



I hereby give notice that an ordinary meeting of the Finance and Performance Committee will be held on:

Date: Thursday, 13 March 2014
Time: 9.30am
Meeting Room: Reception Lounge, Level 2
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Finance and Performance Committee OPEN AGENDA

MEMBERSHIP

Chairperson	Cr Penny Webster	
Deputy Chairperson	Cr Ross Clow	
Members	Cr Anae Arthur Anae	Cr Calum Penrose
	Cr Cameron Brewer	Cr Dick Quax
	Mayor Len Brown, JP	Cr Sharon Stewart, QSM
	Cr Dr Cathy Casey	Member David Taipari
	Cr Bill Cashmore	Member John Tamihere
	Cr Linda Cooper, JP	Cr Sir John Walker, KNZM, CBE
	Cr Chris Darby	Cr Wayne Walker
	Cr Alf Filipaina	Cr John Watson
	Cr Hon Chris Fletcher, QSO	Cr George Wood, CNZM
	Cr Penny Hulse	
	Cr Denise Krum	
	Cr Mike Lee	

(Quorum 11 members)

Crispian Franklin
Democracy Advisor

7 March 2014

Contact Telephone: (09) 373 6205
Email: crispian.franklin@aucklandcouncil.govt.nz
Website: www.aucklandcouncil.govt.nz

TERMS OF REFERENCE

Responsibilities

This committee will be responsible for monitoring overall financial management and the performance of the council parent organisation and the financial monitoring of the Auckland Council Group. It will also make financial decisions required outside of the annual budgeting processes. Key responsibilities include:

- Financial management
- Approval of non-budgeted expenditure
- Write-offs
- Acquisition and disposal of property relating to the Committee's responsibilities
- Monitoring achievement of financial and other measures of performance and service levels
- Recommending the Annual Report to the Governing Body

Powers

- (i) All powers necessary to perform the committee's responsibilities.

Except:

- (a) powers that the Governing Body cannot delegate or has retained to itself (see Governing Body responsibilities)
 - (b) where the committee's responsibility is limited to making a recommendation only
- (ii) Approval of a submission to an external body
- (iii) Powers belonging to another committee, where it is necessary to make a decision prior to the next meeting of that other committee.
- (iv) Power to establish subcommittees.

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1 Apologies

At the close of the agenda no apologies had been received.

2 Declaration of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

3 Confirmation of Minutes

That the Finance and Performance Committee:

- a) confirm the ordinary minutes of its meeting, held on Thursday, 20 February 2014, including the confidential section, as a true and correct record.

4 Petitions

At the close of the agenda no requests to present petitions had been received.

5 Public Input

Standing Order 3.21 provides for Public Input. Applications to speak must be made to the Committee Secretary, in writing, no later than **two (2)** working days prior to the meeting and must include the subject matter. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders. A maximum of **thirty (30) minutes** is allocated to the period for public input with **five (5)** minutes speaking time for each speaker.

5.1 Bruce Pulman Park Trust - Bruce Pulman and Marie Stechman

Purpose

1. Bruce Pulman and Marie Stechman wish to address the committee in support of the Bruce Pulman Park Trust requesting for a community loan.

Recommendation/s

That the Finance and Performance Committee:

- a) thank Bruce Pulman and Marie Stechman for their attendance in support of the Bruce Pulman Park Trust report.

6 Local Board Input

Standing Order 3.22 provides for Local Board Input. The Chairperson (or nominee of that Chairperson) is entitled to speak for up to **five (5)** minutes during this time. The Chairperson of the Local Board (or nominee of that Chairperson) shall wherever practical, give **two (2)** days notice of their wish to speak. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders.

This right is in addition to the right under Standing Order 3.9.14 to speak to matters on the agenda.

At the close of the agenda no requests for local board input had been received.

7 Extraordinary Business

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“An item that is not on the agenda for a meeting may be dealt with at that meeting if-

- (a) The local authority by resolution so decides; and
- (b) The presiding member explains at the meeting, at a time when it is open to the public,-
 - (i) The reason why the item is not on the agenda; and
 - (ii) The reason why the discussion of the item cannot be delayed until a subsequent meeting.”

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) That item may be discussed at that meeting if-
 - (i) That item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
- (b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

8 Notices of Motion

At the close of the agenda no requests for notices of motion had been received.

Auckland Council Group half year financial results to 31 December 2013

File No.: CP2013/28798

Purpose

1. This report discloses the financial performance of the Group for the six months to 31 December 2013.

Executive Summary

2. This report is part of the regular quarterly reporting to the Finance and Performance Committee on the Council's Group financial performance for the year to date.

