Report 99.664
16 November 1999
File: CFO/2/1/5

Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Annual Report for the year ended 30 June 1999

1. Purpose

To report the results of the Council for the year ended 30 June 1999 and to seek Committee approval of the draft Annual Report (forwarded as a separate document).

2. Background

By 30 November each year the Council is formally required to adopt the Annual Report to enable the Audit Certificate to be released by Audit New Zealand.

In past years we have been able to produce an Annual Report in time for the September Council meeting. However, this year, with the changeover to the new FIS system the production of the Annual Report has been delayed. Next year I would expect that the Annual Report will be able to be considered at the October Council meeting, if not the September meeting.

Erica Mason, a Director from Audit New Zealand, will be in attendance at the meeting on 23 November 1999 to summarise the results of the annual audit and to answer any questions that the Committee (as the Council's audit committee) may have.

3. Annual Report Document

The 1999 Annual Report has been modelled on those prepared in previous years, which is not surprising given it is fundamentally a compliance report, with the majority of disclosures required by law.

Last year was the first year that the Council reported its actual performance pursuant to the Local Government Amendment Act 1996 (No 3). As a result, there are few, if any, new disclosures in the 1998/99 Annual Report.

4. Financial Performance for the year ended 30 June 1999

4.1 Operating Surplus

The Council's operating surplus for the 1999 financial year was $26.9 million compared with a budgeted surplus of $2.4 million. However, the actual surplus contains two large items which could be considered to be "one-off" or "abnormal" in nature.

(1) Gain on sale of investments of $17.7 million as a result of Council selling its investment in CentrePort to Port Investments Ltd, a 100% owned subsidiary. The gain on sale arose due to the difference between the conservative book value at which the Council had historically carried its Port Company Investment, and the value at which it was sold to Port Investments Ltd.

While there is a significant accounting profit arising from the sale, it is important to appreciate that the benefits of the sale have already been incorporated into Council's Long Term Financial Strategy.

(2) Special dividend of $6 million from WRC Holdings Ltd. The special dividend paid by WRC Holdings was made possible because of the payment of a special dividend of approximately $5.8 million from CentrePort to Port Investments Ltd. (Port Investments Ltd paid $6 million to WRC Holdings Ltd which in turn was onpaid to the Council.)

Councillors will recall that the payment of the special dividend by CentrePort was funded by the conversion of the convertible notes.

Adjusting for the two one-off items it is clear that at a high level the financial result for 1998/99 is more normal than it first appears:

Actual Operating Surplus	$26.9 million
Less Gain on sale CentrePort	($17.7 million)
Less Unbudgeted Special Dividend	($ 6.0 million)
	$ 3.2 million
Less Other	($ 0.8 million)
Budgeting Operating Surplus	$ 2.4 million

Detailed variances from the budget are shown below:

Operating Surplus (Deficit)	**1998/99 Actual $000**	**1998/99 Budget $000**	**Actual vs Budget Variance $000**
Water Supply	4,004	2,619	1,385F
Plantation Forestry	(769)	(554)	215U
Utility Services	**3,235**	**2,065**	**1,170F**
Landcare	463	1,234	771U
Environment	89	(183)	272F
Regional Transport	(682)	(902)	220F
Wairarapa	(928)	(710)	218U
Corporate Services	43	31	12F
Finance & Administration	(49)	(279)	230F
Investment Management	9,954	3,822	6,132F
Elected Members	8	(117)	125F
Rates Collection	(12)	-	12U
Net Divisional Expenditure	**12,121**	**4,961**	**7,160F**
Regional Stadium	677	478	199F
Business Units Rates Contributn	(3,629)	(3,629)	-
GM Savings Objective	-	622	622U
Operating Surplus (Deficit)	**9,169**	**2,432**	**6,737F**
Gain on sale POW Shares	17,723	-	17,723F
Total surplus/deficit	**26,892**	**2,432**	**24,460F**

Significant components of this favourable variance are as follows:

(1) Water Supply favourable variance of $1.39 million

The favourable variance to budget is due to savings across the board including personnel, materials and supplies, and financial costs.

The Water Group's financial results in 1998/99 have also been affected by a number of one-off items including:

- Write-down in the value of assets relating to the Karori reservoir
- Cost of debt buy back (Water Group's share of the buy back)
- Write-up in the value of consumable spares stock.

(2) Plantation Forestry unfavourable variance of $0.21 million

The operating deficit above budget is a reflection of the fact that net returns achieved were not as high as budgeted.

While revenue is above budget, this has been negated by increased costs.

(3) Landcare unfavourable variance of $0.77 million

The unfavourable variance is primarily associated with the additional repair costs in Flood Protection as a result of the October 1998 floods.

The Regional parks (operations) department also incurred an unfavourable variance, primarily as a result of the October 1998 floods. However, the unfavourable variance in Regional Parks operations was offset by a favourable variance in Natural Forestry.

