greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Committee Council
Author Chris Gray, Manager, Finance & Support

Financial report for the two months ending 31 August 2011

1. Purpose

To inform the Council of Greater Wellington's financial performance for the two months ending 31 August 2011 and to provide an explanation of major variances to budget by Group.

2. The decision-making process and significance

No decision is being sought in this report.

3. Background

Financial statements are prepared and presented to management for review each month. A detailed report is given to the Council each quarter. In the intervening months, reports to the Council are done by exception.

The Funding Impact Statement and Balance Sheet for Greater Wellington are attached (refer **Attachments 1 and 2**).

4. Financial Performance – Council

4.1 Year to date

Greater Wellington achieved an operating surplus of $1,068,000 (budget, a surplus of $167,000) for the two months ended 31 August. This result excludes revenue and expenditure for; public transport capital improvement projects; forestry cost of goods sold; Warm Wellington installations; and valuation movements. Including these amounts, Greater Wellington made a deficit of $2,109,000 (budget, a deficit of $1,948,000).

Details of the variances and performance by Group for the two months are discussed in section 5.

4.2 Financial summary – Council

Greater Wellington Regional Council Summary income statement	Last Year $000s	Actual $000s	Budget $000s	Variance $000s
	For the 2 months ended 31 August 2011			
Regional rates	13,483	14,141	14,141	-
Water supply levy	3,910	4,027	4,027	-
Other operating revenue	13,188	14,225	14,460	(235)
Total operating revenue	**30,581**	**32,393**	**32,628**	**(235)**
Operational expenditure	(29,616)	(31,325)	(32,461)	1,136
Operating surplus/(deficit) before transport improvements	**965**	**1,068**	**167**	**901**
Operating (deficit) from transport improvements	(798)	(1,932)	(1,537)	(395)
Operating surplus/(deficit) before unrealised items	**167**	**(864)**	**(1,370)**	**506**
Non-operational movements	(457)	(1,245)	(578)	(667)
Operating surplus/(deficit)	**(290)**	**(2,109)**	**(1,948)**	**(161)**

4.3 Financial summary – Council by Group

Greater Wellington Regional Council Summary income statement	Last Year $000s	Actual $000s	Budget $000s	Variance $000s
	For the 2 months ended 31 August 2011			
Operational Groups				
Catchment Management	528	934	524	410
Environmental Management	318	(5)	242	(247)
Forestry	(170)	(283)	(256)	(27)
Parks and Forests	149	104	(10)	114
Public Transport	148	440	166	274
Total rates funded operational surplus / (deficit)	**973**	**1,190**	**666**	**524**
Corporate				
Strategy & Community Engagement	227	297	154	143
Finance and Support	(98)	(153)	(134)	(19)
Other corporate activities	(13)	220	29	191
Investment Management	1,095	1,359	1,754	(395)
Business unit rates contribution	(1,090)	(1,741)	(1,741)	-
Total rates funded operating surplus / (deficit)	**1,094**	**1,172**	**728**	**444**
Water	(129)	(104)	(561)	457
Total rates & levy funded operating surplus / (deficit)	**965**	**1,068**	**167**	**901**
Non-operational movements				
Forestry cost of goods sold	(375)	(454)	(78)	(376)
Warm Greater Wellington	(82)	(797)	(500)	(297)
EMU investment - GW Rail	-	6	-	6
Public Transport - improvements	(798)	(1,932)	(1,537)	(395)
Total Council surplus / (deficit)	**(290)**	**(2,109)**	**(1,948)**	**(161)**

4.4 Forecast to 30 June 2011

Greater Wellington is forecasting an operating deficit of $114,000 (budget, a deficit of $542,000) for the year to 30 June 2011. This forecast excludes revenue and expenditure for public transport capital improvement projects and revaluations. Including these amounts, Greater Wellington is forecasting a deficit of $11,775,000 (budget, a deficit of $12,203,000).

4.5 Financial forecast – Council

Greater Wellington Regional Council	**For the year ending 30 June 2012**			
Summary income statement	**Last Year**	**Forecast**	**Budget**	**Variance**
	$000s	**$000s**	**$000s**	**$000s**
Regional rates	81,933	84,852	84,852	-
Water supply levy	23,460	24,164	24,164	-
Other operating revenue	83,102	90,690	91,009	(319)
Total operating revenue	**188,495**	**199,706**	**200,025**	**(319)**
Operational expenditure	(184,446)	(199,820)	(200,567)	747
Operating surplus/(deficit) before transport improvements	**4,049**	**(114)**	**(542)**	**428**
Operating (deficit) from transport improvements	(7,458)	(49,286)	(49,286)	-
Operating surplus/(deficit) before unrealised items	**(3,409)**	**(49,400)**	**(49,828)**	**428**
Non-operational movements	16,948	37,625	37,625	-
Operating surplus/(deficit)	**13,539**	**(11,775)**	**(12,203)**	**428**

