reviews of policies and strategies through Māori Forum workshops.</p>	<p>Te Ara Mua has identified opportunities for policy development in line with the scope of the Partnership Forums' responsibilities.</p> <p>Council is progressing a review of the communities strategy, which will include how Council deals with iwi/hapū who request Council assistance with the provision of Urupā.</p> <p>A review of Council's Reserves and Facilities Bylaw, in particular horse riding activity that is permitted under the bylaw, was initiated following a request from iwi/hapū through Council's Partnership Forum.</p>
<p>Strategic Planning</p>	<p>Hapū and Iwi management plans</p>	<p>A QMS process has been developed by Council regarding the process for supporting the development of iwi and hapū management plans.</p> <p>Ngati Whakaue ki Maketu is in the process of developing their management plan.</p> <p>It is likely in the future that the development of these plans will coincide with the development of Mana Whakahono ā Rohe agreements.</p>

ANNUAL REPORT DISCLOSURE STATEMENT

ANNUAL REPORT DISCLOSURE STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

What is the purpose of this statement

The purpose of this statement is to disclose the Council's financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its annual report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

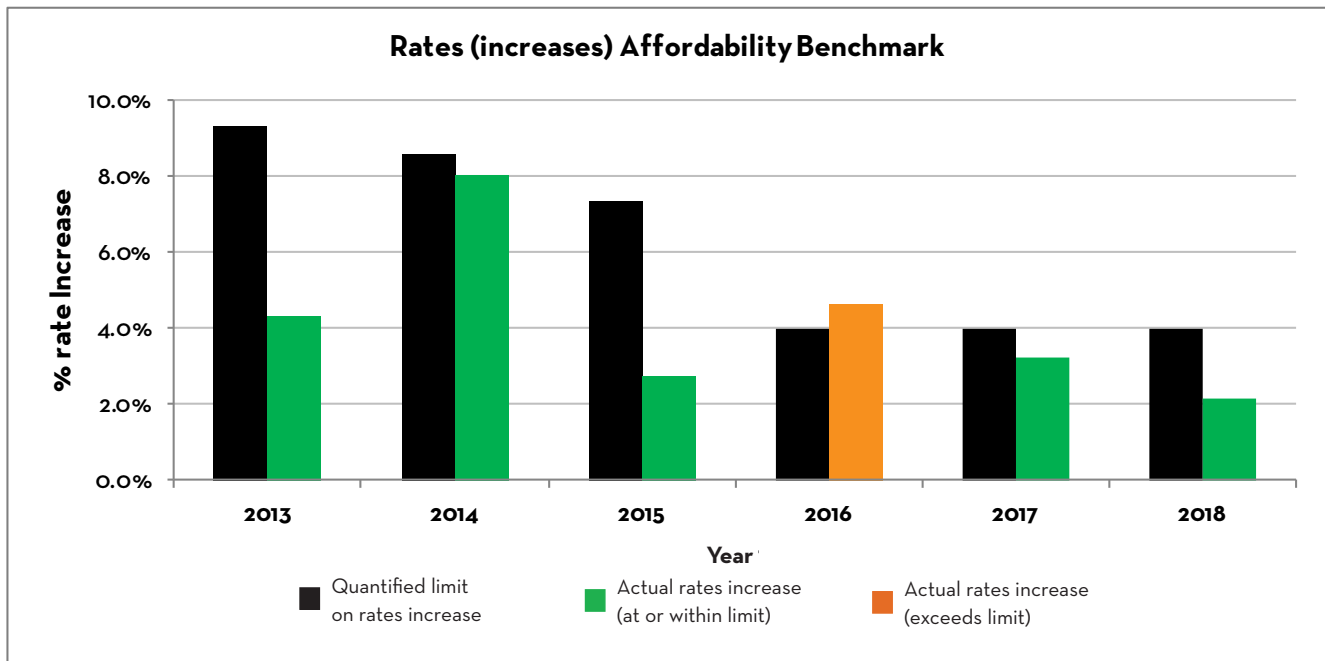
Page 25 provides a breakdown of how these benchmarks were calculated for 2017 and 2018.

