



the year in review

CONTENTS

About the Annual Report.....	2
Council's Focus in 2010/11.....	2
Operating in Difficult Economic Times.....	2
Changes to Council's Governance and Management.....	3
Summary of Financial Performance.....	3
Service Delivery Performance.....	6
Residents' Satisfaction with Council.....	6
Update on Key Projects.....	7
Looking Ahead - Future Priorities.....	11
Summary Financial Statements.....	13
Audit New Zealand's Opinion.....	15

Message from the Mayor and Chief Executive

We are pleased to present this Annual Report, which looks at Hamilton City Council's performance and achievements during 2010/11. Despite New Zealand's slow economic recovery and a reduction in Council's income from new rating growth and development fees, Council's total funding surplus from general rates (after rates funded carryovers of \$4.450 million) was \$626,000 in 2010/11.

Council has made progress on a number of projects that were planned for 2010/11, as part of Council's 2009-19 LTCCP. These include:

- The completion of the new 5,000 capacity indoor arena and the new 1,200 delegate conference facilities at Claudelands,
- Continued development of the city's roading network to ease traffic flow, including the Ring Road, the Waikato Expressway Development and the Te Rapa Bypass,
- Progressing the District Plan review, with a number of workshops held on topics that provide a basis for the new plan,
- Completion of the new hydrotherapy pool at Waterworld,
- Use of the Events Sponsorship Fund to support events including the 2011 ITM400 Hamilton V8 Street car race, the World Rowing Championships at Lake Karapiro, Balloons over Waikato, and the Hamilton Gardens Summer Festival.

The focus in the coming year is to make some tough decisions around Council's long-term financial sustainability. The 2011/12 Annual Plan began this process with cuts to expenditure and projects. Work on Council's 2012-22 Ten-Year Plan started with a review of all Council's services, capital projects and asset portfolio. There are some challenges ahead as the Council considers what services it should provide to the community and how it will fund for the growth of the city. A decision on the Rating System Review will also be made in late 2011, following consultation with the community.

The Annual Report provides an overview of what has been achieved in 2010/11, including both financial performance and how well services and projects have been delivered to the community. This summary document provides a snapshot of the main issues and highlights.



Julie Hardaker
MAYOR



Barry Harris
CHIEF EXECUTIVE

ABOUT THE ANNUAL REPORT

Council's Annual Report is produced at the end of the June financial year. The Annual Report shows how Council has performed against the commitments made in its 10-year Long Term Council Community Plan (LTCCP) and any subsequent Annual Plans. The report covers both financial performance and how well Council has delivered its services to the community.

The 2010/11 Annual Report reports on Year 2 of the 2009-19 LTCCP.

COUNCIL'S FOCUS IN 2010/11

The economic downturn that started in 2008 had a significant impact on the approach taken by Council as it delivered on Year 2 (2010/11) of the 2009-19 LTCCP. The 'proceed with caution' approach adopted by Council for the 2009-19 LTCCP was reflected in the development of the 2010/11 Annual Plan. The plan made provision for additional expenditure in a few areas, however there were savings made by delaying some lower priority renewal projects and trimming various operational budgets in 2010/11.

Council aims to get the balance right between supporting projects, facilities and services, while at the same time making tough decisions so that ratepayers are not burdened unnecessarily. The 2010/11 plan delivered rate savings of \$1.7 million and a 0.99% reduction to the proposed average rates increase from that shown in Year 2 (2010/11) of the 2009-19 LTCCP, from 4.66% to 3.67%.

Despite difficult economic times, it has been important for Council to make progress on key projects that were committed to. In 2010/11, progress made on important projects included:

- The completion of the new indoor arena and conference facilities at Claudelands
- The Service Delivery Review, which provided Council with information to consider ways of delivering services in the most effective and efficient way
- Progression of the District Plan review, with a number of workshops held on topics that provide a basis for the new plan. The new District Plan is due to be notified late in 2012
- Continued development of the roading network, including the City Ring road, the Waikato Expressway Development and the Te Rapa Bypass.

OPERATING IN DIFFICULT ECONOMIC TIMES

The economic downturn is continuing to have a serious impact on Council revenues. In line with general slowing of house and section sales resulting from the recent economic downturn, building consents issued for new houses have also shown an overall pattern of decline throughout 2010/11. This has resulted in Council experiencing a significant reduction in revenue from new rating growth and development contribution fees.

DEVELOPMENT CONTRIBUTION INCOME — FORECAST vs. ACTUAL OR ANTICIPATED REVENUE

JUNE FINANCIAL YEAR	FORECAST FROM 2009-19 LTCCP	ACTUAL OR ANTICIPATED REVENUE
2009/10	\$9.5 million	\$5.7 million
2010/11	\$13.8 million	\$6.4 million
2011/12	\$22.7 million	\$6.6 million

For 2010/11, revenue of \$6.4 million again did not cover the interest charges of \$7.1 million. During 2010/11 Council resolved to transfer \$0.35 million from general rates to the Development Contributions Reserve. The shortfall in interest or in forecast revenue means that the development contributions loans are not being paid off as fast as expected, with the result that higher charges may be needed in future years.

The 2011/12 Annual Plan has now budgeted for \$6.6 million of development contribution income (compared to the \$22.7 million anticipated for 2011/12 in the 2009-19 LTCCP).

The reduction in revenue streams in 2010/11 has been compounded by resource scarcity that has increased the cost of raw materials. This has increased the cost of some projects and services that Council provides, such as roading infrastructure and new buildings. The cost of legislative compliance has also increased, for example changes to water supply standards.

Despite the economic downturn, Hamilton's population is increasing at a steady rate, reaching almost 144,000 at 30 June 2010. Projections indicate that the city will need to accommodate an additional 25,000 people between 2009 and 2019, which in turn will place increased pressure on Council's services and infrastructure.

As part of addressing this increase, Hamilton City Council and Waikato District Council altered their common boundaries, and from 1 July 2011 a number of properties in the Horotiu, Ruakura, and Borman Road area became part of Hamilton. The Hamilton Urban Growth Strategy (HUGS) and Future Proof sub-regional growth strategy will continue to guide and shape the city's development over the next 10 years and beyond.

Council continues to monitor and analyse the environment in which it operates. The ongoing analysis provides useful information on the possible implications that any trends may have for Council. Factors for Council to consider over the next few years include:

- The impact of Local Government reform could potentially see the size of the city grow
- Economic opportunities for Hamilton as a result of the continued growth of Auckland
- The increasing emphasis on protecting the natural environment coming from Central Government will make the delivery of some services more complex and costly

- Balancing the needs of an increasingly ageing population and a large younger population also presents challenges.

CHANGES TO COUNCIL'S GOVERNANCE AND MANAGEMENT

Local authority elections throughout New Zealand were held on Saturday 9 October 2010. Hamilton voters elected a new mayor, Julie Hardaker, and three new councillors, and re-elected nine councillors from the previous Council to the Hamilton City Council.

Council is supported by a corporate organisation, led by a Chief Executive and six General Managers. During 2010/11, the previous Chief Executive, Michael Redman, left the organisation. Blair Bowcott was Acting Chief Executive from October 2010 to April 2011, with Barry Harris starting in the role as Chief Executive on 4 April 2011.