5. Financial Performance – by Group

5.1 Catchment management

Financial Summary	For the 2 months ended 31 August 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	4,103	4,763	5,116	(353)	24,592	30,136	30,136	-
Operating expenditure	3,575	3,829	4,592	763	21,012	26,944	26,944	-
Operating surplus / (deficit)	528	934	524	410	3,580	3,192	3,192	-
Net capital expenditure	305	503	185	(318)	4,256	5,553	5,553	-

5.1.1 Year to date

A favourable operating variance of $410,000, comprising lower revenue of $353,000 and lower operating costs of $763,000 primarily due to the timing of the work programmes compared to budget.

- Operating revenue is lower than budget due mainly to:
  - Revenue from the Animal Health Board for BioWorks was $187,000 below budget to timing of awarded contracts for 2011/12.
  - External revenue for Flood Protection was $126,000 below budget due to the timing of shingle collection, rent and District Council contributions to maintenance.
- Operating expenditure was lower than budget due mainly to:
  - Materials ($72,000) and contract expenditure ($177,000) for flood protection was favourable due to timing of river maintenance works.
  - Contract expenditure for Biodiversity was $175,000 favourable due to the timing of various implementation programmes.
  - Contract expenditure for Biosecurity was $77,000 favourable due to the timing of Pest Management and predator control work.
- Capital expenditure is $318,000 ahead of budget primarily due to the settlement of the Buick Road property acquisition for the LWVD river scheme.

5.1.2 Forecast to 30 June 2011

- The forecast operating surplus of $3,192,000 remains unchanged at this stage.

5.2 Environmental management

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	2,422	2,301	2,065	236	13,784	12,546	12,546	-
Operating expenditure	2,104	2,306	1,823	(483)	13,811	12,389	12,389	-
Operating surplus / (deficit)	318	(5)	242	(247)	(27)	157	157	-
Net capital expenditure	118	40	143	103	178	1,119	1,119	-

5.2.1 Year to date

Overall, an unfavourable operating variance of $247,000, comprising higher revenue of $236,000 and higher expenditure of $483,000.

- Operating revenue is ahead of budget primarily due to:
  - Higher than expected revenue due to on charging of Transmission Gully consultant costs $122,000 and additional monitoring charges from several large projects.
- Operating expenditure was higher than budget due mainly to the timing of work to be on charged including:
  - Transmission Gully ($122,000); Kaitoke Weir consent application; Genesis Wind farm pre-application work; air quality consultant costs; Wetlands delineation project and a Hutt landscape.
- Capital expenditure is behind budget which relates to the timing of vehicle replacements.

5.2.2 Forecast to 30 June 2011

The forecast operating surplus of $157,000, $213,000 is unchanged from budget.

5.3 Forestry

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	1,161	1,301	1,106	195	7,415	6,639	6,639	-
Operating expenditure	1,330	1,584	1,361	(223)	7,783	8,173	8,173	-
Operating surplus / (deficit) before cost of goods sold	(169)	(283)	(255)	(28)	(368)	(1,534)	(1,534)	-
Cost of goods sold*	376	454	79	(375)	1,899	467	467	-
Operating surplus / (deficit) before valuation	(545)	(737)	(334)	(403)	(2,267)	(2,001)	(2,001)	-
Forestry valuation	-	-	-	-	8,162	1,400	1,400	-
Operating surplus / (deficit)	(545)	(737)	(334)	(403)	5,895	(601)	(601)	-
Net capital expenditure	60	(22)	56	78	414	360	360	-

* cost of goods sold is a non cash accounting adjustment

5.3.1 Year to date

Overall, an unfavourable operating variance of $28,000, prior to cost of goods sold, due to:

- Revenue is $195,000 ahead of budget due to higher volume harvested. Unfortunately log prices have eased in the past two months and returns have reduced markedly.
- Harvested volume was up resulting in additional costs of $223,000 over budget.

- The non cash variance for cost of goods sold of $403,000 reflects the higher valuation of the forestry investment at 30 June 2011 compared to budget.

5.3.2 Forecast to 30 June 2011

- The forecast remains unchanged from budget at this point.
- Capital expenditure is forecast to be on budget by year end.

5.4 Parks & forests

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	1,002	885	873	12	5,133	5,289	5,289	-
Operating expenditure	853	781	883	102	6,475	5,506	5,506	-
Operating surplus / (deficit)	149	104	(10)	114	(1,342)	(217)	(217)	-
Grants for Baring Head purchase	-		-	-	1,100	-	-	-
Operating surplus / (deficit)	149	104	(10)	114	(242)	(217)	(217)	-
Baring Head purchase			-	-	1,775	-	-	-
Net capital expenditure	8	4	65	61	(1,599)	512	512	-

5.4.1 Year to date

A favourable operating variance of $114,000, comprising increased revenue of $12,000 and lower expenditure of $102,000.

