greater WELLINGTON
REGIONAL COUNCIL

Report **06.129**
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Committee **Policy, Finance and Strategy**
Author **Barry Turfrey, Chief Financial Officer**

Third Quarter Review for the nine months ended 31 March 2006

1. Purpose

- To inform the Committee of the financial performance to 31 March 2006 and to provide an explanation of major variances by division.

- To forecast the end of year position based on the management reviews completed by division.

- To provide an interim position in terms of achievement against the published performance targets in the Council's 2005/06 Annual Plan.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

Quarterly reviews between the Chief Executive/Chief Financial Officer and the Divisions were recently completed. It is timely, as a result of those reviews, to present a summary of Council's performance for the nine months ended 31 March 2006.

3.1 New Divisional Structure

The new Divisional structure came into operation on 1 February this year. The financial results discussed below are based on this new structure with the budgets being reallocated to the new Divisions. The total budget for the Council remains unchanged.

4. Financial Performance

4.1 Year to date Operating Performance

Divisional performance against budget continues to be varied across the Council. There are continued delays in capital expenditure and heavy maintenance in Transport. Operating expenditure is below budget in a number of other Divisions. As noted to the Committee previously, heavy rail maintenance was reclassified from capital expenditure to operating expenditure. This, along with other Transport capital expenditure has been separated in the detailed financial summary in section 4.4 below.

After excluding revenue to fund transport capital expenditure, the operating surplus is $1.76 million, compared with the budget deficit of $2.99 million.

The Council's consolidated Statement of Financial Performance is included as **Attachment 1**.

Further details of the variances are explained below.

4.2 Funding Statement

The delays in capital expenditure, heavy maintenance and reduced operating expenditure have contributed to actual cashflow being higher than budget. This is the main contributor to the reduction in the Council's external debt by $5.4 million when compared to budget.

This lower level of debt has benefited external finance costs by $0.2 million. However, this has been largely offset by higher than budgeted interest rates. Overall, actual finance costs are slightly below budget at $3.4 million.

The Funding statement is included as **Attachment 2**.

4.3 Statement of Financial Position

The Council's Statement of Financial Position shows the current, budget and previous year's financial position.

The Statement of Financial position is included as **Attachment 3**.

4.4 Financial Summary

The following table shows the year to date variance by division.

Wellington Regional Council
Summary Statement of Financial Performance - Year to Date
For the Period Ending - 31 March 2006

OPERATING SURPLUS / (DEFICIT) $(000)'s	Last Year	Actual	Budget	Variance
	For the Period Ending - 31 March 2006			
Water Group	550	568	(690)	1,258
Forestry	(715)	(515)	(661)	146
Regional Parks	245	436	(60)	496
Water Supply, Parks & Forests	**80**	**489**	**(1,411)**	**1,900**
Transport Policy and Strategy	(12)	(153)	(177)	24
Transport Infrastructure & Procurement	(699)	(811)	(2,554)	1,743
Total Transport	**(711)**	**(964)**	**(2,731)**	**1,767**
Environment	683	428	49	379
Catchment Management	2,002	1,131	687	444
Corporate	41	(100)	33	(133)
Finance, IT & Support Services	669	707	329	378
Investment in Democracy	(107)	54	56	(2)
Divisional Operating Surplus	**2,657**	**1,745**	**(2,988)**	**4,733**
Investment Management	7,316	5,837	5,814	23
Business Unit Rates Contribution	(5,718)	(5,818)	(5,820)	2
Net Council Operating Surplus / (Deficit)	**4,255**	**1,764**	**(2,994)**	**4,758**
Landcare: Sale of Mabey Road	3,155	-	-	-
Transport - Procurement Capex	5	325	8,212	(7,887)
Total Council Operating Surplus	**7,415**	**2,089**	**5,218**	**(3,129)**

* Statement excludes Regional Strategy

4.4.1 Water - favourable variance of $1,258,000

Savings on a year to date basis have occurred in a number of areas, specifically:

- External consultants, $377,000, mainly due to timing delays and reduced maintenance.
- Materials and suppliers, $310,000, primarily in power and chemicals.
- Personnel costs, $113,000.
- Internal revenue is up $255,000 from unbudgeted cost recoveries and miscellaneous sales.