SUMMARY OF FINANCIAL PERFORMANCE

Despite challenging times in 2010/11, Council delivered on the majority of its committed projects and programmes.

For the 2010/11 financial year, Council and its group of entities reported a deficit after tax of \$24,000, compared to the \$13 million budgeted surplus. In comparison, a \$20.9 million deficit was recorded for the 2009/10 financial year.

The deficit of \$24,000 included \$11.6 million losses on various items, including losses on property, plant and equipment (\$5.9m), revaluation losses on investment properties (\$213,000), and fair value losses on internal rate swaps (\$5.5m) and additional unbudgeted depreciation (\$1m). Offsetting these unfavourable variances were finance costs of \$2.9 million less than budgeted due to delay and timing of borrowings required for various capital expenditure and the deferral of some projects. The total funding surplus from general rates after rates funded carryovers of \$4.450 million was \$626,000.

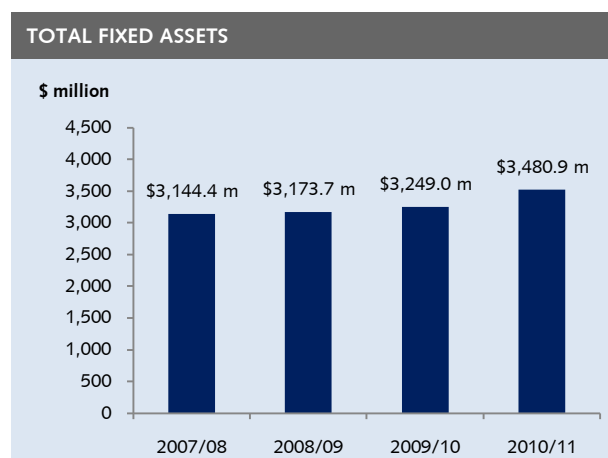
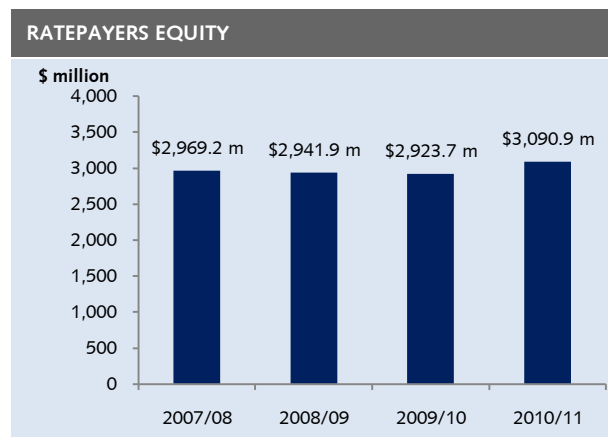
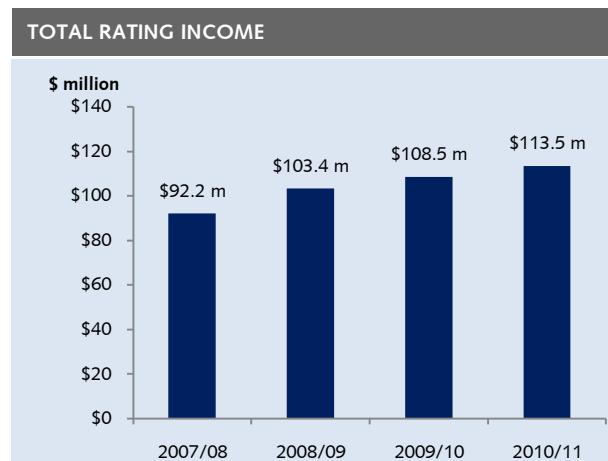
Although Council budgeted to spend \$118.6 million on capital items, the actual spend was \$111.2 million (compared to the actual capital spend in 2009/10 of \$109.1 million). The additional capital spend was funded by way of budget carried over from the previous year.

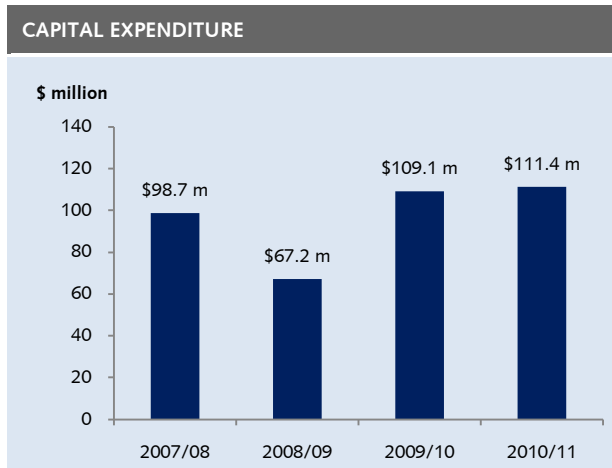
Examples of significant projects undertaken during 2010/11 included work associated with the upgrade to the Sullivan Crescent Housing for Older People complex (\$2.6m), Claudelands Events Centre (\$28m), Ring Road including four laning (\$16.6m), Wairere Drive stage 3 (\$3.7m), Northern Growth Corridor (\$7.5m), Rotokauri wastewater trunkmain (\$8.8m), Pukete Wastewater secondary treatment plant (\$1.9m) and Council's information systems upgrade (\$2.3m).

Rates revenue (after penalties and remissions) of \$113.5 million was an increase of \$5 million over the last year, with \$93 million of other revenue comprising fees and charges, and government subsidies. In comparison, other revenue in 2009/10 was \$70.2 million. The increase in

other revenue was mainly due to additional capital subsidies on roading works and due to a higher value of assets being vested to Council compared to the previous year.

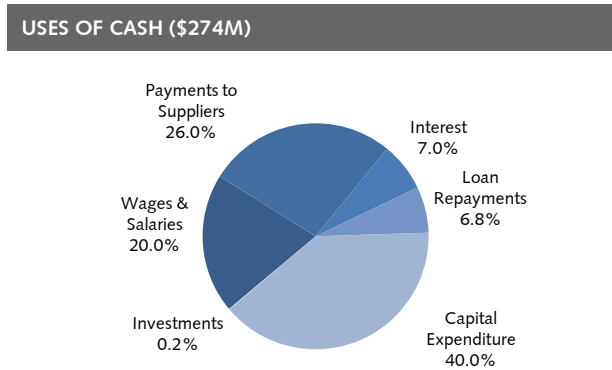
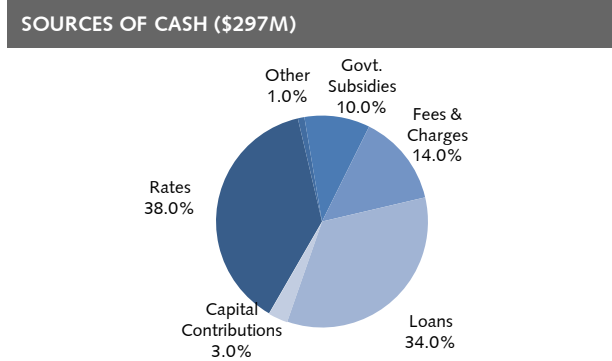
Trend data for the city's rating income, ratepayer's equity, total fixed assets and capital expenditure between 2007/08 and 2010/11 is outlined in the following graphs.