The Council Controlled Organisations report their individual performance to the CCO Governance and Monitoring Committee.

Recommendation/s

That the Finance and Performance Committee:

- a) receive the report.

Discussion

3. This report is not formally released to meet any other external reporting requirements, and so is simply for internal disclosure on the performance of the group.
4. A similar report was released to the New Zealand Stock Exchange on 28 February, as required by the listing rules.

Consideration

Local Board Views

5. This report is for the Council Group. Local Boards receive reports specific to their area.

Maori Impact Statement

6. The report is limited to financial performance. Council's contribution to Maori outcomes will be reported in the annual report.

General

7. There are no financial or resourcing implications arising from the adoption of this report.

Implementation Issues

8. There are no implementation issues.

Attachments

No.	Title	Page
A	Auckland Council Group Financial Report 31 December 2013	9

Signatories

Authors	Robert Nelson – Financial Controller
Authorisers	Kevin Ramsay - Manager Finance, Auckland CFO Andrew McKenzie - Chief Finance Officer

Item 9

Auckland Council Group Quarterly Financial Report

31 December 2013

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FINANCIAL COMMENTARY

Auckland Council Group (the group) generated a net operating surplus of \$161 million for the first six months of the 2013/14 financial year, \$130 million ahead of the phased annual plan.

The favourable variance arises from increased revenues and deferred expenditure.

Operating revenue is ahead \$74 million compared to the phased annual plan, primarily due to vested asset income of \$71m which was not included in the annual plan.

Operating expenditures are \$51m behind the phased annual plan, mainly due to timing differences which are largely expected to close during the next six months.

Net finance costs are in line with the phased annual plan illustrating the group's prudent management of exposure to interest rate movements.

The group recorded a \$179 million unrealised gain on interest rate derivatives which is not included in the phased annual plan. This reflects the rise in interest rates.

These contributed to a strong net surplus after tax position of \$336 million for the first half of the year.

Total net assets for the group increased by \$330 million from June 2013. The key contributors include net investment in property, plant and equipment \$295 million, increase fair value of derivative financial instruments \$146 million and a decrease in payables and accruals \$141 million due to the timing of the group's operating activities. These were offset by an increase in debt \$254 million.

During the period the group invested \$649 million to expand and renew community and infrastructure assets. This was funded primarily by operating cash surpluses \$395 million and new debt \$254 million.

The group has prudently managed the debt portfolio over the six month raising new debt and refinancing \$641 million of maturing debt. The group's approach to debt management is to diversify its funding sources with a mix of domestic, Local Government Funding Agency and offshore borrowings. During the six months the group extended the term of debt and lowered cost of funding.

STATEMENTS OF FINANCIAL PERFORMANCE

\$millions	Actual YTD 6 months to 31 Dec 2013	Phased Annual Plan 2014 * 6 months to 31 Dec 2013	Annual Plan 2014 12 months to 30 June 2014
Revenue			
Rates	775	785	1,395
Fees and user charges	502	495	950
Operating grants	114	118	237
Capital grants	90	89	190
Development and financial contributions	47	54	80
Other	174	87	230
Total revenue	1,702	1,628	3,082
Expenses			
Employee benefits	357	359	701
Depreciation and amortisation	358	348	696
Grants, contributions and sponsorship	87	82	108
Other	564	628	1,270
Total expenses	1,366	1,417	2,775
Net finance expense	175	180	367
Operating surplus/(deficit)	161	31	(60)
Net other gains/(losses)	171	-	22
Share of surplus in associates and jointly-controlled entities	21	18	37
Surplus/(deficit) before income tax	353	49	(1)
Income tax expense	17	5	12
Surplus/(deficit) after income tax	336	44	(13)

* Phased annual plan reflects the approved Annual Plan, plus any changes to budgets approved by the governing body since adoption of the plan.

