Report 99.211
11 May 1999
File: G/4/1/5

Report to the Policy and Finance Committee
from Paul Laplanche, Finance Manager

Financial Report for the Nine Months Ended 31 March 1999

1. Purpose

1.1 To receive the March 1999 Financial Statements (forwarded under separate cover).

1.2 To inform the committee of the updated forecast year end position.

2. Comment

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus (excluding the gain on sale of investments) ahead of budget by $3.4 million, and capital expenditure below budget by $0.9 million. The gain on sale of $17.7 million was explained in report 99.1, which was considered by the Committee on 2 February 1999.

The General Manager and the Chief Financial Officer conduct a comprehensive review of the organisation's performance each quarter. As part of this review, management have re-examined the forecast financial position to the end of this financial year. This updated forecast is termed "outlook" in this report and in the March 1999 financial statements. It is normal practice that these outlook figures now replace the forecast figures prepared at half year.

3. Financial Performance for the Nine Months to 31 March 1999

3.1 Operating Surplus

The year to date operating result after nine months reflects an operating surplus ahead of budget of $3.4 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	1998/99 YTD Actual $000s	1998/99 YTD Budget $000s	Actual vs Budget Variance $000s	1998/99 Year Outlook $000s	1998/99 Year Budget $000s	Outlook vs Budget Variance $000s
Utility Services	2,877	1,535	1,342 F	3,502	2,064	1,438 F
Landcare	964	695	269 F	382	1,234	852 U
Environment	28	(149)	177 F	(181)	(183)	2 F
Transport	(671)	(688)	17 F	(888)	(902)	14 F
Wairarapa	(178)	(440)	262 F	(1,613)	(710)	903 U
Corporate Services	44	(27)	71 F	8	31	23 U
Finance & Admin	587	(234)	821 F	327	(279)	606 F
Investment Mgmt	3,076	2,451	625 F	4,572	3,822	750 F
Regional Stadium	542	346	196 F	669	478	191 F
Elected Members	(88)	(87)	1 U	(139)	(117)	22 U
Rates Collection	43	(1)	44 F	0	0	-
Business Units Rates Contribution	(2,722)	(2,722)	-	(3,629)	(3,629)	-
Management Savings Objective	0	466	466 U	0	621	621 U
Total Operating Surplus (Deficit)	**4,502**	**1,145**	**3,357 F**	**3,010**	**2,430**	**580 F**

Significant components of this favourable year to date variance are as follows:

(1) ***Utility Services Favourable Variance of $1.34 million***

(a) *Water Supply Favourable Variance of $1.64 million*

- The overall operating surplus above budget of $1,639,000 in Water Supply (excluding Forestry) is partly due to savings in direct costs (largely materials and personnel). The materials variance of $471,000 is primarily due to less power, chemicals and other materials being used. The $461,000 variance in personnel is due to a combination of the timing of replacing staff and less overtime being worked than had been anticipated.

- The higher than expected external revenue of $397,000 corresponds directly to greater Operations Network activity and settlement of the 1998 Grenada incident debt with WCC. Additional investment revenue of $87,000 has also contributed to the overall surplus, which relates to higher than budgeted interest on reserves.

- Savings in financial costs of $305,000, can be attributed to reduced debt servicing costs, mainly because the greater than expected 1997/1998 year end surplus was applied to debt reduction, in accordance with Council policy.

(b) *Forestry Unfavourable Variance of $0.30 million*

- The operating deficit above budget of $297,000 in Plantation Forestry is not inconsistent with management's expectations considering the current market conditions. Nevertheless, March was a particularly poor month, with a combination of inferior log quality and reduced work crew numbers, contributing to almost 50% of this year to date adverse variance.

(2) ***Landcare Favourable Variance of $0.27 million***

- Personnel costs show a favourable variance of $134,000 which reflect permanent savings due to vacancies and late filling of budgeted positions across the division.