Cash Flow

The sources and uses of cash for the year ended 30 June 2011 is summarised as follows:



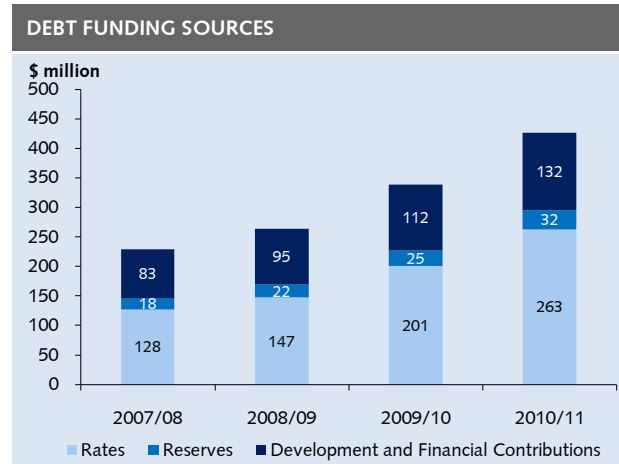
City Debt

Rather than sourcing all of its borrowing externally, Council utilises funds from reserves and working capital cash to reduce external borrowing. Internal interest is charged on these funds, which is then added to the reserves.

Council introduced a policy of development and financial contributions from 1 July 2005, which provides a dedicated funding stream to support urban growth. In line with the introduction of this policy, Council has analysed the overall debt based on sources of funding used to repay the principal and interest costs for subsequent years.

Overall debt (which includes internal borrowing) increased from \$338.5 million in 2009/10 to \$427 million in 2010/11 due to further loan funded capital expenditure. At 30 June 2011, Council had short-term investments of \$31.940 million which partially offsets the overall debt of \$427 million. Interest cost incurred in servicing debt (excluding internal borrowing interest) increased to \$19.7 million (2009/10 \$17.1 million).

The following graph shows the debt levels (including internal borrowing) from 2007/08 to 2010/11 and how it is funded.



Debt Servicing Performance Targets

POLICY LIMITS - COUNCIL DEBT (EXCLUDING DC DEBT)

- Interest on Council debt (excluding interest on Development and Financial Contributions Levy (DCL) debt) shall not exceed 20% of total rating income.**

Interest on Council's debt for the year ended 30 June 2011 was \$12.5m, compared with rating income (inclusive of targeted rates) of \$113.5m.

■ The target has been met at 11%
- Debt (Council) shall not exceed 180% of total income (excluding total DCL contributions received per annum in income).**

Council's debt as at 30 June 2011 was \$295m, compared with total income of \$189.7m.

■ The target has been met at 155.5%.
- Debt (Council) per capita shall not exceed \$2,000.**

Council's debt as at 30 June 2011 was \$295m (\$283.5m in 2009 \$), with the estimated population of Hamilton of 146,579.

■ The target has been met at \$1,934.

POLICY LIMITS - TOTAL DEBT**1. Debt shall not exceed 25% of total assets.**

Total debt as at 30 June 2011 was \$427m, compared with total assets of \$3,575.9m.

- The target has been met at 11.9%.

2. Debt shall not exceed 250% of total income (including total DCL contributions received per annum in income).

Total debt as at 30 June 2011 was \$427m, compared with total income of \$196.1m.

- The target has been met at 217.7%.

3. Interest (total) shall not exceed 20% of total income (including total DCL contributions received per annum in income).

Total interest as at 30 June 2011 was \$19.7m, compared with total income of \$196.1m.

- The target has been met at 10%.

4. Liquidity (on total debt and working capital) will be at least 110%.

- The target has been met at 116.2%.

The Summary Financial Statements for the year ended 30 June 2011 can be found at the end of this document.

V8 Street Race Reserve Fund

During the 2011/12 Annual Plan process, Council received a number of submissions relating to Council's financial involvement in events such as the ITM400 Hamilton V8 Street race.

Submitters raising concerns about the V8 Street race were advised that in the interest of improving the event a review of the ITM400 Hamilton V8 Street race is carried out after each event. Council has a contract with V8 Supercars Pty Ltd through to 2014, with a right of extension for a further three years.

When considering the submissions, Council noted that a deficit V8 reserve exists to the value of approximately \$14.3 million. The V8 reserve has been used primarily to fund infrastructure costs associated with establishing the V8 circuit prior to the first event in 2008 (including the track and pitlane assets that are put up and taken down for each event). There have been further transitional costs in relation to the V8's from the previous event promoter relating to the payment of the balance of the previous promoters creditors, coupled with increased event operating costs which have also been funded from this reserve. The V8 reserve has a negative balance as it has "pre-funded" these costs; effectively the cash has been spent and it is an internal loan. Other costs of the event have been funded from other sources such as the event sponsorship fund, loans and rates.

Council note that having a negative reserve is unsustainable, and while the ITM400 Hamilton V8 Street race generates lease income that is transferred to the reserve to partially offset interest costs, this is not sufficient to meet all the interest costs or make any reduction in the deficit principal balance. The original intention when this deficit reserve was established prior to the first V8 event was that the income payable to Council from the event would be sufficient to pay off the interest and principal. This income received has not been as high as originally anticipated, and under the current contract with V8 Supercars will continue to be insufficient causing the

balance of the reserve to increase due to compounding interest costs.

Council noted that the 2012-22 10-Year Plan will need to address the financial treatment of this negative reserve. It is anticipated that the balance will need to be transferred and funded as part of Council's debt, with a combination of V8 event revenue and rates to fund the financing costs associated with this debt.

In March 2011, Council commissioned Audit New Zealand to carry out an assurance review of the systems, processes and controls that Council applied to decisions on the V8 Supercar event contract originally entered into in 2006 and subsequently moved to the Australian company V8 Supercars Australia Pty in 2010 when the original promoter experienced financial difficulties. The report is anticipated to be released later in 2011.

AA- Credit Rating

In June 2011 Council was informed that it had maintained its internationally recognised credit rating of AA- by Fitch Ratings.

Fitch Ratings' Sydney office reaffirmed Council's Local Currency Long-Term Rating at AA-, while its Local Currency Short-Term Rating was affirmed at F1+.

Fitch Ratings said both credit ratings reflected Council's healthy operating margin, solid (although slightly weakened) economic profile, and the strong institutional framework under which it operates.

The agency confirmed Council's outlook as "stable", and noted the new Council leadership had "emphasised their focus on improving Hamilton's healthy and sustainable financial performance, which includes a reduced growth of the Council's debt".

New Zealand Local Government Funding Agency Scheme

Due to the similar nature of local authorities and the large sector borrowing requirements, a number of local authorities proposed to participate in a funding scheme specifically for local authorities. The design of this scheme is based on a number of similar schemes that have operated successfully in other countries for many years.

The funding scheme will be a Council Controlled Trading Organisation called the New Zealand Local Government Funding Agency (LGFA).

A Bill enabling the establishment of the LGFA has been introduced to Parliament and is due to be enacted by September 2011. The LGFA will operate as a large-scale borrower which will then re-lend to councils, enabling a co-operative approach to borrowing and has the potential to save local authorities around \$25 million a year.