- Operating expenditure was below budget due primarily to:
  - Grazing revenue is ahead of budget by $12,000.
  - Reduced contractors and consultants expenditure of $41,000 primarily in Whitireia.
  - Savings in personnel costs of $34,000 due to staff vacancies.

- Capital expenditure is behind budget which relates to the timing of vehicle replacements.

5.4.2 Forecast to 30 June 2011

The forecast deficit of $217,000 remains unchanged from budget.

5.5 Public transport

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	13,572	15,261	15,756	(495)	84,550	95,034	95,353	(319)
Operating expenditure	13,424	14,821	15,590	769	86,300	94,229	94,867	638
Operating surplus / (deficit)	148	440	166	274	(1,750)	805	486	319
Net capital expenditure	-	-	-	-	37	252	252	-

5.5.1 Year to date

A favourable operating variance of $274,000, comprising lower expenditure of $769,000 and reduced revenue of $495,000 (which is as a result of the lower expenditure).

- Operating revenue is $495,000 below budget due to:
  - Grants and Subsidies revenue (excluding SuperGold card) being $491,000 below budget which reflects the overall reduction in operational expenditure.

- Operating expenditure is $769,000 below budget primarily due to:
  - Savings on diesel bus contracts of $192,000. Year to date oil prices have been higher than budgeted, but these have been offset by higher exchange rates.
  - Savings of $587,000 on the rail operating contract compared to budget.

5.5.2 Forecast to 30 June 2011

Forecast expenditure is $638,000 below budget mostly due to expected savings on the diesel bus contracts.

5.6 Public transport improvement projects

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	13,972	20,214	26,738	(6,524)	116,365	124,536	124,536	-
Operating expenditure	14,770	22,146	28,275	6,129	123,823	173,822	173,822	-
Operating surplus / (deficit)	(798)	(1,932)	(1,537)	(395)	(7,458)	(49,286)	(49,286)	-
External debt revaluation gains /(loss)	-	-	-	-	(1,238)	-	-	-
Operating surplus / (deficit)	(798)	(1,932)	(1,537)	(395)	(8,696)	(49,286)	(49,286)	-
Net capital expenditure	10	525	2,059	1,534	3,159	3,666	3,666	-

5.6.1 Year to date

Overall, an unfavourable operating variance of $395,000, comprising lower expenditure of $6,129,000 and lower revenue of $6,524,000.

- Operating expenditure was lower than budget due to:
  - Expenditure on the Matangi EMU project is $3,498,000 below budget due to continued revision of the expected payment dates for the trains. This saving is offset by the reduction in Investment Management – Matangi purchase discussed in section 5.11.1.
  - Rail infrastructure projects $1,138,000 behind budget reflecting the timing of projects compared to budget.
- Capital expenditure was $1,534,000 below budget due mainly to the change in timing of the payments for the ‘real time’ project roll out.

5.6.2 Forecast to 30 June 2011

The forecast expenditure remains the same as budget.

5.7 Strategy & Community Engagement

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	1,592	1,671	1,678	(7)	8,972	10,675	10,675	-
Operating expenditure	1,365	1,374	1,524	150	8,657	10,098	10,098	-
Operating surplus / (deficit)	227	297	154	143	315	577	577	-
Net capital expenditure	6	258	150	(108)	178	1,332	1,332	-

5.7.1 Year to date

Overall, a favourable operating variance of $143,000, comprising lower expenditure of $150,000 and lower revenue of $7,000.

- Operating expenditure was lower than budget due to:
  - Reduced expenditure in Transport Planning of $90,000 that relates to Hutt Corridor study and the Wellington to Airport PT Feasibility Study. This favourable variance is due mainly due to timing with actual costs expected to increase later this quarter.
  - Reduced expenditure on the LTP Review of $60,000, again this variance is due to timing.

5.7.2 Forecast to 30 June 2011

The forecast surplus of $577,000 remains unchanged from budget.

5.8 Corporate

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	1,075	1,218	1,176	42	6,501	7,068	7,068	-
Operating expenditure	1,088	998	1,147	149	6,455	6,943	6,944	1
Operating surplus / (deficit)	(13)	220	29	191	46	125	124	1
Net capital expenditure	-	14	80	66	93	157	107	(50)

This includes democratic services; elected members; people and capability and managing emergencies

5.8.1 Year to date

A favourable operating variance of $191,000 comprising lower expenditure of $149,000 and increased revenue of $42,000.

- Operating expenditure was lower than budget due to:
  - Timing of the Councillor costs, core training and work programmes.
- Operating Revenue was higher that budget due to additional external revenue from Emergency Management.

5.8.2 Forecast to 30 June 2011

The forecast is unchanged from the ten month position.

