



**Report** 06.619  
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**Committee** Policy, Finance and Strategy  
**Author** Chris Gray, Finance Manager

## **First Quarter Review for the three months ended 30 September 2006**

### **1. Purpose**

- To inform the Committee of the financial performance to 30 September 2006 of the Council 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 2006/7 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 three months ended 30 September 2006.

### **4. Financial Performance**

#### **4.1 Year to date Operating Performance**

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

#### **4.2 Funding Statement**

The Council's 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**.

### 5. Financial Summary

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

Wellington Regional Council				
Summary Statement of Financial Performance - Operating Surplus \ (Deficit)				
For the 3 months ending - 30 September 2006				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	276	55	(565)	620
Forestry	(34)	(864)	(744)	(120)
Regional Parks	124	280	(80)	360
<b>Water Supply, Parks &amp; Forests</b>	<b>366</b>	<b>(529)</b>	<b>(1,389)</b>	<b>860</b>
Transport Policy and Strategy	96	61	(29)	90
Public Transport	(131)	(234)	(235)	1
<b>Total Transport</b>	<b>(35)</b>	<b>(173)</b>	<b>(264)</b>	<b>91</b>
Environment	138	227	14	213
Catchment Management	549	495	750	(255)
Corporate	45	15	18	(3)
WRS	127	(114)	(25)	(89)
Finance, IT & Support Services	154	126	115	11
Investment in Democracy	2	(15)	29	(44)
<b>Divisional Operating Surplus</b>	<b>1,346</b>	<b>32</b>	<b>(752)</b>	<b>784</b>
Investment Management	1,889	1,922	1,956	(34)
Business Unit Rates Contribution	(1,939)	(1,925)	(1,925)	-
<b>Council Operating Surplus / (Deficit)</b>	<b>1,296</b>	<b>29</b>	<b>(721)</b>	<b>750</b>
Revaluation RCC	-	-	-	-
Revaluation Forestry	-	-	-	-
Parks - Grant for Waitangirua Purchase	-	-	-	-
Public Transport - Capex / Investment	21	311	1,013	(702)
<b>Total Council Surplus / (Deficit)</b>	<b>1,317</b>	<b>340</b>	<b>292</b>	<b>48</b>

#### 5.1 Water - favourable variance of \$620,000 due primarily to:

- Savings of \$267,000 in respect of contractor costs for the new water source. This is largely a phasing of the expenditure and the amount spent will be in line with budget by year end.
- Lower personnel costs, \$88,000 due to higher allocation of staff time to capital expenditure. This is expected to reverse by year end.
- Decreased depreciation \$152,000, due to the timing of capital projects thus reducing depreciation, a trend which is reflected in the year end forecast.
- Savings in materials and supplies \$59,000, due mainly to savings in chemicals \$137,000, partly offset by higher power costs \$83,000.

## 5.2 Forestry - unfavourable variance of \$120,000 due primarily to:

- Higher than budgeted harvest costs, spent mainly on maintaining road access, \$66,000.
- Increased replanting costs, \$50,000.

The increased expenditure for both of the above items is expected to be in line with budget by year end.

## 5.3 Regional Parks - favourable variance of \$360,000 due primarily to:

- Delays in taking over management of Whitireia Park, \$67,000.
- Decreased contractor and consultant costs \$175,000, due mainly to the wet conditions delaying work programs.
- Personnel costs lower than budget due to delays in appointing staff in the new structure, \$18,000.
- Lower materials and supplies, \$52,000 due to delays in the work programs as noted above.

Excluding the savings on Whitireia Park the other variances are expected to reverse by year end.

## 5.4 Public Transport - favourable variance of \$1,000 due primarily to:

As in previous quarters the grants received in respect of capital expenditure have been extracted and shown separately.

While the year to date numbers are very close to budget there are a number of variances as noted below.

	\$000's
<b>Revenue</b>	<b>Variances</b>
Grants and subsidies	(817)
Internal revenue	(189)
Other	(10)
	<hr/>
	<b>(1,016)</b>
<b>Operating expenses</b>	
Bus contracts	(1,147)
Rail rolling stock	1,832
Service improvements	(222)
Trolley bus contract	404
Bus stop development	76
Other	72
	<hr/>
	<b>1,015</b>
<b>Total Variance</b>	<hr/> <b>1</b>

- The increased cost of bus contracts is due to the effect of diesel inflation, \$1,147,000. An additional \$573,000 has been received from LTNZ by way of grants in respect of this additional expenditure.