To help with the establishment of the agency the Government has already allocated \$5 million for investment. A further amount of approximately \$20-25 million of establishment capital will be sourced from councils. All nine councils who have funded the development of the LGFA (including Hamilton City Council) included the LGFA shareholding in their proposed 2011/12 Annual Plan. Through the public submission

process, Council resolved to participate in the LGFA as a Principal Shareholding Local Authority. It also decided that the Chief Executive will report back to Council on the final proposal and on the final participation arrangements in the LGFA.

SERVICE DELIVERY PERFORMANCE

Council has structured its activities by 10 groups, which comprise a total of 34 activities. The 10 Activity Groups provide the main means of delivering Council's services and work programmes.

Section 3.0 of the full 2010/11 Annual Report provides a detailed assessment of how well Council's activities performed during 2010/11, covering both financial results and how effectively services have been delivered to the community.




Performance against 2010/11 Targets




The 2009-19 LTCCP includes performance measures and targets for each activity. Section 3.0 of the full 2010/11 Annual Report provides the results for 2010/11 (Year 2 of the LTCCP) and also discusses any important aspects of performance in addition to the performance measures.

The performance measures and targets in the LTCCP take into account the diversity of Council's facilities and services and were developed from a wide range of sources. They are based on service provision attributes such as quality, safety, sustainability, accessibility and reliability/responsiveness. The LTCCP performance measurement framework was also independently assessed by Council's auditors, Audit New Zealand.

Results are coded using the following key:

KEY:

-  = target achieved
-  = within 5% of target
-  = Not achieved

PERFORMANCE AGAINST 2010/11 TARGETS				
ACTIVITY GROUP				TOTAL
City Profile	8			8
City Safety	8		1	9
Community Services and Amenities	14	1	1	16
Democracy	6	1	3	10
Event and Cultural Venues	13		5	18
Recreation	13	1	1	15
Transportation	13	1	2	16
Urban Development	4	2	1	7
Waste Minimisation	5			5
Water Management	14		1	15
Total	98	6	15	119

Of the 119 performance measures for 2010/11 across Council's 10 Activity Groups, 98 were 100% achieved, 6 were achieved within 5% of the target, and 15 were not achieved. Section 3.0 of the full 2010/11 Annual Report provides detailed information for all the performance measures, including why targets were not achieved.

Monitoring Citywide Trends

Council is also required to monitor progress being made towards Hamilton's Community Outcomes. This is achieved through looking at trend data from a number of measures known as Hamilton's Community Outcomes Progress Indicators (COPIs).

Trend data of the relevant COPI's that Council's 10 Activity Groups contribute towards is outlined at the end of each Activity Group in Section 3.0 of the full 2010/11 Annual Report. In summary, of the 74 COPIs monitored in 2010/11, 16 were identified as improving/favourable, 41 showed a uncertain or stable trend, and 17 were identified as declining/unfavourable.

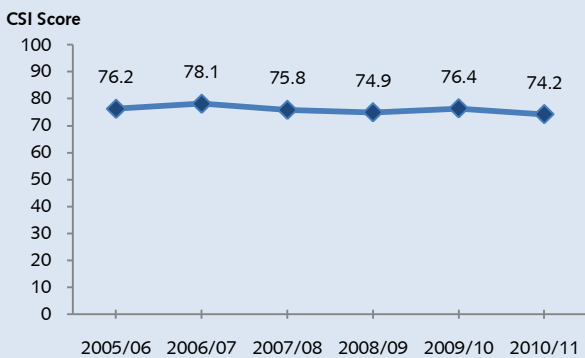
RESIDENTS' SATISFACTION SURVEY

Council's Residents Survey, which is undertaken each quarter, is one of the main methods of obtaining Hamilton residents' perceptions of how effectively Council is operating, particularly in regard to its key facilities and services. The survey has been carried out since 1984 by an independent research company, and provides a useful measure of community opinion over time.

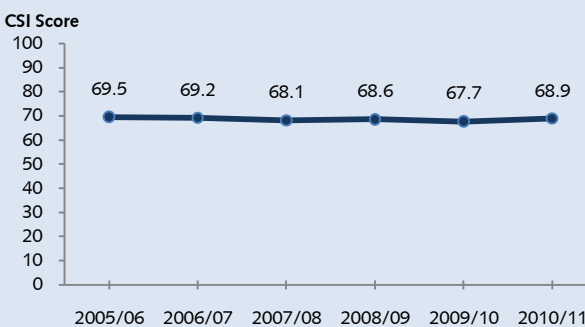
The use of satisfaction scores allows results to be compared from year-to-year. The scores are based on an 11 point satisfaction scale (0 = very dissatisfied to 10 = very satisfied). Scores from individual survey respondents are then aggregated into a single Customer Satisfaction Index score (CSI score) out of 100.

The following graphs include a summary of results for residents' satisfaction with the overall performance of Council, the value received from residential rates, and the quality of Council facilities and services.

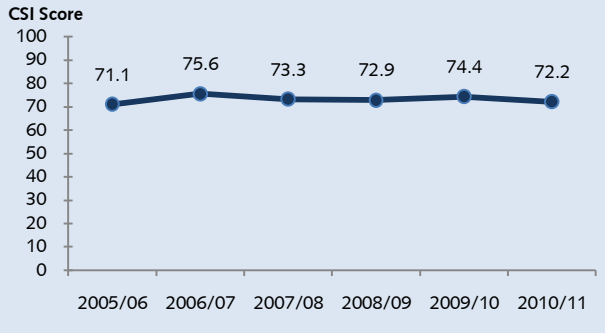
OVERALL PERFORMANCE OF COUNCIL



VALUE FOR RESIDENTIAL RATES



QUALITY OF COUNCIL FACILITIES AND SERVICES



Since 2004, survey results show that residents have identified transportation issues as the most important area that Council should be looking at. Council is addressing these issues through the Access Hamilton Strategy, which aims to meet the changing travel demands of the city by providing an affordable, safe, responsive and sustainable transport system.

For the majority of questions in the Residents Survey, respondents are only asked to rate their satisfaction with a facility/service if they have used that particular facility/service in the past 12 months. This approach reduces the number of 'don't know' responses. On occasion, respondents have been asked for reasons why they don't use a particular service or facility. The majority of responses were centred on a lack of interest in using a facility or not having enough spare time to use a facility, rather than the respondent having specific issues with the provision of the facility or service.

UPDATE ON KEY PROJECTS

Section 3.0 of the full 2010/11 Annual Report, which reports on the service delivery performance of Council's 10 Activity Groups, also provides a selection of highlights for each Activity Group. These focus on projects that were either completed or where significant progress was made during the 2010/11 financial year. Below is a selection of the highlights for Council during 2010/11.

Claudelands Redevelopment

The construction of the new \$68.86 million Claudelands arena continued throughout 2010/11. Claudelands now has a new 1,200 delegate conference facility and a new 5,000 capacity indoor arena.

The conference facilities were completed in mid April 2011 with the first booking being a 700 delegate corporate conference in May 2011. The conference facilities will provide opportunities for large meetings and conferences for up to 1,200 delegates and for functions and banquets for up to 750 people.