STATEMENTS OF FINANCIAL POSITION

\$millions	6 months as at 31 Dec 2013	6 months as at 31 Dec 2012	12 months as at 30 Jun 2013
ASSETS			
Current assets			
Cash and cash equivalents (excluding bank overdrafts)	342	308	336
Receivables and prepayments	242	264	275
Other financial assets	333	311	331
Derivative financial instruments	2	-	4
Inventories	18	19	18
Non-current assets held-for-sale	32	24	42
Total current assets	969	926	1,006
Non-current assets			
Receivables and prepayments	104	117	97
Other financial assets	92	82	86
Derivative financial instruments	178	37	75
Property, plant and equipment	34,507	33,894	34,212
Intangible assets	415	359	403
Biological assets	2	4	2
Investment property	433	371	421
Investment in associates and jointly-controlled entities	751	743	753
Total non-current assets	36,482	35,607	36,049
Total assets	37,451	36,533	37,055
LIABILITIES			
Current liabilities			
Employee entitlements	75	77	71
Payables and accruals	393	436	539
Borrowings	1,200	927	1,290
Derivative financial instruments	21	12	13
Tax payable	-	8	10
Provisions	71	105	94
Total current liabilities	1,760	1,565	2,017
Non-current liabilities			
Employee entitlements	6	7	6
Payables and accruals	31	10	26
Borrowings	4,938	4,568	4,594
Derivative financial instruments	162	370	215
Provisions	393	412	394
Deferred tax liabilities	1,003	883	975
Total non-current liabilities	6,533	6,250	6,210
Total liabilities	8,293	7,815	8,227
Net assets	29,158	28,718	28,828
EQUITY			
Contributed equity	26,734	26,315	26,734
Accumulated funds	236	182	(58)
Reserves	2,188	2,221	2,152
Total ratepayer equity	29,158	28,718	28,828
Non-controlling interest	-	-	-
Total equity	29,158	28,718	28,828

STATEMENTS OF CASH FLOWS

\$millions	6 months to 31 Dec 2013	6 months to 31 Dec 2012	12 months to 30 Jun 2013
Cash flows from operating activities			
Receipts from customers, rates, grants and other services	1,589	1,500	2,879
Interest received	5	4	18
Dividends received	24	20	42
Payments to suppliers and employees	(1,026)	(1,085)	(2,047)
Interest paid	(181)	(151)	(320)
Net cash inflow from operating activities	411	288	572
Cash flows from investing activities			
Advances to related parties	-	(14)	(17)
Sale of property, plant and equipment, investment property and intangible assets	5	8	18
Purchase of property, plant and equipment, investment property and intangible assets	(684)	(636)	(1,315)
Equity investment in subsidiaries and associates	-	(1)	(4)
Acquisition of other financial assets	1	(19)	(10)
Proceeds from sale of other financial assets	25	12	32
Advances to external parties	(4)	(5)	(6)
Net cash outflow from investing activities	(657)	(655)	(1,302)
Cash flows from financing activities			
Proceeds from borrowings	895	670	1,260
Repayment of borrowings	(640)	(205)	(406)
Repayment of finance lease principal	(1)	(2)	(3)
Net cash inflow from financing activities	254	463	851
Net increase in cash and cash equivalents and bank overdrafts	8	96	121
Opening cash and cash equivalents and bank overdrafts	333	212	212
Closing cash and cash equivalents and bank overdrafts	341	308	333

OurAuckland review

File No.: CP2014/03629

Purpose

This report responds to resolution FIN/2013/5 (b), December 2013: “request officers to assess alternatives to OurAuckland including an insert in local community newspapers and a new broadsheet.”

Executive Summary

This report outlines a number of alternatives for formatting and distributing *OurAuckland* and the related costs of each. It also presents learnings from *OurAuckland's* continuous improvement program. A summary is provided in the table below where shaded boxes show that taking an alternative approach would have a positive impact or maintain status quo in terms of achieving OurAuckland's key targets of reaching all Aucklanders with regional and local content, while delivering value for money.

Format and frequency options	Annual cost (production/delivery)	Impact on reach vs. current state	Other impacts
A4, monthly, 16pg, current letterbox	\$1,172,512	None	Not compact format preferred by readers
Broadsheet, monthly, 4pp, current letterbox	\$1,047,233	None	Not compact format preferred by readers
A5, fortnightly distribution, 16pg, current letterbox	\$1,607,390	Same reach, twice as often	Additional resource required; pre-launch testing indicated that readers prefer monthly
Solus into letterbox via Postie, A5 monthly, 24pg	\$1,165,879	None	Delivered on its own, but most days of week letterbox will also contain junk mail
Addressed mail, A5 monthly, 24pg	\$4,635,268	None	None
Current distribution plus supermarket stands, A5 monthly, 24pg	\$926,543, plus costs indicated in 4.4 below	Additional 3,000 copies/month, including duplication with other distribution channels	Resource intensive to set up and maintain; potential littering near supermarkets; inability to match content to customers' ward/board area
Insert into community papers, A5 monthly, 24pg	\$889,050	Reach and readership vary by local board area (detail in 4.5)	Limited ability to tailor content to local board
Current state: monthly into letterboxes, A5 format, 24pg	\$926,543	Reach remains at 98% of households, readership averages 53%	Two pages tailored to each ward, potential to increase

Recommendation/s

That the Finance and Performance Committee:

- a) note the contents of the paper.