4.4.2 Forestry - favourable variance of $146,000

Log volumes were up on budget, with a small increase in log prices. Overall this contributes to a $218,000 favourable variance.

Offsetting this were operating expenses which were $70,000 ahead of budget, mainly in contractor costs.

4.4.3 Regional Parks– favourable variance of $496,000

Savings in personnel and contractor costs due to delays in management plans, removal of storm damaged trees in the Korokoro Valley and the taking over of Whitireia Park total some $390,000.

4.4.4 Transport Infrastructure - favourable variance of $1,743,000

The change in the accounting for heavy maintenance and revenue for funding capital expenditure have been separated out to allow better comparison between actual and budget.

The Rail Contract remains unsigned and this has caused delays in a number of rail projects, especially heavy maintenance and capital expenditure.

Revenue is below budget by $570,000, and operating expenditure is $2,102,000 below budget.

The major variances in operating expenditure are:

Favourable (unfavourable)	**$'000's**
Delays in bus, rail and trolley contracts	1,384
Inflation – diesel / staff	(2,249)
Delay in rail carriage refurbishment	660
Various rail projects	1,410
Service design	359
Admin costs	250
Marketing	216
Other	72
Total	**2,102**

Higher inflation for diesel and wages for bus contracts have impacted on the period. These increases are calculated from a Land Transport index.

The continuing delays in signing both the Rail and Trolley Bus Contracts have reduced expenditure in these areas as well as delaying rail carriage refurbishment.

The various rail projects which are behind schedule include integrated ticketing, real time information and those associated with the Western Corridor project.

Savings in service design and marketing are also affected by delays in the rail and trolley contracts.

4.4.5 Transport Policy – favourable variance of $24,000

Operating expenditure is below budget by $948,000, which in turn has reduced revenue by $925,000. Grants from Land Transport can only be claimed once expenditure is incurred.

The major savings in operating savings are;

- Wairarapa log freight, $500,000 as no logs have been transferred by rail as yet

- Travel coordination, $250,000 due to the delay in appointing a senior planner and the development of the Travel Behaviour Change Program. The Business Case is now with Land Transport.

- Regional Land Transport Strategy delay, $220,000.

4.4.6 Environment - favourable variance $379,000

Total revenue is $105,000 ahead of budget primarily due to the increased consents fees from the Meridian wind farm consent application.

The Division's expenditure is some $275,000 more than budget.

The main reasons for this variance are:

- Personnel costs were under budget by $137,000.

- Materials and supplies were higher than budget by $28,000 due to the Meridian consent costs.

- Consultant costs were less than budget by $101,000 due to less activity than expected.

4.4.7 Catchment Management - favourable variance of $444,000

External revenue is down due to cut backs in the Bovine Tb program requested by the Animal Health Board, which has also reduced the associated expenditure.

Gravel sales are higher than budget by $70,000.

4.4.8 Corporate – unfavourable variance of $133,000

Materials and supplies were higher than budget due to timing of the expenditure coupled with restructuring costs.

4.4.9 Finance, IT and Support – favourable variance of $378,000

Rates revenue is running $230,000 ahead of budget which is partly offset by decreases in external revenue of $201,000. Operating expenditure is $313,000 below budget in the areas of personnel costs, materials and supplies and contractors and consultants. These are largely expected to reverse by year end.

4.5 Forecast to 30 June 2006

After excluding revenue to fund transport capital expenditure the forecast deficit is $906,000, marginally ahead of the budget deficit of $1,390,000.