Rates Affordability Benchmark

The Council meets the rates affordability benchmark if:

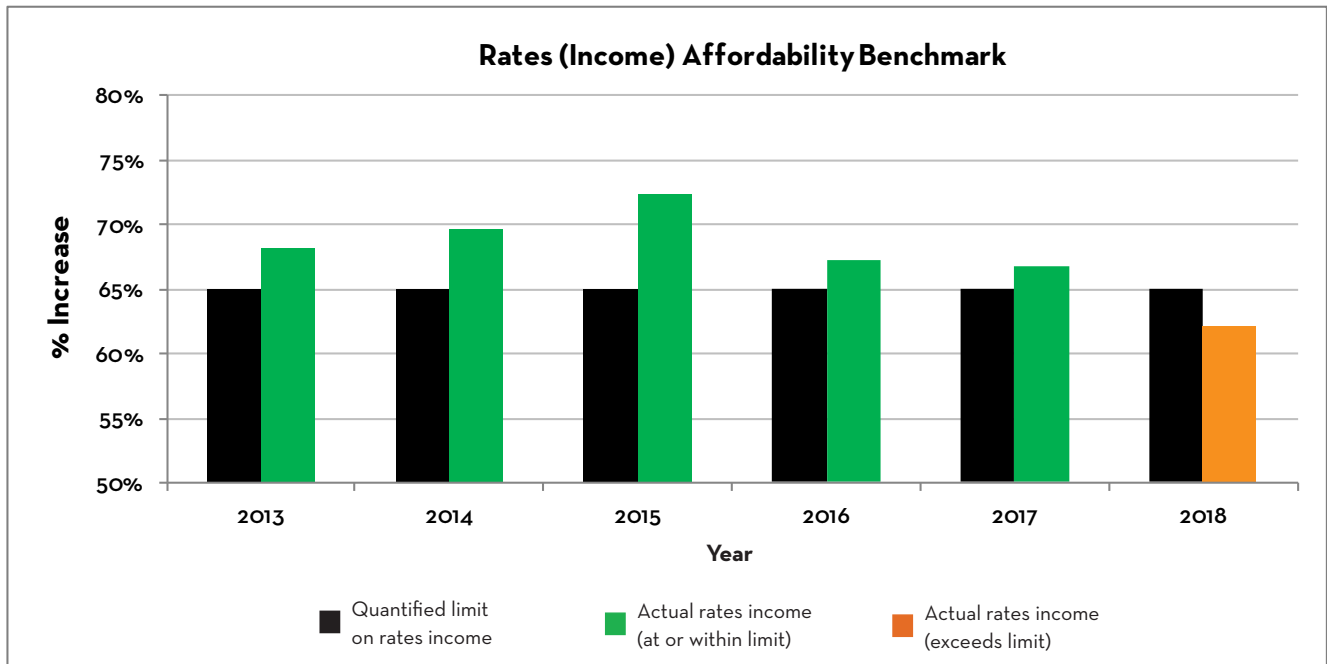
- its actual rates income equals or is less than each quantified limit on rates; and
- its actual rates increases equal or are less than each quantified limit on rates increases.

The following graph compares the Council's actual rates income with a quantified limit on rates contained in the financial strategy included in the Council's long-term plan. The quantified limit for 2018 is 4%.