The arena was completed in mid June 2011 with a community open day being held on 18 June with almost 12,000 people attending the day.

The arena will provide opportunities to host music concerts (such as Edgetravaganza, an all day music festival), live

performances and major sporting events for up to 5,000 spectators (such as the NZ Breakers basketball games).

The new exhibition halls and plaza (were completed in 2009/10) were fully operational while the conference facilities and arena were undergoing construction.

During 2010/11 a range of national and local events continued to be held at Claudelands. These events included the Dunkley's Great NZ Craft Show, Waikato Home and Garden Show, Sir Colin Meads Tribute dinner, Campercare Motorhome and Caravan Show, Women's Lifestyle Expo, NZ International Tattoo and Art Expo, and the Waikato A&P Show.

V8 Street Race 2011

Despite rainy weather over the event weekend, 105,432 tickets were sold for the 2011 ITM400 Hamilton V8 Street car race. An independent economic survey, commissioned by Hamilton City Council, showed that the event attracted more than 31,000 race-going visitors to the city, 7,500 more visitors than for the inaugural event in 2008.

While attendance figures show more people attended the event in 2008, this year's survey indicates overall visitors to the city increased, resulting in a positive impact on the local economy. Visitors to this year's event are estimated to have spent an average of \$210 each, resulting in a direct spend of approximately \$6.5 million.

Access to the Frankton precinct was extended this year, with General Admission ticket holders allowed to use this area. Previously, General Admission tickets had not been provided within the Frankton precinct, with only grandstand and flexi-stand admission available.

V8 Supercars broadened the entertainment components of this year's event with additional racing categories and more on-track entertainment, and the inclusion of two international act concerts held at Seddon Park (ZZ Top on Saturday night and Good Charlotte on Sunday night). Attendance was high, despite the rainy weather, with approximately 17,700 attending Saturday and 13,000 attending the Sunday night concert. Admission to the concerts was automatically included for three day event ticket holders, while single Saturday and Sunday event tickets with concert admission included were also able to be purchased.

Rating Review

Council is carrying out a rating review as part of the 2012-22 Long Term Plan process. The Rating Review is moving to a pre-consultative phase after Council workshops in April, May and June 2011 at which Councillors opted to further investigate the rating system.

Options to consider include:

- Moving to a Capital Value rating system
- Introducing targeted rates for water and refuse as a step towards full user pays (water metering, rubbish bag stickers)
- Phasing in any changes over a period of time (e.g. over 3 years or 5 years)
- Reducing or removing some differentials.

Council will now speak with major stakeholders and representatives of residential ratepayers on options for changing the rating system. Formal consultation about the adoption of a CV rating system will be carried out in September/October 2011.

'Fast Forward' - District Plan Review

'Fast Forward' - the review of Hamilton's District Plan - is one of Council's most significant long-term projects. The District Plan affects all Hamilton residents and organisations, as it sets out the rules and policies for how people can develop and use land in the city.

The existing District Plan is now over ten years old and much has changed in that time. The new District Plan will address issues such as residential intensification, City Heart vitality, character and heritage, social well-being, transportation and accessibility, environmental sustainability, and the Waikato River.

In August 2010, a review document was produced and a summary of this document was distributed to all Hamilton residents. The documents outlined how the city wants to address Hamilton's most pressing issues, and asked residents their opinion about Council's thinking so far. The results of the consultation were considered in February 2011, and provided direction on the options going forward. During 2010/11, a number of workshops have also been held on topics that provide a basis for the new plan. The new District Plan is intended to be formally notified late in 2012.

In order to notify the new District Plan, the existing Proposed District Plan needs to be made operative, which is a requirement of the Resource Management Act 1991. In June 2011, Council resolved to make the Proposed District Plan 'operative in part', which then came into effect in August 2011.

Council Decisions on District Plan Variations

Variation 20 to the existing District Plan was progressed to formal hearings of Council, where final decisions were made about public submissions received. One appeal has been lodged against the decisions and work is now underway to resolve this. *Variation 20: Managing Change and Character in Hamilton East* aims to identify additional heritage items, establish a new Heritage Precinct and a new zone reflecting the general character of development in the Hamilton East neighbourhood.

Council staff have settled all appeals to Variations i.e. 7: *Temple View*; 15: *Subdivision Connectivity, Heritage, Special Provisions in New Growth Areas and Miscellaneous Provisions* and 18: *Rotokauri Structure Plan*; and are actively working to resolve the appeals to *Variations 13: Residential Centres* and *14: Peacocke Growth Cell*.

Implementation of Future Proof

Formal implementation of the Sub-Regional Growth Strategy 'Future Proof' started in 2009/10, with Council being appointed as the administering authority for the first three years.

Future Proof covers the areas of Hamilton City, Waikato and Waipa District Councils and the Waikato Regional Council. It sets out how these councils will manage growth and land use for the sub-region over the next 50 years.

An Implementation Committee was established in 2009/10. The committee consists of two elected members from each of the partner councils, along with two tangata whenua representatives.

During 2010/11, the Proposed Regional Policy Statement was notified by Waikato Regional Council, which forms the basis for the Future Proof Settlement Pattern. Two studies (Southern Sector Study and Office and Retail study) were completed, and a Residential Intensification Toolkit was also finalised. The Future Proof Business Land Review was completed, a Communication Strategy was adopted and a Sub-Regional Three Waters Strategy was developed.

Changes to Council's Committee Structure

Council reconfigured its committee structure in order to increase the focus on setting strategy and policy and to deal with Council business more efficiently.

At its 29 June 2011 meeting, Council unanimously agreed to the formation of four committees: Strategy and Policy, Finance and Monitoring, Operations and Activity Performance, and Statutory Management.

The 2011 Committee structure came into effect in August, and aims to ensure more visibility relating to Council's business, as well as more accurate and timely reporting of decisions and operational activity.

Waikato Expressway Development and the Te Rapa Bypass

Council is continuing to work with the New Zealand Transport Agency to deliver the Te Rapa Bypass. The Te Rapa section of the Waikato Expressway begins in Avalon Drive in the north-west of Hamilton and extends into Waikato District. It will connect with the existing SH1 and the future Ngaruawahia section in Horotiu.

When completed, the Waikato Expressway will be a key transport corridor, connecting Auckland to the agricultural and business centres of Waikato and Bay of Plenty. The Expressway will improve economic growth and productivity through more efficient movement of people and freight.

Work on the Bypass is progressing well and Council components are either constructed or committed for construction. The approved budget for Council's roading component has been set at \$14 million.

Continued Development of the City Ring Road

A construction contract was awarded for the widening of Wairere Drive between Pukete Road and Resolution Drive to four lanes and for the Ring Road extension from Crosby Road/Gordonton Road to Ruakura Road. Physical work is well underway and progress is good following a dry summer period.

The new roundabout linking Wairere Drive, Hukanui Road and Tramway Road was completed on time and on budget. This new road extension will become part of the 'Ring Road' infrastructure and form part of the greater Wairere Drive corridor. The road was opened to the public by the Mayor, Councillors and key partners in December 2010.