Wellington Regional Council
Summary Statement of Financial Performance - Full Year Forecast
For the Year Ending 30 June 2006

OPERATING SURPLUS / (DEFICIT)		Year ending 30 June 2006		
$(000)'s	Last Year	Budget	Forecast	Variance
Water Group	873	(817)	(335)	482
Forestry	(637)	(888)	(883)	5
Regional Parks	(311)	(397)	261	658
Water Supply, Parks & Forests	**(75)**	**(2,102)**	**(957)**	**1,145**
Transport Policy and Strategy	(145)	(174)	(106)	68
Transport Infrastructure & Procurement	1,172	(1,377)	(2,210)	(833)
Total Transport	**1,027**	**(1,551)**	**(2,316)**	**(765)**
Environment	338	(242)	90	332
Catchment Management	2,179	1,142	1,443	301
Corporate	(96)	31	(283)	(314)
Finance, IT & Support Services	949	342	413	71
Investment in Democracy	(78)	74	74	-
Divisional Operating Surplus	**4,244**	**(2,306)**	**(1,536)**	**770**
Investment Management	10,942	8,675	8,389	(286)
Business Unit Rates Contribution	(7,624)	(7,759)	(7,759)	-
Net Council Operating Surplus / (Deficit)	**7,562**	**(1,390)**	**(906)**	**484**
Landcare: Sale of Mabey Road	3,155	-	-	-
Transport - Procurement Capex	77	9,585	145	(9,440)
Total Council Operating Surplus	**10,794**	**8,195**	**(761)**	**(8,956)**

* Statement excludes Regional Strategy

The significant variances to budget are:

4.5.1 Water – favourable variance of $482,000

Water's latest forecast has improved by $665,000 from their previous forecast. The main contributor to the better result is the delay in commencing work on the potential new water sources, $526,000. There are also savings in power and chemicals of $140,000.

Overall this gives an improved forecast result over budget of $482,000.

4.5.2 Regional Parks – favourable variance of $658,000

Operating costs are forecast to be $578,000 below budget due to:

- Delays in taking over Whitireia Park, $185,000
- Non removal of storm damaged trees in Korokoro Valley, $110,000
- Delays in the preparation of Park Management Plans, $110,000
- Savings in support services, $65,000

- Delays in various projects, $175,000

4.5.3 Transport - unfavourable variance of $833,000.

The table below details the movements in the Transport forecast between revenue and expenditure items. It should be noted that increased (decreased) expenditure usually means increased (decreased) revenue from Land Transport. Thus, while GWRC still receives rate income for unspent monies, it does not receive any monies from Land Transport.

Transport Infrastructure & Procurement Division	**Revenue**	**Expenditure**	**Surplus / (Deficit)**
Budget	77,387	69,179	8,208
Capital Expenditure Deferred	(5,244)	0	(5,244)
Less accounting change for heavy maintenance	0	4,270	(4,270)
Adjusted Budget	72,143	73,449	(1,306)
Extra investment revenue	77	0	77
Bus, Trolley and Rail Contract Inflation	1,594	3,246	(1,652)
Bus & Rail contracts	490	999	(508)
Trolley contracts	(693)	(1,411)	718
Rail Projects	240	399	(160)
Heavy Maintenance deferred	(3,016)	(3,770)	754
Service Design Projects - Nrthrn &Wgtn	(148)	(300)	152
Other	(761)	(849)	88
Overhead	(22)	207	(229)
Forecast surplus / (deficit)	69,905	71,970	(2,065)

Apart from the increased costs for inflation the major variances in transport are due to the delays in signing the Rail and Trolley Bus Contracts, coupled with the accounting treatment change for heavy maintenance.

The $1,652,000 net increase costs for diesel reflects the sharp rise in the diesel price over the last few months based on the Land Transport index. The diesel price is not expected to fall over the forecast period and there is a risk that the NZ dollar will continue to fall against the US dollar, further increasing the diesel price and index.