- Expenditure on rail rolling stock has been delayed, \$1,832,000. These projects include heavy maintenance, station maintenance and minor upgrades to EMUs. This has reduced grants from LTNZ by \$1,100,000 accordingly. This variance is expected to reverse by year end.
- The delay in signing the trolley bus contract has delayed some maintenance on the trolley overhead wires \$404,000. LTNZ grants were reduced by \$202,000 accordingly.

#### **5.5 Transport Policy - favourable variance of \$90,000 due primarily to:**

- Operating expenditure is down \$358,000 on budget due to the delay in the Wairarapa log freight project. This has reduced revenue by the same amount as it is 100% funded by LTNZ.
- Savings in internal charges of \$95,000, this will reverse by year end.

#### **5.6 Environment - favourable variance of \$213,000 due primarily to:**

- Personnel costs were under budget \$142,000 due to lower staff numbers prior to the completion of the restructuring.
- Lower consultant costs of \$31,000 as laboratory and technical costs were lower than budgeted.

#### **5.7 Catchment Management - unfavourable variance of \$255,000 due primarily to:**

- Revenue is \$604,000 ahead of budget due to increased vector control work
- Repairs for the flood damage in the Wairarapa were higher than budgeted by \$129,000.
- Drainage schemes were \$105,000 over budget due to increased power use relating to the July and August floods.
- Materials and supplies up \$643,000. This reflects the increased vector control work in the quarter.

#### **5.8 Corporate - unfavourable variance of \$3,000 due primarily to:**

- Higher spending in Emergency Management, \$28,000 and Communications \$65,000. Timing of other expenditure is behind budget but will be in line with budget by year end.

#### **5.9 Wellington Regional Strategy - unfavourable variance of \$89,000 due primarily to:**

- The costs of the finalising the Strategy and initial consultation, Funding for this is being met by the Territorial Authorities and Greater Wellington (GWRC).

#### **5.10 Finance, IT and Support - favourable variance of \$11,000**

- No matters of note to report.

## 6. Finance costs

Finance costs for the three months are \$1,208,000 compared to the budget of \$1,426,000. The favourable variance reflects lower capital expenditure and slightly lower interest rates than budgeted.

## 7. Forecast to 30 June 2007

The completion of the first quarter has resulted in a number of changes to the forecast results when compared with the budget. These are shown in the table below with explanations.

Wellington Regional Council				
Summary Statement of Financial Performance - Operating Surplus \ (Deficit)				
For the year ending 30 June 2007				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Budget	Forecast	Variance
Water Group	(59)	(2,019)	(1,439)	580
Forestry	(2,319)	(2,976)	(2,976)	-
Regional Parks	105	(283)	(67)	216
<b>Water Supply, Parks &amp; Forests</b>	<b>(2,273)</b>	<b>(5,278)</b>	<b>(4,482)</b>	<b>796</b>
Transport Policy and Strategy	31	(228)	(228)	-
Public Transport	(2,158)	(1,736)	(5,473)	(3,737)
<b>Total Transport</b>	<b>(2,127)</b>	<b>(1,964)</b>	<b>(5,701)</b>	<b>(3,737)</b>
Environment	237	(272)	(272)	-
Catchment Management	2,456	3,149	2,542	(607)
Corporate	275	113	(11)	(124)
WRS	-	(100)	(157)	(57)
Finance, IT & Support Services	785	178	178	-
Investment in Democracy	53	117	82	(35)
<b>Divisional Operating Surplus</b>	<b>(594)</b>	<b>6,499</b>	<b>(7,821)</b>	<b>(3,764)</b>
Investment Management	10,578	9,530	9,513	(17)
Business Unit Rates Contribution	(7,758)	(7,698)	(7,698)	-
<b>Council Operating Surplus / (Deficit)</b>	<b>2,226</b>	<b>8,331</b>	<b>(6,006)</b>	<b>(3,781)</b>
Revaluation RCC	2,276	-	-	-
Revaluation Forestry	(1,745)	3,683	3,683	-
Parks - Grant for Waitangirua Purchase	2,800	-	-	-
Public Transport - Capex / Investment	326	60,819	25,187	(35,632)
<b>Total Council Surplus / (Deficit)</b>	<b>5,883</b>	<b>72,833</b>	<b>22,864</b>	<b>(39,413)</b>

The significant variances to budget are:

### 7.1 Water - favourable variance of \$580,000 primarily due to:

- Lower depreciation \$580,000 resulting from the delay in capital projects reducing depreciation.