- External revenue is below budget by $41,000 primarily due to reduced gravel extraction for the Upper Rahui project, partially offset by greater gravel extraction at the Hutt Mouth. Internal revenue is below budget by $146,000, as a result of the late start of rechargeable projects in Natural Forestry and Regional Parks; these projects are now underway and the variance is expected to be absorbed by year end.

- Flood protection operations show an unfavourable expenditure variance of $100,000. The total costs of the October 1998 floods have reached $585,000 but this has been offset by timing variances on normal maintenance works due to consent issues and diversion of resources to repair works. Significant levels of flood repair works will be completed in the fourth quarter, although some costs will be rebudgeted into 1999/00 financial year.

- Natural Forests and Regional Parks together have a favourable variance in operating expenditure of $452,000. This is due to delays in pest control operations, roading projects and rural fire contingencies. A major pest control project is programmed to take place in May and this is expected to consume a portion of the variance.

(3) ***Environment Favourable Variance of $0.18 million***

- Personnel costs are under budget by $81,000 due to unpaid staff absences in the Resource Policy Department (scholarship and parental leave) and time lags in replacing staff in the Division.

- Material costs are $94,000 below budget due to permanent savings of $30,000 in advertising costs on notified consents, and $20,000 repairs and maintenance project costs in Harbours. Expenditure savings of $40,000 represent budgeted printing and advertising costs for the Regional Coastal Plan and the Discharge to Land Plan. These plans are now unlikely to be completed this year.

- External Contractors and Consultants are $97,000 over budget mainly due to legal costs incurred in March relating to the Regional Coastal Plan and contractors covering for staff vacancies. Internal Contractors are $77,000 below budget due to permanent savings of $59,000 with the decreased use of laboratory services and other timing variances of $18,000.

- Indirect expenditure is $41,000 over budget. The major items are unbudgeted depreciation of $17,000 and the unpaid J Juno fine of $18,000. Following the Court’s decision on 23 April to award the Council $41,000 legal costs the Court will now approach Juno for payment.

(4) ***Transport Favourable Variance of $0.02 million***

- The $523,000 favourable expenditure variance in the Public Transport Department is mainly due to the expenditure on contracted services being $468,000 below budget.

- The Transport Policy Department unfavourable expenditure variance of $601,000 is due to two factors. An overspend of $233,000 on external contractors, mainly because of the additional research required to develop a revised Regional Land Transport Strategy, and an overspend of $401,000 in infrastructure grants largely due to the unbudgeted purchases of land for car parking purposes at Porirua $180,000 and Paraparaumu $315,000 railway stations.

- A favourable expenditure variance of $137,000 in the Customer Service Department is mainly due to underspending on timetable displays, special events advertising and personnel costs which are below budget by $55,000. (An inspector's position is vacant and use of Temporary staff at the Ridewell call centre has been less than expected.)

(5) ***Wairarapa Favourable Variance of $0.26 million***

- There are a number of offsetting variances within the Operations department; including an unfavourable variance of $564,000 on river management expenditure due to the costs of flood damage repair; $150,000 favourable variance due to the timing of the Reserve Forests Silviculture program and a $44,000 favourable variance in soil conservation expenditure due to drought conditions.

- The Planning and Resources department has a favourable variance of $100,000 largely due to the timing of contract expenditure for the consents activity and savings in personnel costs due to staff resignations.

- The Biosecurity department has a favourable variance of $378,000. Half of this variance relates to permanent savings in the Bovine Tb and Pest Animal activities. The remaining variance is due to the timing of expenditure of aerial and ground Bovine Tb operations.

- The $68,000 favourable variance in the Support Services department is mainly due to timing savings for materials expenditure and special rates revenue.

(6) ***Finance & Administration Favourable Variance of $0.82 million***

- The favourable operating surplus above budget of $518,000 in IT and Support Services is primarily as a result of reduced expenditure on software licence fees, supplies, consultants, repairs & maintenance and personnel. Personnel cost savings of $105,000 reflect vacancies in the department.