Rates (Income) Affordability Benchmark

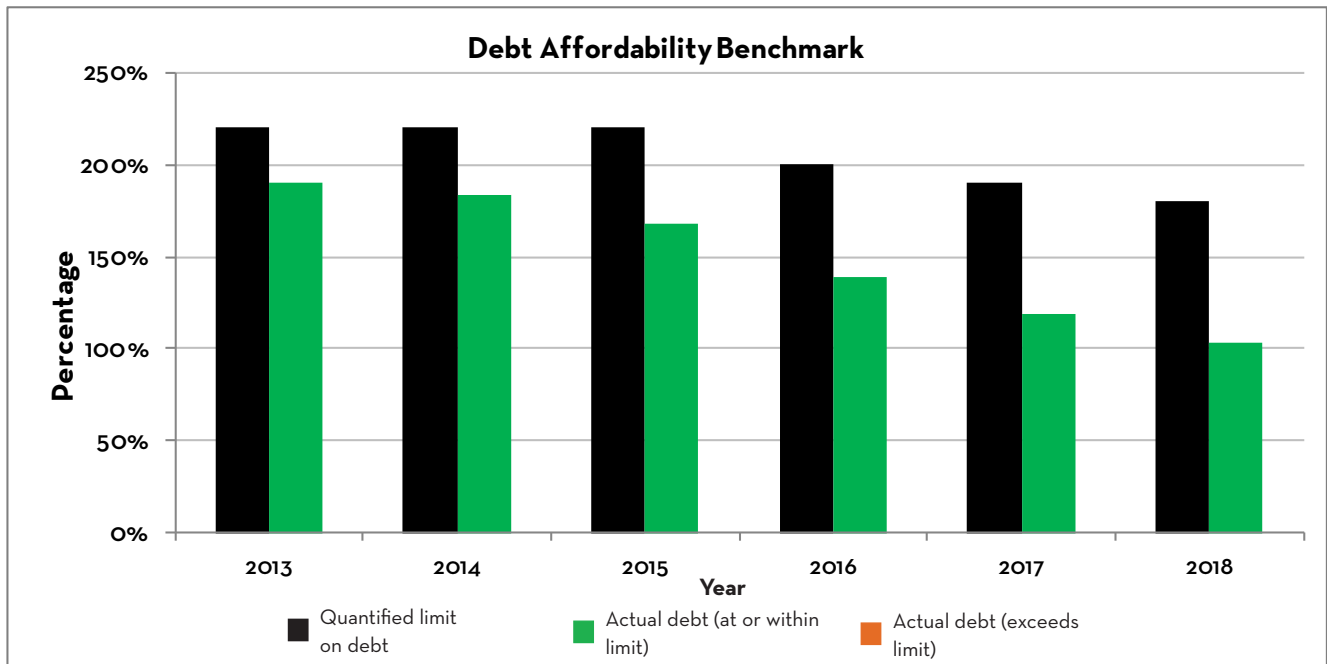
The following graph compares the council’s actual rates income with a quantified limit on rates contained in the financial strategy included in the Council’s long-term plan. The quantified limit is that rates will be at least 62% of revenue. Revenue is defined as total revenue as per the Statement of Comprehensive Revenue and Expenditure less Financial Contributions, Gains and Vested Assets.



Debt Affordability Benchmark

The Council meets the debt affordability benchmark if its actual borrowing is within each quantified limit on borrowing.

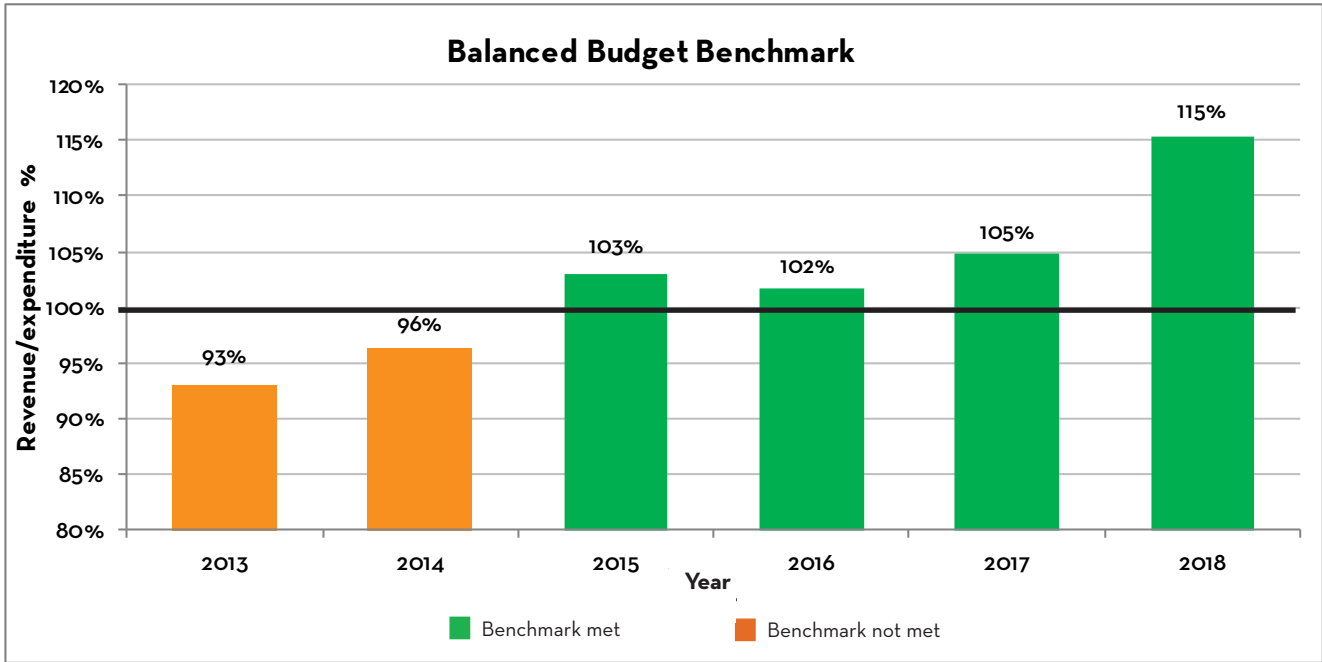
The following graph compares the Council’s actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the Council’s long-term plan. The quantified limit is that debt will not exceed 180% of revenue in 2018, reduced from 190% in 2017 and 200% in previous years.