Discussion

1. Alternative formats and frequency of distribution (print edition)

The table below presents the costs of different formats and more frequent distribution:

Option	Cost per month	Cost per household per month	Annual Cost	Variance to current costs
Monthly, A4, 16pg	\$106,592	\$0.23	\$1,172,512	\$245,969
Broadsheet, 4pg	\$95,203	\$0.20	\$1,047,233	\$120,690
Fortnightly distribution, A5, 16pg	\$142,126	\$0.30 (\$0.15 per fortnight)	\$1,607,390	*\$680,847
Current state: monthly, A5 format, 24pg	\$84,261	\$0.18	\$926,543	\$0

*Excludes cost of additional resource required to deliver two publications per month.

A4 format

If council were to use the current delivery network, increase the size from A5 to A4 and reduce pagination from 24 pages to 16 pages, the cost per thousand to deliver increases due to the weight of the magazine. The overall monthly distribution cost would therefore increase from \$18,696 to \$24,446. The annual difference in cost would be \$245,969.

Broadsheet

Broadsheet format (620x420mm, folded to 310x210mm) is a similar size to the NZ Herald.

2. Current formats and frequency

The *OurAuckland* suite of communications comprises an A5 print publication; an A4 accessible version; digital content on Auckland Council's website, via email and a tablet/mobile app; and a recording hosted by the Royal New Zealand Foundation of the Blind. The combined suite reaches over 98 per cent of Auckland households.

Qualitative and quantitative research has been conducted since the publication's inception nearly three years ago and the latest data shows:

- 62% recognition of *OurAuckland*
- Nearly 80% of readers have taken an action as a result of reading *OurAuckland*, including submitting feedback on a consultation, attending an event, visiting a facility or council's website, or learning more about council initiatives and plans
- In 2013, 4% of respondents indicated that they didn't like much about *OurAuckland* and thought it was a waste of money, down from 6% in 2012 and 10% in 2011.

The current A5 format was determined by pre-launch testing (2011) in which it was the preferred size out of six options shown to Aucklanders. Our annual research shows that the A5 size is well-liked, and easy to read and carry. Pre-launch testing indicated that monthly delivery is the preferred frequency: less frequent delivery is considered to be not timely enough, and more frequent delivery raises a concern of 'funds wastage'.

In December 2013, qualitative research was conducted amongst Pacific peoples after data highlighted their lower than average readership levels in order to identify better ways to reach these communities.

The plan for *OurAuckland* is to continue grow its digital distribution in step with digital usage among Aucklanders, and over time reduce its reliance on print. This would deliver cost benefits, improve speed to market and improve the sustainable footprint of the publication.

3. Paper stock options

OurAuckland paper stock is reviewed annually, due to new products entering the market, against the following criteria:

- minimum page show-through to optimise readability for readers with sight impairments
- sustainably sourced (100% recyclable, PEFC Certification, elemental chlorine free)
- reliable supplier – able to guarantee ongoing supply of large volumes as our stock is ordered up to six months in advance to gain cost benefits
- differentiation from paper stocks used for junk mail.

Uno Bright Satin is currently the most economical stock that meets our requirements. Sample comparisons are as follow:

80gsm Uno bright satin (current)	\$57,201	Savings per issue
65gsm Solaris bulk 1.55	\$55,221	\$1,980
54gsm Solaris bulk 1.55	\$53,468	\$3,733

4. Alternative distribution options

4.1 Solus letterbox 'Postie' distribution (delivered with posted mail)

Although the more expensive Postie distribution option would separate *OurAuckland* from circulars at the time of delivery, *OurAuckland* would still end up in the letterbox alongside circulars. Postie distribution would not provide for tailored ward content as Postie boundaries are not aligned to Auckland Council ward boundaries. If we printed only one version of *OurAuckland* for the whole region and used the Postie distribution, the overall monthly cost would increase to \$105,989 per month or \$0.22 per copy.

4.2 Solus distribution (delivered by walkers to letterboxes as a standalone item)

No distributors in New Zealand currently offer a solus, unaddressed letterbox drop as this is not commercially sustainable for them. With only one mailer to deliver, there is not enough of an incentive for walkers to complete rounds.

4.3 Direct mail (delivered by NZ Post)

Delivering *OurAuckland* as an addressed mail piece would increase costs to \$421,388 per issue, five times the current cost. Production lead-time would increase by two weeks to flow-wrap and label the magazine.