Investigation and Designation Phases of Southern Links

A joint contract is in place between Council and the New Zealand Transport Agency for the investigation and designation of the Southern Links Corridors. The Southern Links project involves around 32 kilometres of possible future transport network, including two new crossings of the Waikato River, 21km of state highway and 11km of urban arterial roads in the city's Peacocke structure plan area. The long-term aim of the project is to develop an effective network of well connected state highway and urban arterial routes.

Work is well underway and a number of public communications, public open days and consultation has taken place. This project will continue during 2011/12. Council has committed \$2.4 million to these designation costs.

Waste Minimisation Initiatives

Council has identified opportunities for minimising waste to landfill by reviewing alternative options for sewage sludge disposal from the wastewater treatment plant. There is the potential to divert 11,000 tonnes of waste per year from landfill, and during 2011, a study to identify suitable options has been progressed.

Council has funded several trials of alternative disposal of the sewage sludge and potential uses for the end-product. A worm composting trial was carried out, with the sewage sludge mixed with other products to make a soil conditioner. Another trial is underway with a variety of partners including other councils and industry, on a process known as pyrolysis, which can convert sludge into other useable products such as oil and gas. This project is part of the Council's Back to Earth initiative.

Council also provides support, both financially and in staff resources, to other waste minimisation initiatives including:

- Sustainabiz, a resource provided by the Waikato Regional Council that works with businesses to minimise waste
- The Regional Waste Exchange, which was recently relaunched and will enable the free exchange of unwanted items
- E-day, a nationally organised event held annually in November to enable residents to dispose of e-waste free of charge.

Improvements to Wastewater Infrastructure

The 2010/11 year has seen a significant amount of wastewater infrastructure projects completed or underway to cater for new growth or improved service. This includes a pumpstation upgrade in the Templeview area and the installation of 2.3km wastewater interceptor under the Te Rapa bypass in preparation for development of Stage 1 of

the Rotokauri growth cell. The wastewater interceptor works were completed by the New Zealand Transport Agency's contractor with an approved budget of \$9.6 million.

The new clarifier and aeration basin at the Wastewater Treatment Plant has been completed and will further allow Council to manage resource consents more effectively and cater for city growth.

Support for Christchurch after the Earthquake

Soon after the February 2011 earthquake in Christchurch, Hamilton's Civil Defence Emergency Operations Centre (EOC) was activated and busy with mainly Council staff coordinating assistance for the national emergency effort.

As the extent of the devastation became clear, the EOC worked to coordinate support and assistance. Around 170 Civil Defence-trained Council staff, including engineers, water and waste technicians, transportation, communication and public information staff volunteered to be available to go to Christchurch. Six building inspectors went to Christchurch to be part of the teams that assessed the structural safety of 78,000 homes in the first weeks after the earthquake. Council also coordinated the response from neighbouring councils - Waikato and Waipa district councils.

As well as local websites and web pages being developed to speed up support, a Recovery Assistance Centre was set up near Garden Place for the 500-plus evacuees who came to the Waikato, as a 'one-stop shop' to help them with their emergency needs. Volunteers, Council's Community Development staff, Housing NZ, Work and Income, Red Cross and the Salvation Army were on hand for the 40-60 evacuees who visited the centre each day. Over 90 volunteers, many from Council, undertook welfare training in addition to the 135 staff who volunteered for helping in the EOC or as welfare support staff.

Redevelopment of Sullivan Crescent Housing for Older People Complex Completed

The construction phase of the redeveloped housing complex at Sullivan Crescent was completed in June 2011. The new energy efficient units have been designed to better meet the needs of customers by providing healthy, affordable, and quality housing. Tenancing of the 19 new units for older people also started in June 2011.

Love NZ Public Space Recycling

In May 2011 the Minister for the Environment Hon. Dr Nick Smith launched the national Love NZ public space recycling programme in Hamilton.

In preparation for the Rugby World Cup 2011, Hamilton now has ten new permanent Love NZ recycling bins located in Frankton, Lake Rotoroa, the Transport Centre, Hamilton East Shopping Centre and the central city including Garden Place. Permanent Love NZ recycling bins are also located at Waikato Stadium, Claudelands Event Centre, Seddon Park and Hamilton Theatres.

The Love NZ public place recycling project is managed by the Glass Packaging Forum nationally and has been

funded by the Government's Waste Minimisation Fund (\$1.6 million) and the Glass Packaging Forum. The Forum is partnering with councils and private businesses nationally to install and service recycling facilities.

Construction of the Hydrotherapy Pool at Waterworld

Work started on the new hydrotherapy pool at Waterworld with a ground breaking ceremony on 25 February 2010. Construction of the much anticipated hydrotherapy pool has continued during the 2010/11 and was opened in July 2011. This facility uses heated water therapy to provide benefits to a wide range of users, including people with disabilities, those rehabilitating after injury or accidents, and those doing a variety of exercise programmes. The \$2.5 million pool was jointly funded by Council and the Hydrotherapy Pool Trust, with the Trust contributing just over a third of the projects' total cost.

Ongoing Development of Hamilton Gardens

Te Parapara Garden was officially opened in December 2010. This has been a joint project with Nga Mana Toopu O Kirikiriroa and other sponsors. Staff are now working with the Hamilton Gardens Development Trust to develop three of the Fantasy Gardens over a seven year period. The Tudor Garden is due to open in 2014, the Tropical Garden in 2016 and the Surrealist Garden in 2017. Completion of these three gardens will finally link all of the central high profile gardens together.

Upgrade of Council's Information Systems and Processes

This project aims to provide cross-Council integration and management of information. It will enhance service delivery to customers, making it easier and quicker for them to work with Council by making processes efficient. 2010/11 was the second year of this 10-year project, and saw the introduction of a new GIS system, a document management system, and various point-of-sale systems at Council facilities across the city. The project is on track to meet the overall budget of \$12.8 million over 10 years.

ENHANCING THE CENTRAL CITY

A number of pressures are being placed on the central city, including the recent economic downturn and subsequent decline in retail sales, along with competition from other large retail complexes throughout Hamilton. Parking, rates (relative to other commercial areas in the city), and development contributions are also key issues for the central city's viability.

The City Heart programme is aimed at developing a quality urban environment that will attract people to the central city and assist in the revitalisation process. Over the 2009-19 period, Council has made funding provision of \$8.2 million to carry out a range of key projects in the central city. Progress on these projects during 2010/11 is described in the following highlights:

Garden Place Redesign

During 2010/11 work has continued on the redevelopment of Garden Place. The first work completed was the partial extension of Worley Place, which will

provide a transition into the shared space environment between Worley Place and Alexandra Street. This part of the project is planned for 2011/12 as part of the Garden Place car park works. An added benefit of the Worley Place extension has been the creation of an additional 17 public car parks.

Following Worley Place, the changes in Garden Place saw the removal of the brick wall and palm garden located at the Victoria Street end. This demolition work made way for the permanent stage area and 'outdoor living room' which saw seven of the nine existing palm trees retained within Garden Place, with the remaining two palms being transplanted to a neighbourhood reserve. This work was completed before Christmas 2010 and supported the 'Summer in Garden Place' programme of events.