Higher operating costs for bus contracts and the delay in signing the Rail Contract have increased costs by $508,000.

The delay in signing the Trolley Bus Contract is forecast to save approximately $718,000 due mainly to higher maintenance costs in the new contract for the overhead wires.

As noted in the December review the inability to sign the Rail Contract is putting at risk the current level of service as units may have to be withdrawn from service. This is both for the Ganz Mavag and the existing Wairarapa carriages.

The delay in the capital expenditure will put pressure on next year's programme for both operating and capital expenditure. This matter will be further considered at the end of the year when rebudgets are approved by Council.

4.5.4 Transport Policy – favourable variance of $68,000

Operating expenditure is forecast to be $970,000 below budget due to:

- Wairarapa log freight, $667,000 as no logs are forecast to be moved by rail

- Travel coordination, $472,000 due to the delay in appointing a senior planner and the development of the Travel Behaviour Change Program. The Business Case is with Land Transport.

- Regional Land Transport Strategy delay, $246,000

Offsetting the above cost reductions are increases in costs for the Western Corridor, $455,000.

Forecast revenue from grants has also decreased by a similar amount ($900,000) as monies are not received from Land Transport until expenditure is incurred.

4.5.5 Environment – favourable variance of $332,000

External revenue is $181,000 ahead of budget due primarily to the Meridian consents.

Personnel costs are some $127,000 below budget due to staff movements and vacancies.

4.5.6 Catchment Management – favourable variance of $301,000

External revenue will be down by $1,500,000 mainly due to cutbacks in the Bovine Tb program as requested by the Animal Health Board. This was partly offset by higher gravel sales of $170,000.

The cutbacks in the Bovine Tb work have reduced forecast operating expenditure by $1,800,000.

4.5.7 Corporate – unfavourable variance $314,000

Additional amounts for communications expenditure due to higher printing costs and restructuring costs.

4.5.8 Finance – Favourable variance $71,000

Additional revenue from rates and lower personnel costs has been partly offset by unbudgeted expenditure on Pandemic supplies for the Council.

5. Capital Expenditure

5.1 Year to date variances

Wellington Regional Council Summary Statement of Capital Expenditure - Year to Date For the Period Ending - 31 March 2006				
Net Capital Expenditure	**For the Period Ending - 31 March 2006**			
$(000)'s	Last Year	Actual	Budget	Variance
Water Group	1,390	5,094	4,761	(333)
Forestry	178	83	184	101
Regional Parks	229	207	401	194
Water Supply, Parks & Forests	**1,797**	**5,384**	**5,346**	**(38)**
Transport Policy and Strategy	-	-	-	-
Transport Infrastructure & Procurement	42	(6)	(1)	5
Transport - heavy maintenance	5	325	8,212	7,887
Total Transport	**47**	**319**	**8,211**	**7,892**
Environment	519	239	270	31
Catchment Management	3,424	3,398	2,967	(431)
Corporate	66	52	74	22
Finance, IT & Support Services	657	318	572	254
Investment in Democracy	24	13	0	(13)
Divisional Capital expenditure	**6,534**	**9,723**	**17,440**	**7,717**
Landcare: Sale of Mabey Road	(3,385)	-	-	-
Investment Management	334	3	260	257
Business Unit Rates Contribution	-	-	-	-
Council Capital expenditure	**3,483**	**9,726**	**17,700**	**7,974**
* Statement excludes Regional Strategy				

Apart from Transport, year to date capital expenditure is largely running in line with budget. The reduction in Transport capital expenditure is detailed below.