Balanced budget benchmark

The following graph displays the Council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

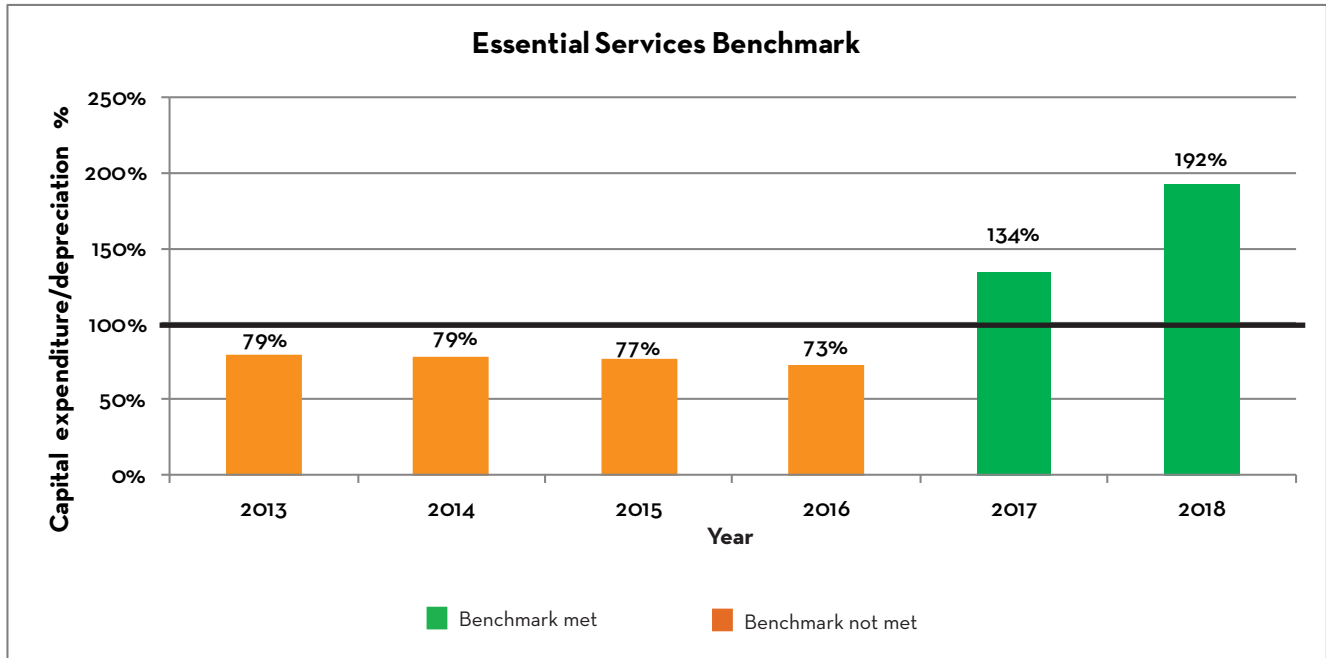
The Council meets this benchmark if its revenue equals or is greater than its operating expenses.



Essential services benchmark

The following graph displays the Council's capital expenditure on network services as a proportion of depreciation on network services.