In 2011, work started on the removal of the Peace Wall located by the entrance to the Garden Place car park. This allowed the reconfiguration of the main lawn area, as well as the installation of a water feature, a sound system, new pedestrian lighting and furniture.

In addition to these completed works, others works to be installed in 2011/12 as part of this makeover include an art piece, an outdoor covered space, kiosks and planters.

Garden Place Underground Car Park

Towards the end of 2010/11 work started on relocating the public access to the Garden Place car park from its current location at Alexandra/Caro Streets to Anglesea Street. This work will see the construction of a signalised intersection on Anglesea Street to control vehicle movements between the car park and Anglesea Street. This phase of the project is expected to be completed by November 2011.

Once the Anglesea Street car park access is open, work will begin to close the existing car park entrance on Alexandra/Caro Streets. The Peace Wall structure will be demolished and a shared space environment will be created, which involves linking Worley Place and Alexandra Street to allow slow moving vehicles to pass through. This second phase of works is expected to be completed by June 2012.

Parking in Central City Study

Council carried out studies and trials into improving the city centre parking. A number of trials were carried out throughout the year and a report was presented to Council on the findings. Council confirmed new parking initiatives, particularly relating to time limits for on-street parking and weekend parking surveillance.

Data from the parking surveys assisted Council in identifying the areas of high demand, the length of time vehicles are parked for and at what times of the day vehicle numbers in the city centre are at their highest. This has provided Council with a better understanding of the city's parking situation and will assist in planning for future parking requirements and regulations.

As a result of the parking survey, Council developed a parking model for the city centre. A number of options were tested and based on this work, Council approved a new parking trial on 11 August 2010. The trial provided Council with further information on how pricing in

particular influences parking behaviour. In June 2011, Council decided to align and simplify central city parking restrictions, by increasing the time limit for all on-street metered parks and pay-and-display parks in the central city to 120 minutes, and setting the fee at \$2 per hour from Mondays to Saturdays.

LOOKING AHEAD — FUTURE PRIORITIES

A major project for Council that has already begun and will continue during 2011/12 is the development of the 10-Year Plan 2012-22. This project and a number of other key projects are outlined below.

Developing the 10-Year Plan 2012-22

Council must develop a new 10-Year Plan by 30 June 2012. The 10-Year Plan must outline what Council proposes to do over the plan's 10 year period, the activities it proposes to carry out, the cost of those activities and how they will be paid for, and the contribution these activities will have on the area's community outcomes and well-being.

The 10-Year Plan process has been broadly split into four key phases:

- Direction setting (up to end of June 2010)
- Evaluating and analysis (July to October 2010)
- Drafting (October 2010 to February 2012)
- Consulting and adopting (March to end of June 2012).

The phases throughout 2011 will include communication and engagement with residents and key stakeholders on aspects of the plan's development. A formal consultation process will be carried out in the first half of 2012, once a draft plan has been developed.

If Council was to carry on with the financial strategy as outlined in the 2009-19 LTCCP, it would be placing its long-term financial sustainability at risk. The 2009-19 LTCCP included financial policy limits that Council must operate within. The policy limit of most concern is the ratio of debt to revenue. If Council does not address its financial issues, it may breach policy limits in coming years. Council's AA- credit rating, which provides greater access to more competitive borrowing rates, could also be affected if financial policy limits are breached.

As part of the 2011/12 Annual Plan process, a range of options were considered to reduce spending in 2011/12. When making decisions, Council had to balance short-term immediate savings with longer-term considerations, such as maintaining a high standard of services and facilities and future financial sustainability.

Many of the savings options considered would have substantially altered the services Council provides. Council's view is that these types of decisions could not be made in isolation and need to be thoroughly considered as part of a complete review of Council's operations, including all of the services Council provides to the community.

This work is currently underway as part of developing the 10-Year Plan 2012-22. The types of matters under consideration include:

- Council's overall direction and priorities for the city.
- The services Council provides, and whether or not Council should be providing them.
- How they are provided, for example looking at other options such as Council Controlled Organisations.
- How Council will fund its services.

All Council's key funding and financial policies will be reviewed as part of the ten year plan process. For example, the Development and Financial Contribution Policy will be reviewed in order to address issues around funding growth in a more financially sustainable manner.

The current policy is not a sustainable means of funding debt related to growth in the future, as in the last two years development contributions revenue has not been enough to cover interest costs. The 10-Year Plan review will seek to limit future development contribution charge increases by reducing Council's growth-related capital expenditure. It will also look at the mix of growth expenditure funded by development contributions and rates so that the financing costs are fully funded.

Service Delivery Review

In 2009, Council resolved to carry out a service delivery review of a range of services it provides. The review was aimed at providing Council with information to consider the potential use of alternative structures for delivering services in the most effective and efficient way.

Through its Proposed 2011/12 Annual Plan, Council consulted on a proposal to introduce two new Council Controlled Organisations to manage swimming and indoor recreation services, and event services.

After considering the issues which were raised in submissions to the proposed plan on this topic, Council authorised the Chief Executive to identify opportunities offered by CCOs following his review and assessment of the entire organisation. This is to ensure that any move to introduce CCO's is fully aligned with the future direction of the organisation.

The Chief Executive will report back to Council on the opportunities, structures and timeframes for introducing CCOs.

Rating Review

Council is continuing with its rating review as part of the Long Term Plan process. After Council workshops in April, May and June, Councillors opted to further investigate moving to a Capital Value (CV) rating system.

At an Extraordinary Council meeting in August 2011 Councillors were asked to consider a recommendation that formal consultation with residents be carried out in September about the adoption of a CV rating system. The recommendation includes the introduction of CV over five years, the retention of rural differentials, additional rating support for the CBD, and a targeted rate for water and rubbish.

Progressing the District Plan Review

Work on the District Plan review will continue. The new District Plan will be developed during 2011/12 and is intended to be formally notified in 2012.

In order to notify the new District Plan, the existing Proposed District Plan needed to be made operative, a requirement of the Resource Management Act 1991. In June 2011, Council resolved to make the Proposed District Plan 'operative in part', which then came into effect in August 2011.

Continued Implementation of Future Proof

Key projects over the next three years include:

- Implementation of the Communication Strategy to maintain high levels of awareness of growth management issues in the community
- Implementation of the Three Waters Strategy through action plans
- Central Government Engagement initiatives
- Full review of the Future Proof Strategy and Action Plan.

Developing a Structure Plan for the Ruakura Area

A detailed plan for the Ruakura area of the city is being developed as part of the District Plan review. Investigative work and consultation with key stakeholders has taken place, with further work to take place in 2011/12. The Structure Plan will be publicly notified as part of the new District Plan in 2012.

The Full 2010/11 Annual Report

Copies of the full 2010/11 Annual Report are available from the main Council office in Garden Place or at any branch of Hamilton City Libraries.