(4) Environment favourable variance of $0.27 million

The favourable variance is primarily as a result of savings in personnel and material costs and increased net revenue from major resource consent applications.

(5) Regional Transport favourable variance of $0.22 million

The favourable variance is primarily due to savings on bus and rail contracts compared with what was budgeted, and savings in personnel and materials costs (e.g. timetable printing). These savings have been offset to some extent by infrastructure expenditure (land for commuter car parking purposes) and additional expenditure associated with the revision of the Regional Land Transport Strategy.

(6) Wairarapa unfavourable variance of $0.22 million

As with Landcare, the unfavourable variance in the Wairarapa is primarily related to the cost of repairing damage from the October 1998 floods.

The cost of flood damage was offset to some extent at a divisional level by savings in the Bovine Tb activity and forestry returns being higher than budgeted.

(7) Corporate Services favourable variance of $0.01 million

This year, for the first time, we have rebated to each division the corporate funding surplus, thereby reducing at year end the costs of overheads and internal charges to each division. As a result the corporate operating surplus at year end is very small (after the rebate).

(8) Finance and Administration favourable variance of $0.23 million

As noted in 7 above, the majority of the operating surplus from the corporate areas has been rebated to the operating divisions resulting in lower costs to each division.

(9) Investment Management favourable variance of $6.13 million

The favourable variance is primarily due to the unbudgeted special dividend of $6 million being received from the WRC Holdings Group.

Savings in financial costs during the year were offset by the cost of debt buy back undertaken in June 1999.

(10) Elected members favourable variance $0.12 million

This favourable variance is due to the impact of the Corporate rebate which provided for reduced overhead and internal charges into the Elected Members area.

(11) Regional Stadium favourable variance $0.20 million

This favourable variance primarily relates to the receipt of unbudgeted investment income on funds which were borrowed from the bank in July 1998 but not advanced to the Stadium Trust until August 1998.

(12) Management Savings Objective unfavourable variance of $0.62 million

The 1998/99 Annual Plan incorporated a "savings yet to be found" figure of $622,000. Actual savings made are reflected within the favourable variances of each division.

(13) Gain on sale (Port shares) favourable variances of $17.7 million

As noted earlier in this report, the gain on sale of $17.7 million arises from the Council selling its investment in CentrePort to Port Investments Ltd.

4.2 Capital Expenditure

Net capital expenditure for the year was $2.5 million above budget. The major component of the apparent overspend was the Council's new FIS system ($2.4 million) which was not approved by Council until August 1998 (after the budget had been set).

Detailed variances from the budget are shown below:

Capital Expenditure	1998/99 Actual $000	1998/99 Budget $000	Actual vs Budget Variance $000
Utility Services	6,136	6,362	226F
Landcare	2,261	1,829	432U
Environment	132	83	49U
Transport	42	64	22F
Wairarapa	499	570	71F
Corporate Services	20	23	3F
Finance & Administration	2,692	305	2,387U
Investment Management	-	25	25F
Elected Members	26	42	16F
Total Capital Expenditure	**11,808**	**9,303**	**2,505U**

The significant components of this unfavourable variance are as follows:

(1) Utility Services favourable variance of $0.23 million

A number of projects were behind schedule during the year but by year end have virtually all been completed. The major projects included:

- Upgrading Waterloo treatment plant.
- Completion of chemical reaction tank at Wainuiomata Water Treatment Plant.
- Renewal of Orongorongo pipeline from the intake to the tunnel.
- Completion of Rahui reservoir rising main.

(2) Landcare unfavourable variance of $0.43 million

The unfavourable variance is primarily due to the acceleration against budgeted timetable of the Hutt Flood Plain Management Plan (overall the project is expected to be within budget) and from acceleration of capital works in response to the October 1998 floods. In addition, some budgeted asset disposals (e.g. houses) did not occur.

(3) Finance & Administration unfavourable variance of $2.39 million

The unfavourable variance relates to the Council's new FIS system which although approved by the Council, was approved after the 1998/99 budgets had been finalised.

4.3 Overall Funding Position

The table below summarises the overall funding movements of the Council compared with budget:

	1998/99 Actual $000s	**1998/99 Budget $000s**	**Variance $000s**
Regional water supply	4,003	2,619	1,384
Regional transport	(677)	(895)	218
Regional stadium	678	478	200
Other regional responsibilities	22,888	228	22,660
Operating surplus(deficit)	**26,892**	**2,430**	**24,462**
Movement in reserves	5,518	1,790	3,728
Add back non cash items	(9,393)	6,601	(15,994)
Add back investment writedown	153	-	153
Funding surplus from operations	**23,170**	**10,821**	**12,349**
Less:			
Net capital expenditure	11,808	9,301	2,507
Investment additions	66,412	25,500	40,912
New loans	(32,845)	(33,389)	544
Investment redemption	(40,800)	-	(40,800)
Net Capital Expenditure and investment	**4,575**	**1,412**	**3,163**
Working capital movement	(586)	-	(586)
Debt repayment	19,181	9,409	9,772
Net funding surplus (deficit)	-	-	-

As has been Council practice, any surpluses above budget in the Regional Water Supply and Transport areas are either transferred into reserves or applied to debt reduction in those areas.