- A $220,000 favourable variance in Finance primarily relates to the FIS replacement costs budgeted as operating expenditure but now being capitalised as part of capital expenditure. This is therefore more to do with a change of accounting treatment than a real underspend.

(7) ***Investment Management Favourable Variance of $0.62 million***

- Savings in net financial costs of $787,000 resulting from a combination of less Council-wide expenditure (which consequently has led to debt levels being lower than expected), and lower than budgeted interest costs.

- Additional rental income of $97,000 from Council's investment properties in Blair and Allen Streets.

- Interest revenue from the invested proceeds from the sale of Port Wellington Ltd shares of $40,800,000 was lower than the combined interest and dividend revenue that was budgeted on the assumption that Port Wellington Ltd investment was held directly by the Council. This has resulted in a $237,000 unfavourable variance.

(8) ***Regional Stadium Favourable Variance of $0.20 million***

- Additional interest income of $169,000 was earned on funds borrowed to advance to the Wellington Regional Stadium Trust as earlier reported.

(9) ***Management Savings Objective Unfavourable Variance of $0.47 million***

- The 1998/99 Annual Plan incorporated a "savings yet to be found" figure of $622,000. This amount relates to the first nine months' share. Actual savings are reflected within the favourable variances of each division.

3.2 Capital Expenditure

Year-to-date capital expenditure for the nine months to 31 March 1999 is $0.9 million below budget.

CAPITAL EXPENDITURE	1998/99 YTD Actual $000s	1998/99 YTD Budget $000s	Actual vs Budget Variance $000s	1998/99 Year Outlook $000s	1998/99 Year Budget $000s	Outlook vs Budget Variance $000s
Utility Services	3,992	4,898	906 F	6,023	6,362	339 F
Landcare	1,166	1,654	488 F	2,544	1,829	715 U
Environment	66	73	7 F	107	83	24 U
Transport	0	64	64 F	15	64	49 F
Wairarapa	426	544	118 F	495	570	75 F
Corporate Services	0	23	23 F	23	23	-
Finance & Admin	1,041	305	736 U	2,770	305	2,465 U
Investment Mgmt	0	25	25 F	0	25	25 F
Elected Members	(1)	42	43 F	24	42	18 F
Total Capital Expenditure	**6,690**	**7,628**	**938 F**	**12,001**	**9,303**	**2,698 U**

6

Significant components of this favourable year to date variance are as follows:

(1) ***Utility Services Favourable Variance of $0.91 million***

- Project work has fallen slightly behind schedule, but is expected to catch up during the final quarter of the financial year, other than where permanent savings have already been identified. As a result, favourable variances have arisen, primarily due to the Wainuiomata Reaction Tank project, $129,000, the Waterloo project to increase supply capacity, $648,000, the Te Marua to Wellington pipeline value replacement project, $126,000, and the installation of flow meters and telemetry controls across the water supply network, $97,000.

(2) ***Landcare Favourable Variance of $0.49 million***

- Favourable variances in project work are mainly due to project modifications and timing variances on the Pakuratahi Bridge Restoration project, $56,000, Upper Rahui Construction project, $167,000, and Rimutaka Incline Roading project, $33,000.

- Savings of $42,000 have been made in the costs of publishing and public consultation for the Otaki Floodplain Management Plan. Further costs are to be incurred for the launch of the plan and "Friends of the River" Programme.

- The Porirua Flood Management Plan is $61,000 under budget as a result of the Findlay Street stream realignment being put aside by the flood repair priorities. This project will be rebudgeted to the 1999/00 financial year.

- The Wainuiomata Floodplain Management Plan (FMP) is $82,000 behind schedule, due to staff vacancies and commitments the Hutt Floodplain Management Plan. The Hutt FMP is running under budget by $47,000 due to a late start on the Nash St works (flood repair priorities).

(3) ***Regional Transport Favourable Variance of $0.64 million***

- Relates to the deferral of a vehicle purchase, $10,000, and the deferment of $50,000 of expenditure on an Automatic Vehicle Identification System. The system is being tested by the Auckland Regional Council, and at this time is not of an acceptable standard to warrant this Council to incur expenditure.