5.9 Finance and Support

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	1,226	1,243	1,272	(29)	9,108	7,763	7,763	-
Operating expenditure	1,324	1,396	1,406	10	8,006	8,618	8,727	109
Operating surplus / (deficit)	(98)	(153)	(134)	(19)	1,102	(855)	(964)	109
Net capital expenditure	101	(67)	-	67	660	1,072	1,072	-

5.9.1 Year to date

An unfavourable operating variance of $19,000 comprising lower revenue of $29,000 and slightly lower expenditure of $10,000.

- Operating revenue was above budget due to additional rates and penalties.
- Operating costs are close to budget; however, savings in personnel are expected by year end.

5.9.2 Forecast to 30 June 2011

The forecast deficit is improved by $109,000 due to savings in personnel costs.

- Capital expenditure for the year is below due to timing but is expected to track back to budget over the year.

5.10 Investment management

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	906	839	672	167	7,159	7,082	7,082	-
Operating expenditure	(189)	(520)	(1,082)	(562)	(2,784)	(4,338)	(4,339)	(1)
Operating surplus / (deficit)	1,095	1,359	1,754	(395)	9,943	11,420	11,421	(1)
Net capital expenditure	7	17	404	387	252	2,424	2,424	-

5.10.1 Year to date

Operating revenue is $167,000 ahead of budget due to higher interest revenue from money market investments and higher interest on liquid financial deposits.

Net operating expenditure recoveries are $562,000 less than budget due to the much lower borrowing requirements of the business in 2010/11 and from lower year to date capital expenditure.

5.10.2 Forecast to 30 June 2011

The operating surplus is forecast to be $11,421,000, which is in line with budget.

5.11 Investment management – Non operational movements

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Investment - GW Rail	-	6	-	6	13,341	39,781	39,781	-
Valuation Movements	-	-	-	-	2,798	288	288	-
Operating surplus / (deficit)	-	6	-	6	16,139	40,069	40,069	-

5.11.1 Year to date – GW Rail investment

All rolling stock and infrastructure will be owned by Greater Wellington Rail Limited, a Council owned subsidiary. In order to account for this, Greater Wellington purchases shares in Greater Wellington rail which is internally accounted for by way of a grant from public transport to investments.

5.11.2 Forecast– Matangi investment

As noted above and in section 5.6, the forecast investment (for the remaining Matangi trains and the start of the Ganz Mavag refurbishment project remain inline with budget.

5.12 Warm Greater Wellington

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	6	62	55	7	38	532	532	-
Operating expenditure	88	859	555	(304)	(242)	3,333	3,333	-
Operating surplus / (deficit)	(82)	(797)	(500)	(297)	280	(2,801)	(2,801)	-

5.12.1 Year to date

Overall an unfavourable operating variance of $297,000 primarily due to the programme being taken up by more ratepayers than expected.

Council approved $3 million of approvals per annum for the programme and only the ratepayers participating in the scheme are charged a targeted rate to fund the programme.

2001 applications had been approved and paid as at 31 August, with 500 of these being paid for this year.

5.12.2 Forecast

The forecast is unchanged from budget at this stage, but at the current rate council will need to consider the approved cap later this year.

5.13 Water

Financial Summary	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	4,609	4,652	4,651	1	27,828	27,907	27,907	-
Operating expenditure	4,738	4,756	5,212	456	28,728	31,258	31,258	-
Operating surplus / (deficit)	(129)	(104)	(561)	457	(900)	(3,351)	(3,351)	-
Net capital expenditure	391	1,205	2,156	951	7,411	16,692	16,692	-

5.13.1 Year to date

Overall a favourable operating variance of $457,000 compared to budget, due to:

- Operating expenditure was $456,000 lower than budget due to:
  - Contractors and consultants costs were lower than budget ($259,000) and materials ($149,000) primarily due to timing when compared to budget.
  - Reduced finance costs of $104,000 as internal debt is lower than budget due to the under spend in 2010/11 and delayed capital spend to date.
- Capital expenditure is $951,000 under budget due to the timing of work in a number of projects.

5.13.2 Forecast to 30 June 2011

The forecast is unchanged from the budget position.

6. Finance costs

Finance Costs	For the 2 months ended 31 August 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
	1,113	1,116	1,073	(43)	5,424	8,533	8,533	-

6.1 Year to date

The unfavourable variance of $43,000 results from lower borrowings as a result of lower capital expenditure and an improved working capital position.

6.2 Forecast to 30 June 2011

The forecast remains in line with budget.

7. Communication

No communications are necessary at this time.

8. Recommendations

That the Council:

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

Report prepared by:	Report approved by:
Chris Gray Manager, Finance & Support	Bruce Simpson Chief Financial Officer

Attachment 1: Funding Impact Statement

Attachment 2: Balance Sheet