4.4 Distribution through supermarkets

Supermarket distribution was last explored in 2012. Arrangements would need to be made with supermarkets on a store-by-store basis with indicative costs as follow:

- 15 x branded metal stands : \$16,500 (excluding any fees payable to stores)
- Distribution / re-stocking x 15 stands : \$1,200 per issue
- Additional print costs : \$540 per issue

Excluding initial stand production costs, this style of distribution would cost \$1,740 per month to distribute an additional 3,000 copies (that is, \$0.58 per copy, compared to \$0.18 via letterbox distribution). Additional resource would be required to set up and maintain individual store relationships. Some stores are unwilling to support the distribution of free publications as they can create litter in the store vicinity.

4.5 Community papers

Community papers are circulated across the entirety of some local board areas such as the Western Leader in Waitakere and the North Shore Times in Devonport-Takapuna. Other local board areas such as Ōtara-Papatoetoe and Puketāpapa have lower coverage (78 per cent via

Manukau Courier and 65 per cent via Central Leader respectively). Readership is monitored for 27 of the 40 community papers in Auckland. For those monitored, readership ranges from 24 per cent to 81 per cent.

For comparison, *OurAuckland* is consistently circulated to 98 per cent of Auckland households and readership is currently at 53 per cent and increasing year on year.

Community papers cross over ward and local board boundaries, limiting the ability to localise content. Their readership is weakening in some areas, particularly inner-city Auckland and surrounding suburbs.

The cost to distribute *OurAuckland* via an insert into community papers, assuming one version rather than multiple ward versions with tailored content, is comparable to the current distribution costs via letterbox (see section 1).

4.6 NZ Herald

NZ Herald readership is 35% (all people 18+ in Auckland). Readership is currently weakening, particularly with audiences under 30.

It is possible to buy distribution for the Auckland region which includes some distribution outside of the Auckland Council boundaries, e.g. Taupo North. The cost of inserting *OurAuckland* monthly would be \$10,350, and print costs would reduce with only one version to print. A single, full page advertisement would be \$11,773.

4.7 Digital direct channels

The two largest digital databases available are:

- Smile City : reaches 58,367 Aucklanders, data cost of \$8,805
- Great New Zealand Survey : reaches 34,746 Aucklanders, data cost of \$8,430.

5. Inclusion of public notices

The legal requirements for the majority of public notices would require a weekly publication so that the notices were timely enough (see section 3 for cost of weekly publication), assuming the content for public notices is available in advance to cater to print deadlines. Public notices vary a great deal in terms of length and at short notice, with cost and paper sourcing implications for the print publication.

6. Two versions of *OurAuckland* (entertainment versus council business)

Research indicates that the most popular content within *OurAuckland* is the 'what's on' (events) section, followed by news about local areas. Popular content draws readers in, gets them reading the magazine and then introduces them to the more serious content. Separating content into two versions could result in reduced readership of some content.

7. Current distribution

The table below shows *OurAuckland's* current distribution network and how many in our community are reached by each channel.

Method of delivery	Monthly circulation	Notes
P.O. boxes	42,610	To compensate for inability to deliver to some apartment buildings and rural households
Apartments, cafes, libraries, council service centres and	15,949	Includes A4 accessible version

ferries		
Events eNewsletter	9,250*	*Weekly email distribution, not monthly
Web content	45,000+	Unique visitors to OurAuckland webpages monthly
Tablet / mobile app	2,544	Downloads since December 2013
Facebook content / reminders	8,900	Number of Facebook followers receiving average of 5 posts per month
Twitter content/reminders	10,591	Number of Twitter followers receiving average of 5 posts per month
A5 to household letterboxes	478,464	Average Auckland household has 2.97 people (Census 2013), so potential reach is approximately 1.421 million.

Consideration

Local Board Views

1. The options presented above have the potential to impact local board communications by reducing or eliminating content tailored to individual local board communities.

Māori Impact Statement

2. The *OurAuckland* continuous improvement program includes engaging with Māori readers to ensure that content and formats are relevant.

General

3. None.

Implementation Issues

4. None.

Attachments

There are no attachments for this report.

Signatories

Authors	Sophie Bostwick - Manager Brand and Communications Channel
Authorisers	Wilma Falconer - Communications and Public Affairs Interim Director Andrew McKenzie - Chief Finance Officer

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

That the Finance and Performance Committee:

- a) exclude the public from the following part(s) of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

C1 Update on proposal to acquire an easement in Newmarket for access purposes

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
<p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>	<p>s7(2)(h) - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>In particular, the report contains financial information that may affect Council's ability to undertake negotiations or deal with landowners going forward. Disclosure of financial information may result improper gain or advantage.</p> <p>s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> <p>In particular, the report contains financial information that may affect Council's ability to undertake negotiations or deal with landowners going forward. Disclosure of financial information may result improper gain or advantage. .</p>	<p>s48(1)(a)</p> <p>The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.</p>