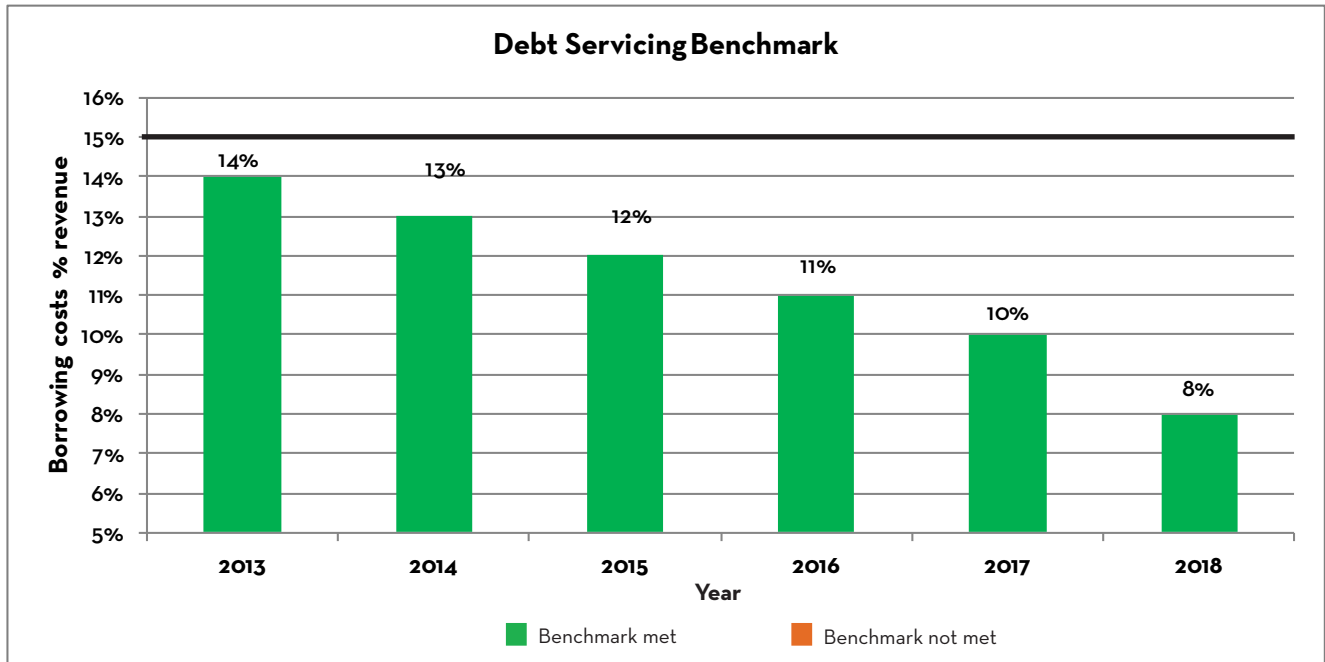
The Council meets this benchmark if its capital expenditure on network services (being; transportation, water, wastewater and Stormwater) equals or is greater than depreciation on network services.



Debt servicing benchmark

The following graph displays the Council's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