Also, in accordance with Council policy, all surplus funds after reserve transfers and working capital requirements have been used to repay debt.

In 1998/99 an additional $9,772,000 was paid off in addition to budgeted debt repayment. The major components of the debt repayment relate to:

- Council's receipt of the $6 million special dividend

- Additional unbudgeted debt repayment in the water area of $4.5 million.

The variances noted above under Investment additions, Investment redemption and non-cash items all primarily relate to Council's sale of its interest in CentrePort. Since the sale in October 1998 the Council has retained the sale proceeds of $40.8 million in liquid bank deposits.

4.4 Financial Position

The Council's balance sheet remains strong despite the increase in net Council debt to $95.1 million. (The increase in debt from $75.9 million at June 1998 was primarily due to the Stadium.) The Council has a debt/equity ratio of 26:74, or put another way, Council's assets are supported by 26% of liabilities and 74% of ratepayers' equity.

The consolidated position, incorporating the WRC Holdings Group (including CentrePort) also makes good reading with the consolidated debt/equity ratio of 34:66.

5. Non Financial Results

The Council is required by law to report in its Annual Report the performance against the performance indicators published in the 1998/99 Annual Plan.

Reporting is therefore grouped into Council's significant activities as follows:

Environment Management
Regional Transport
Regional Water Supply
Land Management
Flood Protection
Regional Parks

In addition we have separately reported on the Cost of Democracy and the Council's involvement with the Stadium and Investments.

Overall, it is pleasing to see that the majority of performance targets have either been met. Where shortfalls occurred, the reasons are clear.

6. Reserve Transfers

A detailed analysis of reserve movements during the 1998/99 year is attached as **Attachment 1** of this report, along with explanations of variances between budgeted and actual reserve movements. All variances from budgeted reserve movements need to be approved by the Council as part of its approval of the 1999 Annual Report. (The budgeted reserve movements were implicitly approved as part of approval of the 1998/99 Annual Plan.)

7. Compliance with Treasury Management Policy

There has been one minor technical breach of the Treasury Management Policy during the months of July and August 1998 associated with the investment (on a temporary basis) of the $25 million Stadium loan prior to it being advanced to the Stadium Trust. This has been fully reported throughout the year.

8. Communications

The Council's Annual Report is essentially a compliance report which is required by law. However, Council's continued good financial performance and prudent debt management should be communicated publicly.

9. Recommendations

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

(2) That the following net amounts, in addition to those budgeted, be added to or deducted from, the respective reserves:

(a)	*Hutt Ground Water*	*$40,000*
(b)	*Transport Rate*	*$234,000*
(c)	*Wairarapa Rating Schemes - Rivers*	*($346,000)*
(d)	*Wairarapa Rating Schemes – Catchment*	*$4,000*
(e)	*Wairarapa Rating Schemes – Drainage*	*($6,000)*
(f)	*Regional Water Supply*	*($1,763,000)*
(g)	*WCW Network*	*($277,000)*
(h)	*River Rate*	*($280,000)*
(i)	*Akura Nursery*	*($47,000)*
(j)	*Flood Contingency*	*($846,000)*
(k)	*Finance Expenditure c/f*	*($750,000)*
(l)	*Wairarapa Technical Service c/f*	*($15,000)*

(m)	*Admin Properties c/f*	*$5,000*
(n)	*Bovine Tb Rate*	*$184,000*
(o)	*Wairarapa Shingle Royalty*	*$11,000*
(p)	*Rivers Transit Maintenance*	*($288,000)*
(q)	*Wairarapa workshop*	*$10,000*
(r)	*Stadium*	*$170,000*
(s)	*Biosecurity expenditure c/f*	*$39,000*
(t)	*Flood Protection expenditure c/f*	*$25,000*
(u)	*Wairarapa Consents expenditure c/f*	*$30,000*
(v)	*Resource Policy expenditure c/f*	*$30,000*
(w)	*Wairarapa Operations expenditure c/f*	*$28,000*
(x)	*Wairarapa Waipoua Weirs c/f*	*$90,000*

(3) That in line with Council policy, the remaining surplus after reserve transfers and working capital requirements be applied to debt reduction.

(4) That the Financial Statements and accompanying notes for the year ended 30 June 1999 be adopted subject to receipt of the Audit Report, and that any minor adjustments requested by Audit New Zealand be considered by officers and, if necessary, amended, pursuant to resolution (5) below.

(5) That the Annual Report be adopted and published subject to any minor editorial amendments which should be approved by the Chairman.

Report prepared by: Approved by:

GREG SCHOLLUM
Chief Financial Officer

HJ STONE
General Manager

Attachment 1: Department Reserve Analysis

1999 Draft Annual Report is enclosed as a Separate Attachment to this report