This summary document and the full report are also available to view or download on Council's website www.hamilton.co.nz/annualreport. Alternatively, you can request a copy by contacting the Strategy and Research Unit on 07 838 6537, or by emailing strategy@hcc.govt.nz

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011					
	NOTE	GROUP			COMMENTS
		ACTUAL 2010/11 \$000	BUDGET 2010/11 \$000	ACTUAL 2009/10 \$000	
COMPREHENSIVE INCOME FOR THE YEAR ENDED TO 30 JUNE					
Rates revenue		113,494	113,298	108,462	Includes all rates and rates penalties received.
Other revenue		92,984	86,295	70,187	Includes operating revenue, capital contributions,
Other gains		-	-	1,109	Includes gains on disposal of assets, gain in value of investment
Total revenue		206,478	199,593	179,758	
Employee benefit expenses		54,019	54,809	53,494	Includes salaries, wages and any other employee benefits.
Depreciation and amortisation		49,070	48,009	47,067	
Other expenses	(1)	71,680	60,413	65,508	All other operating expenses.
Finance costs	(2)	20,470	23,378	18,139	Interest on borrowings.
Other losses	(3)	11,657	-	11,629	Includes losses on disposal of assets, loss in value of investment properties, fair value losses on interest rate swaps and adjustments to assets on revaluation.
Total expenditure		206,896	186,609	195,837	
Surplus/(deficit) before taxation		(418)	12,984	(16,079)	
Taxation		-	-	-	
Share of associate's retained surplus/(deficit)		394	-	(4,857)	Includes Hamilton Riverview Hotel Ltd, Waikato Regional Airport Ltd and Hamilton Fibre Network Ltd.
Surplus/(deficit) after tax		(24)	12,984	(20,936)	
Other comprehensive income		(24)	12,984	(20,936)	Includes gains on property revaluations and share of associates comprehensive income.
Gain on property revaluations		168,092	49,574	18,087	Includes gains on property revaluations
Financial Assets at fair value through other comprehensive incomes		(154)	-	8	Share of associates comprehensive income
Fair Value Shareholdings		105	-	(3,785)	
Total comprehensive income		168,019	62,558	(6,626)	
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE					
Total comprehensive income		168,019	62,558	(6,626)	
Total recognised revenues and expenses for the year		168,019	62,558	(6,626)	
Equity at the beginning of the year		2,948,341	3,015,662	2,954,967	
Equity at the end of the year		3,116,360	3,078,220	2,948,341	Represents the net value of assets owned by the city.
FINANCIAL POSITION AT 30 JUNE					
Current assets		52,310	14,054	28,038	Assets expected to be converted to cash over the next 12 months, e.g. cash, accounts receivable.
Non-current assets		3,523,532	3,515,125	3,294,192	Assets expected to be held for longer than 1 year.
Total Assets		3,575,842	3,529,179	3,322,230	
Current liabilities		207,351	133,870	122,808	Due for repayment within 12 months, e.g. payables, current portion of loan repayments.
Non-current liabilities		252,131	317,089	251,081	Due for repayment after 12 months, e.g. term debt.
Equity		3,116,360	3,078,220	2,948,341	Represents the net value of assets owned by the city.
Total equity and liabilities		3,575,842	3,529,179	3,322,230	

	NOTE	GROUP			COMMENTS
		ACTUAL 2010/11 \$000	BUDGET 2010/11 \$000	ACTUAL 2009/10 \$000	
CASH FLOWS TO 30 JUNE					
Opening cash balance at 1 July		8,901	250	478	
Net cash inflows/(outflows) from operating activities		50,063	49,828	37,123	Includes rates, subsidies, receipts from customers, capital contributions, payments to suppliers, employees, and interest on loans.
Net cash inflows/(outflows) from investing activities		(109,418)	(118,660)	(100,903)	Includes capital expenditure and investments.
Net cash inflows/(outflows) from financing activities		81,735	68,832	72,203	Includes loans uplifted and repaid.
Closing cash balance at 30 June		31,281	250	8,901	

Notes to the Summary Financial Statements

- (1) Other expenses were \$11.3 million greater than budget due mainly to increased expenditure
- (2) Finance costs were \$2.9 million less than budget due to the timing of borrowings required for various capital projects.
- (3) Other losses totalling \$11.6 million are not budgeted for as they were unexpected, such as losses on disposal of assets for \$5.9 million, and fair value losses on interest rate swaps of \$5.5 million.

Accounting Policies

Hamilton City Council is a territorial authority governed by the Local Government Act 2002. The financial statements cover all the activities of Hamilton City Council and its 100 per cent owned Council Controlled Organisation (CCO), Hamilton Properties Ltd. This company is not trading at present.

Accordingly, the Council has designated itself and the group as a public benefit entities as defined under New Zealand International Financial Reporting Standards (NZ IFRS).

Hamilton City Council's 50% share in the Waikato Regional Airport Ltd, 41.38% share in Hamilton Riverview Hotel Ltd (Novotel) and 33.80% share of Hamilton Fibre Networks Ltd is equity accounted in the group results.

Hamilton City Council has complied with New Zealand equivalents to the International Financial Reporting Standards as applicable for public benefit entities in its full Financial Statements. This Summary complies with FRS 43 and this Standard includes a requirement to comply with New Zealand GAAP or NZ IFRS.

All amounts are shown in NZ\$000's and as such are rounded to the nearest \$1,000.

Capital Commitments and Contingent Liabilities

Council has contracts committing it to spend \$84.9 million (2010 \$54.4 million) on capital works. Contingent liabilities, which are dependent on other future events, are \$5.5 million (2010 \$6.7 million).

Disclaimer

The specific disclosures included in this Summary Annual Report have been extracted from the full Annual Report and was authorised for issue by the Chief Executive on 29 September 2011.

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 29 September 2011.

The full Annual Report can be obtained from the website www.hamilton.co.nz/annualreport 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 2011

We have audited the summary of the annual report (the summary) as set out on pages 2 to 14, which was derived from the audited statements in the annual report of the Hamilton City Council (the City Council) and group for the year ended 30 June 2011 on which we expressed an unmodified audit opinion in our report dated 29 September 2011.

The summary comprises:

- the summary statement of financial position as at 30 June 2011, and summaries of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the summary financial statements that include accounting policies and other explanatory information; and
- the summary of the City Council's and group's service provision information and summaries of other information contained in its annual report.

Opinion

In our opinion, the information reported in the summary complies with FRS-43: Summary Financial Statements and represents, fairly and consistently, the information regarding the major matters dealt with in the annual report.

Basis of opinion

The audit was conducted in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand).

The summary and the audited statements from which they were derived, do not reflect the effects of events that occurred subsequent to our report dated 29 September 2011 on the audited statements.

The summary does not contain all the disclosures required for audited statements under generally accepted accounting practice in New Zealand. Reading the summary, therefore, is not a substitute for reading the audited statements in the annual report of the City Council and group.

Responsibilities of the Council and the Auditor

The Council is responsible for preparing the summary in accordance with FRS-43: Summary Financial Statements. We are responsible for expressing an opinion on the summary, based on the procedures required by the Auditor-General's auditing standards and the International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements.

In addition to the audit we have carried out assignments to provide quality assurance over the City Council's system replacement project (Project Phoenix), review the decision making processes for

the V8 Supercar Event and have conducted the audit of the Long Term Council Community Plan and subsequent amendments to this Plan, which are compatible with those independence requirements.

Other than the audit and these assignments, we have no relationship with or interests in the City Council or any of its subsidiaries.



Karen MacKenzie
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand
29 September 2011