5.2 Full year forecast variances

Wellington Regional Council Summary Statement of Capital Expenditure - Full Year Forecast For the Year Ending 30 June 2006				
Net Capital Expenditure	**Year ending 30 June 2006**			
$(000)'s	Last Year	Budget	Forecast	Variance
Water Group	4,226	6,349	6,696	(347)
Forestry	333	238	119	119
Regional Parks	288	519	294	225
Water Supply, Parks & Forests	**4,847**	**7,106**	**7,109**	**(3)**
Transport Policy and Strategy	-	-	-	-
Transport Infrastructure & Procurement	127	-	-	-
Transport - heavy maintenance	77	11,995	1,420	10,575
Total Transport	**204**	**11,995**	**1,420**	**10,575**
Environment	582	470	238	232
Catchment Management	5,465	5,365	5,822	(457)
Corporate	99	219	224	(5)
Finance, IT & Support Services	716	1,282	442	840
Investment in Democracy	49	5	5	-
Divisional Capital expenditure	**11,962**	**26,442**	**15,260**	**11,182**
Landcare: Sale of Mabey Road	(3,385)	-	-	-
Investment Management	336	620	10	610
Business Unit Rates Contribution	-	-	-	-
Council Capital expenditure	**8,913**	**27,062**	**15,270**	**11,792**
* Statement excludes Regional Strategy				

The major variances are as follows;

5.2.1 Water – $347,000 increase over budget

The increased forecast expenditure is on a variety of capital works programs which were detailed and approved by the Utility Services Committee at their February meeting.

5.2.2 Catchment Management - $457,000 increase over budget

Additional capital project expenditure for Opahu Stream, Jim Cooke Park and Waiwhetu investigation. These have been separately approved by Council.

In addition, the Ava Rail Stopbank project is running ahead of schedule.

5.2.3 Finance, IT and Support Services – $840,000 decrease from budget

The SAP upgrade has been completed under budget, however, a number of IT projects have been delayed.

5.2.4 Transport – $10,575,000 decrease from budget

Transport Forecast Capital expenditure:

Tranport Capital Expenditure	Year To Date Actual $000	 Budget $000	 Variance $000	Full Year Budget $000	Full Year Forecast $000
RS Capex - New EMU's	290	727	438	1,000	1,000
RS Capex - Heavy Maint.	-	3,203	3,203	4,270	-
RS Capex - Rolling Stock Oth.	-	1,219	1,219	1,625	-
RI Capex - Station Maint.	-	1,800	1,800	2,400	-
RI Capex - Rail Security	-	960	960	1,280	-
J'Ville Mall Review Project	-	-	0	1,000	-
Concessionary ID Card	-	203	203	270	270
Total Mobility Project	-	-	0	50	50
Other Transport Assets	35	100	100	100	100
	325	8,211	7,921	11,995	1,420

Note: RS – Rolling Stock

EMU- Electrical Multiple Units

RI – Rail Infrastructure

As has been noted previously, the delay in signing the Rail Contract has put on hold virtually the entire capital expenditure programme in Transport.

After adjusting for the heavy maintenance Transport is forecasting to spend $1,420,000 for the year. The reasons for these delays have been well documented, namely the delay in signing the Rail Contract and GWRC's reluctance to spend this money without a contractual base.

6. Finance Costs

Finance costs for the Council are forecast to be slightly below budget at $4,705,000 (budget $4,747,000). Increased cash flow (from lower capital expenditure) has been largely offset by higher interest rates than budgeted. The current 90 day bank bill rate is 7.44% compared with the budgeted rate of 7.00%.

7. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2006.

8. Compliance with Treasury Management Policy

As at 31 March 2006, all Treasury Management Policy limits have been complied with apart from internal borrowing limit for Forestry. The previous breach for hedging limits for the next five years has now been remedied. Refer to **Attachment 4**.

9. Communications

No communications are necessary at this time.

10. Recommendations

That the Committee:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*

Report prepared by:

Barry Turfrey
Chief Financial Officer

Attachment 1: Statement of Financial Performance

Attachment 2: Funding Statement

Attachment 3: Statement of Financial Position

Attachment 4: Compliance with Treasury Management Policy