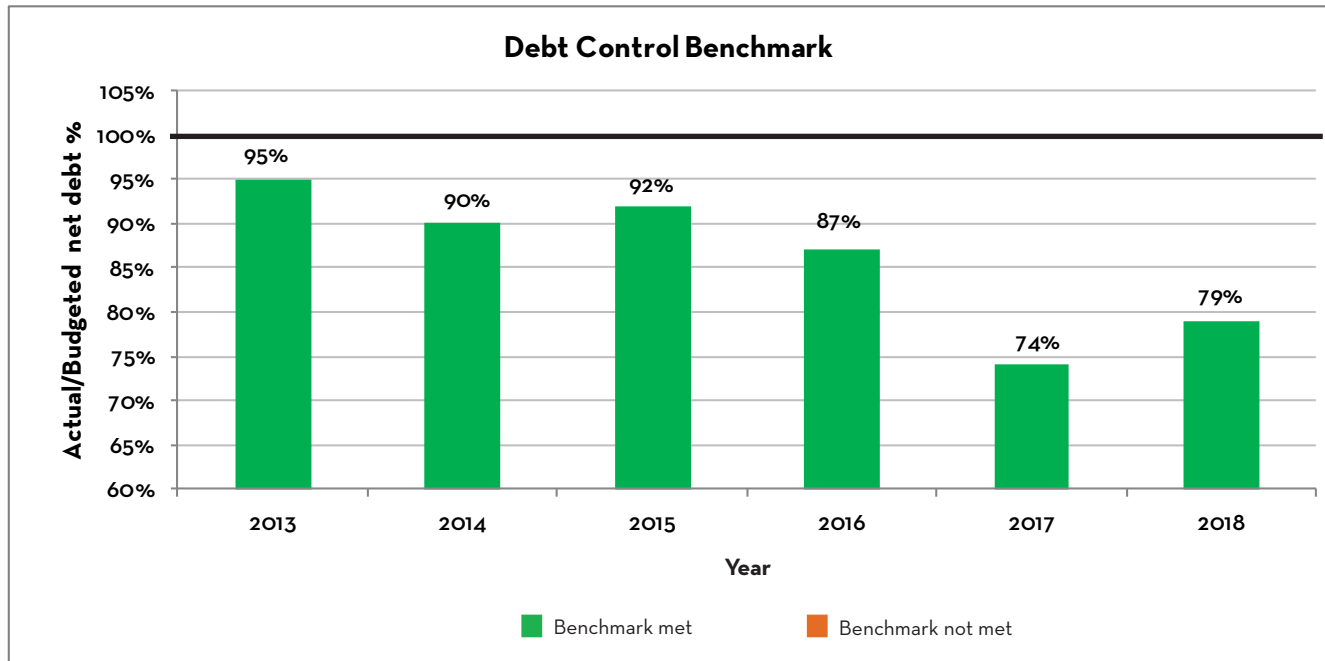
Because Statistics New Zealand projects the council's population will grow faster than, the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 15% of its revenue.



Debt control benchmark

The following graph displays the Council's actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables).

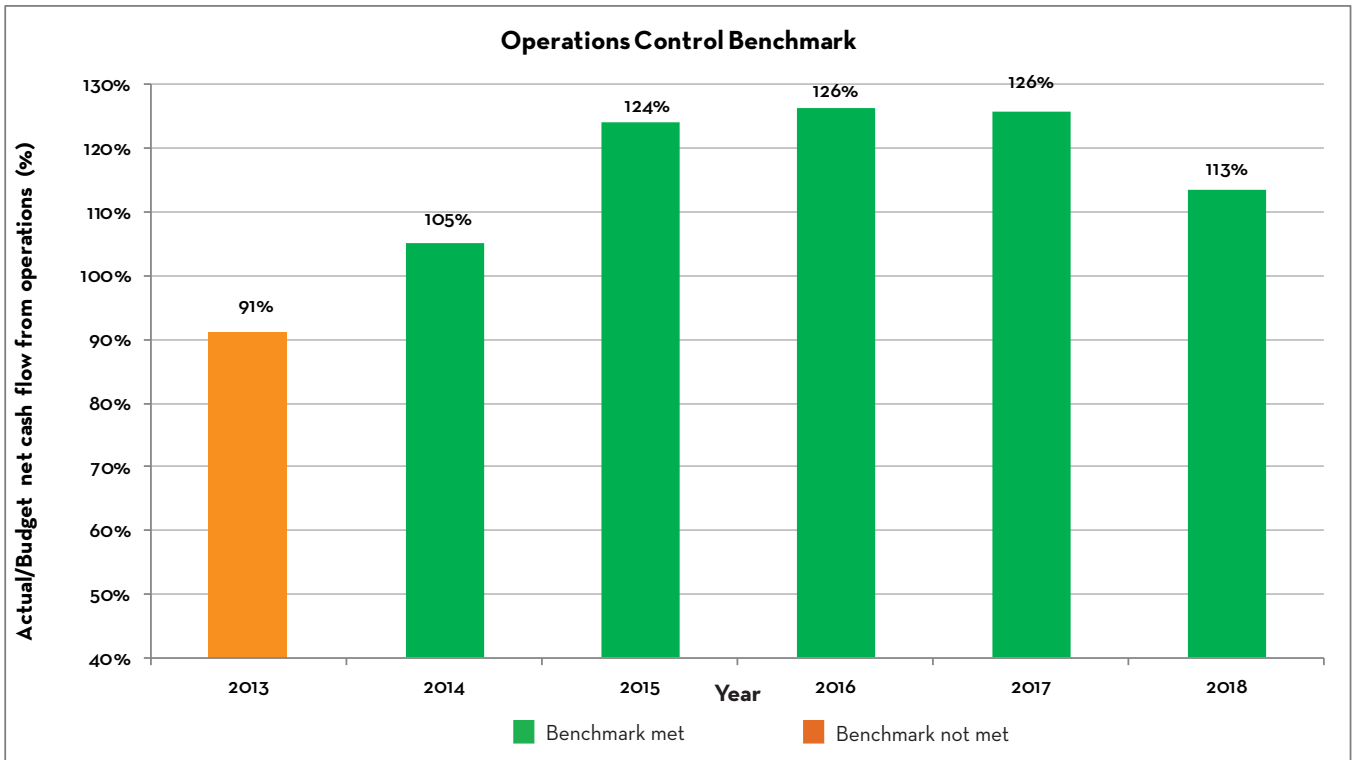
The Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt.



