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

Financial Report for the Quarter Ended 30 September 2002

1. Purpose

To receive the September 2002 Financial Statements (forwarded under separate cover).

2. Comment

Consistent with the wishes of the Council, financial results are reported each quarter, with updates by exception in the intervening months.

The year to date figures reflect favourable financial results, with the operating surplus ahead of budget by $0.6 million and capital expenditure below budget by $0.8 million. At this time of year many projects are still in start up phases and the variances are therefore mainly due to timing differences rather than permanent savings.

At this time the “Forecast” figures assume no variance from the original budget. It is our normal practice for the year end forecast figures to be prepared as part of the half year review in February. This enables the Council to consider any unforeseen changes in expenditure priorities at the half year within the context of the likely year end financial result.

3. Financial Performance for the Three Months to 30 September 2002

3.1 Operating Surplus

As noted above, the year to date operating result after three months reflects an operating surplus ahead of budget of $0.6 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Forecast $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Water Group	554	150	404 F	565	565	-
Plantation Forestry	(383)	(57)	326 U	(225)	(225)	-
Utility Services	**171**	**93**	**78 F**	**340**	**340**	**-**
Transport	301	126	175 F	(106)	(106)	-
Landcare	766	690	76 F	1,557	1,557	-
Environment	194	0	194 F	(134)	(134)	-
Wairarapa	139	128	11 F	(108)	(108)	-
Corporate Advisory Services	(18)	(11)	7 U	(15)	(15)	-
Finance & Admin	96	12	84 F	(170)	(170)	-
General Manager	17	13	4 F	(55)	(55)	-
Investment in Democracy	3	(1)	4 F	(3)	(3)	-
Rates Collection	22	0	22 F	0	0	-
Net Divisional Surplus (Deficit)	**1,691**	**1,050**	**641 F**	**1,306**	**1,306**	**-**
Investment Management	1,771	1,802	31 U	8,163	8,163	-
Investment Rates Contribution	(1,457)	(1,457)	-	(5,827)	(5,827)	-
Total Operating Surplus (Deficit)	**2,005**	**1,395**	**610 F**	**3,642**	**3,642**	**-**

Significant components of the $0.6 million favourable year to date operating variance are as follows:

(1) ***Water Group $0.40 million favourable variance, due to:***

- A favourable variance within the Strategy and Asset area of $248,000 as a result of financial cost savings of $80,000 (due to lower than planned debt levels) and lower than budgeted expenditure in materials, supplies and services and consultants of $170,000.

- A favourable variance within the Operations area of $80,000 as a result of lower than budgeted expenditure on power and chemicals, offset by additional expenditure associated with the Wainuiomata Treatment Plant.

- A favourable variance within the Engineering Consultancy area of $44,000. This is primarily due to additional external revenue of $31,000.

(2) ***Plantation Forestry $0.33 million unfavourable variance, due to:***

- Significantly higher than budgeted roading maintenance costs to facilitate the ongoing Puketiro Forest harvest during the winter period.

(3) ***Transport $0.18 million favourable variance, due to:***

- A $123,000 favourable variance with new kickstart services to be commenced following the completion of the Hutt Valley Services Review.

- A $60,000 favourable variance with English Electric refurbishments deferred until agreement can be reached with the Passenger Rail Operator over capital funding.

(4) ***Landcare $0.08 million favourable variance, due to:***

- Staff vacancies. A recruitment phase is currently underway and a full contingent is expected to be in place in the new year. The majority of the savings generated to date will be taken up by recruitment costs.

- Timing variances around the expected start dates of several projects in both Parks and Forests and Flood Protection.

(5) ***Environment $0.19 million favourable variance, due to:***

- Reduced revenue of $92,000, as a result of a number of notified consents at various stages of completion. The shortfall is considered to be temporary.

- Reduced expenditure of $286,000 due to delays in a number projects within the resource investigation and resource policy areas. This includes collection of unwanted agricultural chemical collection ($36,000) and the stormwater investigation work ($51,000).

  The participation rate for the agricultural chemical collection has been lower than expected. This is similar to the response pattern that was experienced with the Wairarapa collection.

  The stormwater investigation work continues to be hindered. Sampling requires sustained rainfall over a 4-6 hour period to provide reliable information.

(6) ***Finance & Administration $0.08 million favourable variance, due to:***

- Savings of $26,000 in the Finance department due to a staff vacancy.

- Delays in rollout of the Records Management project have resulted in an underspend of $47,000.

3.2 Net Capital Expenditure

Year-to-date net capital expenditure for the three months to 30 September is $0.8 million below budget.

NET CAPITAL EXPENDITURE	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Forecast $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Utility Services	230	612	382 F	3,093	3,093	-
Landcare	235	392	157 F	3,282	3,282	-
Environment	45	83	38 F	299	299	-
Transport	0	0	-	27	27	-
Wairarapa	33	190	157 F	290	290	-
Finance & Admin	39	105	66 F	484	484	-
Investment in Democracy	32	0	32 U	30	30	-
Total Net Capital Expenditure	**614**	**1,382**	**768 F**	**7,505**	**7,505**	**-**

Significant components of the $0.8 million favourable year to date net capital expenditure are as follows:

(1) ***Utility Services $0.38 million favourable variance, due to:***

- Delays in starting various Water Group capital work projects have generated a favourable timing difference of $334,000. In addition, fewer than budgeted minor asset acquisitions have occurred to date, producing a further favourable variance of $48,000.

(2) ***Landcare $0.16 million favourable variance, due to:***

- The delay in the letting of tenders for vehicle replacements has created a favourable timing variance of $206,000.
- Progress on the Strand Park Channel alignment is ahead of target, creating an unfavourable timing variance of $59,000.

(3) ***Wairarapa $0.16 million favourable variance, due to:***

- Timing of vehicle replacements has created a favourable timing variance of $157,000.

(4) ***Finance & Administration $0.07 million favourable variance, due to:***

- Delays in the Records Management project which has resulted in a timing variance of $65,000.

4. Compliance with Treasury Management Policy

There was one instance of non-compliance with the Treasury Management Policy during the three months to September 2002. All External limits have been adhered to during the quarter but one internal limit has been breached (Forestry).

This has been signalled as a possibility for some time and needs to be addressed as part of the LTFS and review of the Treasury Management Policy over the next few months.

5 Communications

It is too early in the year to focus on the results in a meaningful way.

6. Recommendations

That the report be received and the contents noted.

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

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

Attachment 2: **Joint Venture Consultancy Costs to 30 September 2002**