(4) ***Wairarapa Favourable Variance of $0.12million***

- This variance is a permanent saving as the purchase of a carrot cutter for Biosecurty has been cancelled.

(5) ***Finance and Administration Unfavourable Variance of $0.74 million***

- An unfavourable variance of $945,000 relating to the FIS project partly offsets the favourable operating surplus in Finance of $220,000. Although Council has approved expenditure on the new financial system it was not budgeted in the 1998/99 financial year. Actual funding for the finance system will be from a combination of loans and reserves set aside for that purpose.
- A favourable variance of $200,000 in IT and Support Services relates to the timing of expenditure on the new phone system for the Regional Council Centre.

4. Revised Year-end Forecast Position

4.1. Revised Forecast Year-end Operating Surplus

The year end forecast operating surplus has been adjusted following the quarterly management reviews. The forecast year end operating surplus is $3.0 million, an increase of $0.9 million over the December forecast of $2.1 million.

Detailed movements from the December forecast to the current forecast (outlook) are shown in the following table:

OPERATING SURPLUS (DEFICIT)	**1998/99 Year March Outlook $000s**	**1998/99 Year December Forecast $000s**	**Variance $000s**
Utility Services	3,502	3,323	179 F
Landcare	382	-133	515 F
Environment	-181	-105	76 U
Transport	-888	-683	205 U
Wairarapa	-1,613	-1,791	178 F
Corporate Services	8	18	10 U
Finance & Admin	327	169	158 F
Investment Mgmt	4,572	4,378	194 F
Elected Members	-139	-117	22 U
Rates Collection	0	0	0
Business Units Rates Contribution	-3,629	-3,629	0
Management Savings Objective	0	0	0
Regional Stadium	669	647	22 F
Total Operating Surplus (Deficit)	**3,010**	**2,077**	933 F

Significant elements that make up the increase in forecast surplus are:

(1) ***Utility Services Increase in Forecast Surplus of $0.18 million***

- The additional surplus forecast of $230,000 in Water Supply (excluding Forestry) is primarily due to direct cost savings. Further treatment plant materials efficiencies are anticipated worth $91,000, and continued low utilisation of internal contractor resource, $106,000.

- The increased forecast deficit of $51,000 in Plantation Forestry, directly corresponds to roading costs to be incurred at Whakatikei in order to open up the block for imminent harvesting.

(2) ***Landcare Increase in Forecast Surplus of $0.52 million***

- Flood damage repairs resulting from the October 1998 flood events amounting to $564,000 will be rebudgeted to the 1999/00 financial year, comprised of $522,000 on the Hutt River, $28,000 on the Otaki River and $13,000 on the Waitohu Stream.

- Gravel extraction revenue on the Otaki River has reduced by $41,000 in Flood Protection Operation, due to lack of demand.

(3) ***Transport Increase in Forecast Deficit of $0.20 million***

- Transfund income has been reduced by $0.18m, with rail and bus services expenditure under budget it may not be possible to claim the full Transfund budget.

(4) ***Wairarapa Decrease in Forecast Deficit of $0.18 million***

- Flood damage and other expenditure for River Management down 230,000 on previous forecast.

- Contribution towards cost of new PABX system; $50,000.

- Bovine Tb and pest Animal expenditure down $90,000 on previous forecast.

(5) ***Finance & Administration Increase in Forecast Surplus of $0.16 million***

- Further reduced expenditure on software licenses fees, supplies and personnel costs.

(6) ***Investment Management Increase in Forecast Surplus of $0.19 million***

- A further reduction in interest costs resulting from less Council wide expenditure (hence lower debt) and lower than expected interest rates.