Operations control benchmark

This graph displays the Council's actual net cash flow from operations as a proportion of its planned net cash flow from operations.

The Council meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations.



Additional information

Increased properties in the District has contributed to a 2.2% increase in rates income over the 2017 financial year. Rating penalties have been removed from the calculations as these are the result of non-payment of rates rather than an actual charge made up front.

The rates (income) affordability benchmark was not met in 2018. To meet this benchmark, rates income has to be at least 65% of revenue (less financial contributions, gains and vested assets). Due to additional unbudgeted revenue of \$4m for transportation and cycleway projects, rates income equated to 62% of revenue. Without this additional income this benchmark would have been met.

The balanced budget benchmark was not met in 2013 or 2014. This is due to the exclusion of financial contribution revenue from the benchmark. Had this income been included Council would have complied with the benchmark in all years.

The essential services benchmark was not met in 2013, 2014, 2015 and 2016. This was due to the completion of large scale infrastructure works in previous years, with the majority of works undertaken being renewals. In addition some growth related capital works were deferred as they were not required.

The operations control benchmark was not met in 2013. This is due to higher pavement maintenance costs than what was budgeted for.

DISCLOSURE STATEMENT CALCULATIONS

	ACTUAL \$'000	ACTUAL \$'000
	2017	2018
Rates income	63,657	65,044
Penalty rates	(1,272)	(1,309)
Rates income excluding penalties	62,385	63,735
Rates affordability benchmark	3.2%	2.2%
Rates income	63,657	65,044
Total revenue	106,247	148,997
less - vested assets	(3,658)	(10,965)
less - unrealised income	(5,777)	(293)
less - gains	(1,542)	(33,055)
Revenue for benchmark	95,270	104,684
Rates income affordability benchmark	67%	62%
Total revenue	106,247	148,997
Less financial contributions	(10,993)	(9,506)
Less gains	(1,542)	(33,055)
Less vested assets	(3,658)	(10,965)
Less - unrealised income	(5,777)	(293)
Revised revenue	84,277	95,178
Total external debt	150,000	125,000
Less short term Investments	(35,000)	(14,983)
Less cash	(14,779)	(11,750)
Net borrowings	100,221	98,267
Debt affordability benchmark	119%	103%
Total revenue	106,247	148,997
Less - financial contributions	(10,993)	(9,506)
Less - vested assets	(3,658)	(10,965)
Less - revaluation adjustments	(1,542)	(33,055)
Less - unrealised income	(5,777)	(293)
Revenue for benchmark	84,277	95,178
Total expenditure	80,454	82,682
Less - revaluation adjustments	-	-
Less - unrealised interest/derivative loss	-	-
Expenditure for benchmark	80,454	82,682
Balanced budget benchmark	105%	115%
Capital expenditure		
Roading	13,970	16,718
Water	4,982	5,492
Wastewater	1,258	6,097
Stormwater	1,244	2,572
Total capital expenditure	21,454	30,879