### 7.2 Regional Parks - favourable variance of \$216,000 primarily due to:

- Delay in taking over management of Whitireia Park until 2007/8, \$216,000.

**7.3 Transport - unfavourable variance of \$3,737,000 due primarily due to:**

<b>Revenue</b>	<b>\$000's Variances</b>
Grants and subsidies	1,306
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	<b>1,306</b>
<b>Operating expenses</b>	
Bus contracts	(4,040)
Rail contract	(108)
Rail Development	(410)
Bus stop development	(299)
Other	(186)
	<hr/>
	<b>(5,043)</b>
<b>Total Variance</b>	<hr/> <b>(3,737)</b>

- The increased cost of bus contracts is due to the effect of diesel inflation, \$4,040,000. An additional \$2,020,000 is forecast to be received from LTNZ by way of grants in respect of this additional expenditure. Public Transport is currently reviewing ways of mitigating this increased cost. In the short term (2006/7), all expenditure, including projects are being reviewed to see whether savings can be made in other areas. Once this work is completed it will be discussed with Council.

On a longer term basis the basis on which the inflation index is calculated and applied is being discussed with LTNZ. In addition the basis of our bus contracts are being reviewed to ascertain what changes are required when they come up for renegotiation.

- There was an under estimate of inflation for the old rail contract in respect of the last quarter of 2005/6. The new rail contract does not have an index for inflation. There will be an additional grant from LTNZ of \$65,000.
- The rail ownership project (as required by LTNZ) was not budgeted for as it was not under consideration at the time budgets were prepared. The grant from LTNZ will increase by \$246,000.
- The bus stop development is forecast to be higher in respect of Metlink signage for new bus stops. The grant from LTNZ will increase by \$150,000.

**7.4 Catchment Management - unfavourable variance of \$607,000 due primarily to:**

- Increased expenditure for repairs to the Eastern River schemes, \$1,200,000 due to flood damage. This work is to be funded through local contribution and transfers from river scheme reserves.
- Transfer of operational expenditure to capital expenditure, \$473,000.
- An overall reduction of Vector control work for the year of \$200,000 due to low pest densities in some control areas.

## 7.5 Corporate - unfavourable variance \$124,000

- Increased recruitment expenditure to replace changes in personnel. An additional position of Health and Safety officer is also forecast.

## 7.6 Wellington Regional Strategy - unfavourable variance of \$57,000

The forecast costs of the finalising the Strategy and initial consultation to the end of 2006. Funding for this is being met by the Territorial Authorities and GWRC. If the Strategy gets approval in early 2007 then there will additional costs incurred for the balance of the 2006/7 year.

## 8. Capital Expenditure

### 8.1 Year to date

On a year to date basis the capital expenditure is behind budget on a Council basis by \$1,383,000. The main contributor to this is in Public Transport, some \$1,099,000 below budget. The other variances in capital expenditure are expected to reverse by year end except as noted below in Section 9.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the 3 months ending - 30 September 2006				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	1,098	465	839	(374)
Forestry	48	22	62	(40)
Regional Parks	1	93	163	(70)
<b>Water Supply, Parks &amp; Forests</b>	<b>1,147</b>	<b>580</b>	<b>1,064</b>	<b>(484)</b>
Transport Policy and Strategy	-	-	-	-
Public Transport	(6)	137	306	(169)
Public Transport Investment Additions	-	-	930	(930)
<b>Total Transport</b>	<b>(6)</b>	<b>137</b>	<b>1,236</b>	<b>(1,099)</b>
Environment	58	4	126	(122)
Catchment Management	331	724	314	410
Corporate	(25)	18	-	18
WRS	-	-	-	-
Finance, IT & Support Services	96	17	50	(33)
Investment in Democracy	(13)	-	-	-
<b>Divisional Capital and Investment expenditure</b>	<b>1,588</b>	<b>1,480</b>	<b>2,790</b>	<b>(1,310)</b>
Parks - Waitangirua Purchase	-	-	-	-
Investment Management	(2)	2	75	(73)
Business Unit Rates Contribution	-	-	-	-
<b>Council Capital and Investment expenditure</b>	<b>1,586</b>	<b>1,482</b>	<b>2,865</b>	<b>(1,383)</b>

## 8.2 Transport - \$1,099,000 favourable variance

Public Transport Capital Expenditure	Year to Date		
	Actual \$ 000's	Budget \$ 000's	Variance \$ 000's
New EMU's	73	-	73
Rail Station Upgrades & Maintenance	64	875	(811)
Rail Security	-	55	(55)
J'ville Mall	-	250	(250)
Other Assets	-	56	(56)
<b>Total Capital Expenditure</b>	<b>137</b>	<b>1,236</b>	<b>(1,099)</b>

## 9. Capital Expenditure - Full year forecast

On a forecast basis capital expenditure is forecast to be \$47,145,000 below budget by year end. The major contributor to this is delays in Public Transport.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the year ending 30 June 2007				
Capital Expenditure and Investments \$(000)'s	Full Year			
	Last Year	Budget	Forecast	Variance
Water Group	6,664	6,624	6,624	-
Forestry	179	286	286	-
Regional Parks	5,920	720	565	(155)
<b>Water Supply, Parks &amp; Forests</b>	<b>12,763</b>	<b>7,630</b>	<b>7,475</b>	<b>(155)</b>
Transport Policy and Strategy	37	-	-	-
Public Transport	505	2,603	1,603	(1,000)
Public Transport Investment Additions	-	80,292	35,195	(45,097)
<b>Total Transport</b>	<b>542</b>	<b>82,895</b>	<b>36,798</b>	<b>(46,097)</b>
Environment	349	891	891	-
Catchment Management	6,411	6,555	5,467	(1,088)
Corporate	61	49	244	195
WRS	-	-	-	-
Finance, IT & Support Services	507	975	975	-
Investment in Democracy	13	45	45	-
<b>Divisional Capital and Investment expenditure</b>	<b>20,646</b>	<b>99,040</b>	<b>51,895</b>	<b>(47,145)</b>
Parks - Waitangirua Purchase	5,600	-	-	-
Investment Management	4	1,100	1,100	-
Business Unit Rates Contribution	-	-	-	-
<b>Council Capital and Investment expenditure</b>	<b>26,250</b>	<b>100,140</b>	<b>52,995</b>	<b>(47,145)</b>

The major variances are as follows;

### 9.1 Catchment Management - favourable variance of \$1,088,000 primarily due to:

- Chrystalls extended stopbank reduced by \$772,000 representing a delay in the commencement of construction. This will be rebudgeted for 2007/8.



- The South Waitohu project, \$204,000 due to delay in gaining land for construction. This will be rebudgeted for 2007/8.
- The \$585,000 Lower Wairarapa Development scheme project has been deferred until 2007/8 as repairing the flood damage has impacted on resources and materials.
- Expenditure on river schemes budgeted as operating has been capitalised, \$473,000.

## 9.2 Transport - \$46,097,000 favourable variance

Public Transport capital expenditure is forecast to be \$46,097,000 below budget as detailed below.

Public Transport Capital Expenditure	Full Year Forecast		
	Forecast \$ 000's	Budget \$ 000's	Variance \$ 000's
SW Wairarapa Cars	24,595	26,420	(1,825)
Ganz Mavag Refurbishment	200	200	-
New EMU's	2,000	44,172	(42,172)
Western Corridor Rail Projects	200	200	-
Rail Rolling Stock Maintenance	5,250	5,250	-
Rail Station Upgrades & Maintenance	2,400	3,500	(1,100)
Rail Security	550	550	-
J'ville Mall	-	1,000	(1,000)
PT Enhancements	1,000	1,000	-
Concessionary Cards	360	360	-
Other Assets	243	243	-
<b>Total Capital Expenditure</b>	<b>36,798</b>	<b>82,895</b>	<b>(46,097)</b>

- The Johnsonville Mall development (park and ride) has been delayed as negotiations between the developers and GWRC continue.
- The South Wairarapa cars will start to come into service in March 2007. However, a shortage of bogies in New Zealand may delay the arrival of the last cars.
- The negotiations between GWRC, LTNZ and Toll on the procurement process for the new EMU's took longer than planned. While the date for the introduction of the new EMU's into service is unchanged it is unlikely that the final contract will be signed by June 2007.
- Some delays in completing the station upgrades is now expected.

All of the above items are expected to be rebudgeted to 2007/8.

## 10. Finance Costs

Finance costs are forecast at \$4,956,000 compared with the budget of \$5,674,000.

The forecast delays in capital expenditure has reduced the need to borrow additional funds in the short term.

## **11. Annual Plan Performance Targets**

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2007.

## **12. Compliance with Treasury Management Policy**

As at 30 September 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**.

## **13. Communications**

No communications are necessary at this time.

## **14. Recommendations**

*That the Committee:*

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

Report prepared by:

Report approved by:

**Chris Gray**  
Finance Manager

**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