4.2 Analysis of Operating Surplus - Areas of Benefit

It is important that Water Supply and Stadium surpluses and the Transport deficit are identified separately from other regional responsibilities given the different communities of benefit and funding issues involved. The table below analyses the operating surplus into these areas:

FORECAST OPERATING SURPLUS (DEFICIT)	1998/99 Year End Outlook $000s	1998/99 Year End Budget $000s	Outlook vs Budget Variance $000s
Water Supply	4,284	2,618	1,666 F
Transport	-888	-902	14 F
Stadium	669	478	191 F
Other Regional Responsibilities	-1,055	236	1,291 U
Total Council Operating Surplus	**3,010**	**2,430**	**580 F**

All areas of benefit anticipate a favourable variance with the exception of the other regional responsibility area, which is mainly due to the impact of the floods which occurred last October.

4.3 Revised Forecast Year End Capital Expenditure

Overall capital expenditure is forecast to be $12.0 million at year end compared to the December forecast of $11.8 million.

Detailed movements from the December forecast to the current forecast are shown in the following table:

CAPITAL EXPENDITURE	1998/99 Year March Outlook $000s	1998/99 Year December Forecast $000s	Variance $000s
Utility Services	6,023	6,141	118 F
Landcare	2,544	2,190	354 U
Environment	107	110	3 F
Transport	15	15	-
Wairarapa	495	449	46 U
Corporate Services	23	23	-
Finance & Admin	2,770	2,830	60 F
Investment Mgmt	0	0	-
Elected Members	24	42	18 F
Total Capital Expenditure	**12,001**	**11,800**	**201 U**

Significant elements that make up the increase in forecast capital expenditure are:

(1) ***Utility Services Decrease in Expected Expenditure of $0.12 million***

- A number of further permanent savings within the capital project work programme have now been identified. The most significant of these relate to the Orongorongo Pipeline project, $140,000, and the Waterloo project to increase supply capacity, $70,000. However, these and additional miscellaneous savings are partially offset by work scope increases in other projects, primarily the project to replace the Gear Island Pump Controls, $90,000.

(2) ***Landcare Increase in Expected Expenditure $0.35 million***

- Flood repair capital works accelerated from the 1999/00 year, primarily being $158,000 on the Waikanae River, and $124,000, on the Otaki River.

4.4 Year-end Funding - March 1999 Outlook

The following table shows the expected overall funding position of the Council at the end of the financial year.

The table shows that the Council is expecting to generate an operating surplus of $0.6 million above budget. The operating deficit in other regional responsibilities will be mainly funded from reserves.

FORECAST FUNDING SURPLUS (DEFICIT)	1998/99 Year End Outlook $000s	1998/99 Year End Budget $000s	Outlook vs Budget Variance $000s
Water Supply	4,284	2,618	1,666 F
Transport	-888	-902	14 F
Stadium	669	478	191 F
Other Regional Responsibilities	-1,055	236	1,291 U
Total Operating Surplus (Deficit)	**3,010**	**2,430**	580 F
Movements in reserves	6,661	1,791	4,870 F
Add back non cash items	6,698	6,602	96 F
Funding Surplus (Deficit) from Operations	**16,369**	**10,823**	5,546 F
Net capital expenditure	-12,001	-9,302	2,699 U
Proceeds from unbudgeted asset sales	0	0	0
New loans	34,264	33,390	874 F
Investment additions	-25,620	-25,500	120 U
Net Capital Expenditure and Investments	**-3,357**	**-1,412**	1,945 U
Working capital movements	0	0	0
Debt repayment	-13,012	-9,411	3,601 U
Net Funding Surplus / (Deficit)	**0**	**0**	**0**

The additional capital expenditure and loan funding is mainly due to the funding of the FIS project. The additional debt repayment is mainly due to Water Supply applying last year and this year's surplus to debt within the Water area.

5. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the month of March 1999.

6. Recommendations

(1) That the report be received and the contents noted.

(2) That the revised forecast figures to 30 June 1999 (termed 'outlook' within the March financial statements) replace the forecast figures prepared as part of the half year review.

Report prepared by:	Approved for submission:
PAUL LAPLANCHE Finance Manager	GREG SCHOLLUM Chief Financial Officer

Attachment 1 : **Treasury Management Policy Compliance Report**