	ACTUAL	ACTUAL
	\$'000	\$'000
	2017	2018
Depreciation expense		
Roading	8,381	8,167
Water	2,929	3,396
Wastewater	3,783	3,160
Stormwater	1,144	1,353
Total depreciation	16,237	16,076
Essential services benchmark	132%	192%
Total revenue	106,247	148,997
Less - financial contributions	(10,993)	(9,506)
Less - vested assets	(3,658)	(10,965)
Less - revaluation adjustments	(1,542)	(33,055)
Less - derivative gains	(5,777)	(293)
Revenue for benchmark	84,277	95,178
Interest expense	8,246	8,210
Debt servicing benchmark	10%	8%
Actual		
Liabilities		
Debt	150,000	125,000
Payables	14,548	17,581
Interest rate swaps	9,655	8,862
Assets		
Cash	(14,779)	(11,750)
Investment	(38,825)	(18,792)
Financial assets	(10,273)	(10,644)
Actual net debt	110,327	110,256
Budget		
Liabilities		
Debt	135,000	125,000
Payables	12,885	11,860
Interest rate swaps	9,946	14,798
Assets		
Cash	(2,895)	(6,218)
Investments	(3,469)	(3,680)
Financial assets	(2,673)	(2,985)
Budget net debt	148,794	138,775
Debt control benchmark	74%	79%
Budgeted cashflow from operations	28,785	33,567
Actual cashflow from operations	36,155	38,059
Operations control benchmark	126%	113%

AUDIT REPORT

Independent Auditor's Report

To the readers of Western Bay of Plenty District Council's annual report for the year ended 30 June 2018

The Auditor-General is the auditor of Western Bay of Plenty District Council (the District Council). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to report on the information in the District Council's annual report that we are required to audit under the Local Government Act 2002 (the Act). We refer to this information as "the audited information" in our report.

We are also required to report on:

- whether the District Council has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the District Council's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

We refer to this information as "the disclosure requirements" in our report.

We completed our work on 20 September 2018. This is the date on which we give our report.

Opinion on the audited information

In our opinion:

- the financial statements on pages 127 to 150 and pages 152 to 193:
 - present fairly, in all material respects:
 - the District Council's financial position as at 30 June 2018;
 - 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 in accordance with Public Benefit Entity Reporting Standards;
- the funding impact statement on page 194 to 195, 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 District Council's annual plan;
- the Group of Activities on pages 32 to 124:
 - presents fairly, in all material respects, the District Council's levels of service for each group of activities for the year ended 30 June 2018, including:

AUDIT REPORT

- 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; and
- the statement about capital expenditure for each group of activities on pages 196 to 208, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the District Council’s annual plan; and
- the funding impact statement for each group of activities on pages 196 to 208, 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 District Council’s Long-term plan.

Report on the disclosure requirements

We report that the District Council has:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence Regulations 2014) on pages 19 to 25, which represent a complete list of required disclosures and accurately reflects the information drawn from the District Council’s audited information and, where applicable, the District Council’s long-term plan and annual plans.

Basis for our opinion on the audited information

We carried out our audit 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. We describe our responsibilities under those standards further in the “Responsibilities of the auditor for the audited information” section of this report.

We have fulfilled our responsibilities in accordance with the Auditor-General’s Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the audited information.

Responsibilities of the Council for the audited information

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.

AUDIT REPORT

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information we audit that is free from material misstatement, whether due to fraud or error.

In preparing the information we audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the District Council or there is no realistic alternative but to do so.

Responsibilities of the auditor for the audited information

Our objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, our procedures were limited to checking that the budget information agreed to the District Council's annual plan.

We did not evaluate the security and controls over the electronic publication of the audited information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We determine the appropriateness of the reported intended levels of service in the Group of Activities, as a reasonable basis for assessing the levels of service achieved and reported by the District Council.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the District

AUDIT REPORT

Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the District Council to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included on pages 1 to 18 and 209 to 214, but does not include the audited information and the disclosure requirements.

Our opinion on the audited information and our report on the disclosure requirements do not cover the other information.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or our knowledge obtained during our work, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit and our report on the disclosure requirements, we have carried out engagements in the areas of the long term plan, debenture trust deed and assurance engagement in relation to grant funding received from the New Zealand Community Trust, which are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the District Council or its subsidiaries and controlled entities.



Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand