



Report 08.152
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Committee Finance, Evaluation and Risk
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Financial review for the eight months ended 29 February 2008

1. Purpose

- To inform the Committee of the Council's financial performance for the eight months ended 29 February 2008 and to provide an explanation of major variances by Division.
- To forecast the year end position of the Council.

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

The Council prepares monthly financial statements for review. Each quarter a detailed report of the Council's financial results is presented to the Committee and Council.

In the intervening months, reports to the Committee and Council are done by exception. A summation of these is now provided to the Committee for review.

4. Financial Performance

4.1 Year to date Operating Performance

The Council achieved an operating surplus of \$4,425,000 (budget \$282,000). This result excludes grants and expenditure in respect of Public Transport capital expenditure and investment. Including these amounts the Council achieved a deficit of \$119,000 (budget deficit \$12,557,000).

5. Financial Summary - Council

Wellington Regional Council Summary Income Statement - Revenue For the 8 months ending 29 February 2008				
Total Operating Revenue \$(000)'s	Last Year	Actual	Budget	Variance
	Water Group	18,050	17,981	18,156
Forestry	3,908	3,685	4,254	(569)
Regional Parks	4,362	4,319	4,365	(46)
Water Supply, Parks & Forests	26,320	25,985	26,775	(790)
Transport Policy and Strategy	2,086	1,858	2,473	(615)
Public Transport	42,003	48,096	48,319	(223)
Total Transport	44,089	49,954	50,792	(838)
Environment	7,803	7,959	8,116	(157)
Catchment Management	18,159	17,214	18,170	(956)
Corporate	1,378	1,492	1,287	205
WRS	367	2,733	2,933	(200)
Finance, IT & Support Services	4,455	4,710	4,552	158
Investment in Democracy	2,993	3,093	3,084	9
Divisional Operating Revenue	105,564	113,140	115,709	(2,569)
Investment Management	3,581	3,370	3,979	(609)
Business Unit Rates Contribution	(5,132)	(5,828)	(5,828)	-
Council Operating Revenue	104,013	110,682	113,860	(3,178)
Public Transport - Capex / Investment	4,835	9,679	24,264	(14,585)
Total Council Revenue	108,848	120,361	138,124	(17,763)

Wellington Regional Council Summary Income Statement - Expenditure For the 8 months ending 29 February 2008				
Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	18,179	17,274	19,604	2,330
Forestry	4,538	4,619	4,892	273
Regional Parks	3,760	3,997	4,365	368
Water Supply, Parks & Forests	26,477	25,890	28,861	2,971
Transport Policy and Strategy	1,813	1,690	2,537	847
Public Transport	42,821	47,255	48,278	1,023
Total Transport	44,634	48,945	50,815	1,870
Environment	7,569	7,942	7,954	12
Catchment Management	16,617	14,882	16,664	1,782
Corporate	1,141	1,373	1,320	(53)
WRS	572	2,598	2,933	335
Finance, IT & Support Services	3,595	3,875	4,345	470
Investment in Democracy	2,929	3,221	3,200	(21)
Divisional Operating Expenditure	103,534	108,726	116,092	7,366
Investment Management	(1,569)	(2,469)	(2,514)	(45)
Business Unit Rates Contribution	-	-	-	-
Council Operating Expenditure	101,965	106,257	113,578	7,321
Revaluation of Debt and Stadium Advance	-	-	-	-
Forestry Cost of Goods Sold	640	710	709	(1)
Public Transport - Capex / Investment	1	13,513	36,394	22,881
Total Council Expenditure	102,606	120,480	150,681	30,201

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the 8 months ending 29 February 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	(129)	707	(1,448)	2,155
Forestry	(630)	(934)	(638)	(296)
Regional Parks	602	322	-	322
Water Supply, Parks & Forests	(157)	95	(2,086)	2,181
Transport Policy and Strategy	273	168	(64)	232
Public Transport	(818)	841	41	800
Total Transport	(545)	1,009	(23)	1,032
Environment	234	17	162	(145)
Catchment Management	1,542	2,332	1,506	826
Corporate	237	119	(33)	152
WRS	(205)	135	-	135
Finance, IT & Support Services	860	835	207	628
Investment in Democracy	64	(128)	(116)	(12)
Divisional Operating Surplus / (Deficit)	2,030	4,414	(383)	4,797
Investment Management	5,150	5,839	6,493	(654)
Business Unit Rates Contribution	(5,132)	(5,828)	(5,828)	-
Council Operating Surplus / (Deficit)	2,048	4,425	282	4,143
Forestry Cost of Goods Sold	(640)	(710)	(709)	(1)
Public Transport - Capex / Investment	4,834	(3,834)	(12,130)	8,296
Total Council Surplus / (Deficit)	6,242	(119)	(12,557)	12,438
Flood Protection				
Eastern	(191)	291	257	34
Western	1,881	1,777	1,589	188
Total Flood Protection	1,690	2,068	1,846	222

5.1 Water – under budget by \$2,155,000 due primarily to:

- Decreased depreciation of \$706,000, due to the water supply assets not being revalued at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- Savings in materials and supplies \$782,000, due mainly to savings in chemicals \$369,000 and power costs \$381,000. Savings are expected to continue. These savings result from a 15% reduction in network charges and a lower take than budgeted from Te Marua lakes. This reduced both power and chemical use.
- Finance costs are \$343,000 below budget, due to the opening debt position being lower than budget.
- Personnel costs are \$226,000 below budget, due to staff vacancies.

5.2 Forestry – over budget by \$296,000 due primarily to:

- Lower income by \$566,000 is due to falling export prices and a decrease in timber harvested. Costs are lower, reflecting the lower volume harvested.

5.3 Regional Parks – under budget by \$322,000 due primarily to:

- Parks operational expenditure is currently \$385,000 below budget, due mainly to the timing of expenditure, some of which is expected to reverse by year end.
- Permanent savings of \$35,000 in respect of the Akatarawa and Hutt 1080 operations.

5.4 Public Transport – under budget by \$800,000 due primarily to:

- The June, September and December 2007 Land Transport New Zealand (LTNZ) inflation indexes were lower than expected, resulting in \$551,000 less expenditure on the Council's diesel bus contracts.
- Increased expenditure of \$746,000 due to lower rail patronage.
- The timing of expenditure on a number of projects is running behind budget.

5.5 Transport Policy – under budget by \$232,000 due primarily to:

- The delay in completing the transport model is holding up expenditure on access studies.
- The Wairarapa log freight project is not likely to commence in 2008/09 resulting in lower income and expenditure.
- The Regional Land Transport Strategy is delayed until outcomes from the "Next Steps" process become known.
- School, Community and Workplace travel plans are also behind schedule due to the unpredictable timing of feedback and consultation with these groups.

5.6 Environment - over budget by \$145,000 due primarily to:

- Lower than anticipated notified consents resulted in a \$170,000 reduction in income, some of this is expected to reverse by year end.

5.7 Catchment Management – under budget by \$826,000 due primarily to:

- The down-sizing of the Bio Works unit has reduced staff numbers and hence personnel costs by \$608,000.
- The timing of expenditure on river maintenance across the region has resulted in savings that are expected to reverse by year end, \$380,000.

5.8 Corporate - under budget by \$152,000 due primarily to:

- Additional revenue of \$132,000 including \$109,000 for the Emergency Management conference and \$61,000 from the Honda Tree planting program.

5.9 Wellington Regional Strategy – under budget by \$135,000 due primarily to:

- Lower than expected expenditure has resulted in a favourable variance, this is expected to continue for the year.

5.10 Finance, IT and Support – under budget by \$628,000 due primarily to:

- Lower personnel costs \$92,000 and the phasing of expenditure on material and supplies, \$375,000, which is mainly due to delays in the implementation of the asset management system project.

5.11 Investment Management – under budget by \$654,000 due primarily to:

- Lower capital expenditure by the Divisions has reduced borrowings and the budgeted margin earned by Investment Management.
- External interest rates are higher than budget. Currently, the 90 day bank bill rate is 8.80% compared to the budget of 8.25%.
- Timing of subvention receipts from Pringle House. These are now due at year end.

6. Finance costs – under budget by \$292,000

Finance costs for the eight months to 29 February were \$2,975,000 compared to the budget of \$3,268,000, a favourable variance of \$292,000. The favourable variance is due to lower level of borrowing due to lower capital expenditure partly offset by higher interest rates than budgeted.

7. Forecast to 30 June 2008

Wellington Regional Council Summary Income Statement - Operating Surplus \ (Deficit) For the Year Ending 30 June 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	(363)	945	(1,933)	2,878
Forestry	21	(1,027)	(909)	(118)
Regional Parks	187	(123)	(321)	198
Water Supply, Parks & Forests	(155)	(205)	(3,163)	2,958
Transport Policy and Strategy	282	103	(133)	236
Public Transport	2,687	(328)	(112)	(216)
Total Transport	2,969	(225)	(245)	20
Environment	(513)	(109)	(111)	2
Catchment Management	1,585	2,843	3,061	(218)
Corporate	96	(90)	(51)	(39)
WRS	(221)	400	-	400
Finance, IT & Support Services	1,568	515	226	289
Investment in Democracy	84	(172)	(172)	-
Divisional Operating Surplus / (Deficit)	5,413	2,957	(455)	3,412
Investment Management	6,199	9,568	9,876	(308)
Business Unit Rates Contribution	(9,768)	(8,742)	(8,742)	-
Council Operating Surplus / (Deficit)	1,844	3,783	679	3,104
Revaluation of Debt and Stadium Advance	4,256	157	780	(623)
Revaluation Forestry - Revaluation	529	3,029	3,029	-
Forestry Cost of Goods Sold	(1,745)	(1,285)	(1,118)	(167)
Public Transport - Capex / Investment	(9,466)	(9,534)	(18,239)	8,705
Total Council Surplus / (Deficit)	(4,582)	(3,850)	(14,869)	11,019
Flood Protection				
Eastern	(220)	584	519	65
Western	2,637	2,492	2,444	48
Total Flood Protection	2,417	3,076	2,963	113

Council's forecast to 30 June 2008 is an operating surplus of \$3,783,000 compared with the budget of \$679,000. These amounts exclude grants and expenditure in respect of Public Transport capital expenditure and revaluations.

This compares to the previous forecast surplus of \$3,027,000.

The major changes to the forecast are:

- The December LTNZ index was lower than expected, this has improved Public Transport's forecast by \$700,000.
- Lower year to date operating expenditure in Finance and IT has improved the year end position by \$75,000.
- Investment Management is forecasting a contribution of \$9,568,000, an improvement of \$132,000. This is the result of lower forecast debt at 30 June 2008 and an improved financial position requiring lower borrowings.
- Transport, Policy and Strategy have improved their forecast result by \$37,000 due to year to date operating expenditure being below budget.

All other Divisions' forecasts remain unchanged.

Including grants and expenditure in respect of Public Transport capital expenditure, the Council's forecast deficit is \$3,850,000 (budget deficit \$14,869,000). However, as noted previously these deficits are due to the accounting treatment of the funding for Greater Wellington Rail Ltd to purchase the rail rolling stock.

8. Capital Expenditure

8.1 Year to date

Actual capital expenditure is \$6,245,000 compared with the budget of \$14,845,000. The significant variances are noted below.

Wellington Regional Council				
Capital Expenditure and Transport Investment Additions				
For the 8 months ending 29 February 2008				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	2,157	1,467	2,528	1,061
Forestry	197	138	279	141
Regional Parks	344	117	283	166
Water Supply, Parks & Forests	2,698	1,722	3,090	1,368
Transport Policy and Strategy	-	-	17	17
Public Transport	70	9	348	339
Public Transport Investment Additions	5,534	89	4,699	4,610
Total Transport	5,604	98	5,064	4,966
Environment	247	91	598	507
Catchment Management	1,754	4,117	3,956	(161)
Corporate	140	52	-	(52)
WRS	-	-	-	-
Finance, IT & Support Services	160	114	1,288	1,174
Investment in Democracy	-	43	49	6
Divisional Capital and Investment expenditure	10,603	6,237	14,045	7,808
Investment Management	21	8	800	792
Council Capital and Investment expenditure	10,624	6,245	14,845	8,600
Flood Protection				
Eastern	150	150	605	455
Western	1,359	3,956	3,102	(854)
Total Flood Protection	1,509	4,106	3,707	(399)

8.2 Water - under budget by \$1,061,000 due primarily to:

A large number of capital projects are below budget or have a reduced scope. This trend is forecast to continue.

8.3 Public Transport – under budget by \$4,610,000 due primarily to:

- A number of upgrades such as stations and carparks are delayed awaiting completion of specifications from third parties.
- Contractual payments for the EMUs are later than budgeted. The project remains on schedule.

- Redesign of CBD Metlink signage.

8.4 Environment - under budget by \$507,000 due primarily to:

- Delays in upgrading the Beacon Hill facility,
- Under-spend for the groundwater model.

8.5 Catchment Management – over budget by \$161,000 due primarily to:

Land purchase costs for Connolly St were higher than anticipated. The excess land will be sold once the project is completed.

8.6 Finance, IT and Support Services - under budget by \$1,174,000 due primarily to:

The selection and installation of the Asset Management System has been delayed.

9. Capital Expenditure - Full year forecast

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the Year Ending 30 June 2008				
Capital Expenditure and Investments \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	4,162	3,947	4,996	1,049
Forestry	328	359	380	21
Regional Parks	514	259	336	77
Water Supply, Parks & Forests	5,004	4,565	5,712	1,147
Transport Policy and Strategy	-	17	17	-
Public Transport	70	332	398	66
Public Transport Capital & Investment Additions	(101)	1,956	6,982	5,026
Total Transport	(31)	2,305	7,397	5,092
Environment	443	559	1,359	800
Catchment Management	4,226	6,531	7,689	1,158
Corporate	209	20	-	(20)
WRS	-	-	-	-
Finance, IT & Support Services	531	1,614	1,539	(75)
Investment in Democracy	5	49	49	-
Divisional Capital and Investment expenditure	10,387	15,643	23,745	8,102
Investment Management	38	50	1,405	1,355
Council Capital and Investment expenditure	10,425	15,693	25,150	9,457
Flood Protection				
Eastern	713	991	895	(96)
Western	3,257	5,289	6,545	1,256
Total Flood Protection	3,970	6,280	7,440	1,160

Forecast capital expenditure is \$15,693,000 compared with the budget of \$25,150,000 below. The previous forecast was \$17,734,000. The major changes are:

- Public Transport capital expenditure forecast has reduced by \$381,000. This reduction is due to the delay in a number of projects as we await completion of specifications from third parties.
- Catchment Management forecast has reduced by \$305,000. The reduction is due to delays in the Boulcott and Waiwhetu projects.
- Delay in the Masterton building (Investment Management), \$1,355,000.

All other divisional forecasts remain unchanged.

10. Finance Costs

Finance costs for the Council are forecast at \$4,775,000 compared with the budget of \$4,975,000. The favourable variance is due to lower debt levels partly offset by higher interest rates.

11. Debt

Council debt as at 29 February was \$70.0 million, an increase of \$2.0 million from 31 December 2007, and a \$3.7 million increase on 30 June 2007. The increase is due to further draw downs on the Crown loans to fund the Wairarapa carriages and other capital expenditure. Borrowings are partly offset by a reduction in working capital.

The \$70.0 million includes the written down value of the Government loan. If the write down is excluded (which is due to the interest free nature of the loan) the Council's debt as at 29 February was \$72.0 million.

It should be noted that the Council has a total of \$47.2 million on deposit. This comprises \$33.0 million in liquid financial deposits, the remainder consists of our emergency funds for water supply and flood protection.

Debt as at 30 June 2008 is forecast at \$79.0 million in the Council, the previous forecast was \$84.8 million. The reduction is due to lower capital expenditure and an improved financial forecast position of the Council.

12. Communications

No communications are necessary at this time.

13. 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: Income Statement

Attachment 2: Funding Statement

Attachment 3: Balance Sheet