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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Half Year Review to 31 December 2001

1. Purpose

- 1.1 To inform the Committee of the financial performance for the first half of the 2001/2002 financial year and to provide an explanation of major variances by division.
- 1.2 To forecast the end of year position based on the management reviews completed by division.
- 1.3 To provide an interim position in terms of achievement against the published performance indicators in the Council's 2001/2002 Annual Plan.
- 1.4 To seek the approval of the Committee to additional expenditure requests from each Divisional Manager.

2. Background

Councillors will be aware that the General Manager and Chief Financial Officer conduct a comprehensive review of the organisation's performance each quarter. Each six months copies of those management review documents are made available to Councillors as background information. Copies of the 2001 half-year management review documents will shortly be forwarded to Councillors through the Councillors' bulletin.

Overall, the year to date figures reflect favourable results, with the operating surplus ahead of budget (\$3.0 million favourable variance) and capital expenditure below budget (\$1.8 million favourable variance).

The terms 'favourable' and 'unfavourable' are used in this report in a financial sense only. It is accepted that a case by case assessment is needed to assess whether or not a favourable financial variance is indeed favourable overall to the Council.

The forecast position to 30 June 2002 in respect of both operating surplus and capital expenditure is explained in sections 4.1 and 4.2 of this report.

3. Financial Performance for the Six Months to 31 December 2001

3.1 Operating Surplus

As noted above, the year to date operating result after six months reflects an operating surplus ahead of budget of \$3.0 million. Detailed variances from budget are shown in the following table:

	2001/02 YTD Actual \$000s	2001/02 YTD Budget \$000s	Actual vs Budget Variance \$000s	2001/02 Year Forecast \$000s	2001/02 Year Budget \$000s	Forecast vs Budget Variance \$000s
OPERATING SURPLUS (DEFICIT)						
Water Group	1,532	819	713 F	2,578	1,537	1,041 F
Plantation Forestry	(458)	(263)	195 U	(897)	(546)	351 U
Utility Services	1,074	556	518 F	1,681	991	690 F
Transport	843	(196)	1,039 F	(46)	(270)	224 F
Landcare	1,018	745	273 F	1,336	1,343	7 U
Environment	339	42	297 F	(272)	(282)	10 F
Wairarapa	188	(37)	225 F	69	485	416 U
Corporate Advisory Services	114	(3)	117 F	18	(7)	25 F
Finance & Admin	60	(151)	211 F	(528)	(518)	10 U
General Manager	69	13	56 F	26	26	-
Investment in Democracy	(88)	(178)	90 F	(173)	(136)	37 U
Rates Collection	62	0	62 F	40	0	40 F
Net Divisional Surplus(Deficit)	3,679	791	2,888 F	2,151	1,632	519 F
Investment Mgmt	3,491	3,420	71 F	8,051	7,979	72 F
Business Unit Rates Contribution	(2,891)	(2,891)	-	(5,782)	(5,782)	-
Total Operating Surplus (Deficit)	4,279	1,320	2,959 F	4,420	3,829	591 F

Significant components of this favourable year to date variance are as follows:

(1) ***Water Group Favourable Variance of \$0.71 million, due to:***

- A \$263,000 adverse personnel cost variance (incorporating \$335,000 of redundancy costs associated with the closure of the Operations Network section) has been more than offset by savings within the Materials & Services, Contractors & Consultants, Travel & Transport and Financial Costs categories.

(2) ***Plantation Forestry Unfavourable Variance of \$0.20 million, due to:***

- A \$108,000 favourable external revenue variance, primarily due to the unbudgeted sale of land and trees at Kaitoke to Transit NZ. However, this is more than offset by a \$323,000 adverse external contractors variance that reflects higher roading maintenance requirements during the period. This is due to the extended period of wet weather suffered during the second quarter and the necessity to prepare for the Puketiro Forest harvest.

(3) ***Transport Favourable Variance of \$1.04 million, due to:***

- A \$343,000 favourable variance as a result of Transfund's payment for WRC's claim for expenditure over the 2000/01 Regional Programme. This claim was included as a contingent asset but was not sufficiently certain to accrue in the 2000/01 accounts.
- A \$385,000 favourable variance as a result of inflation being below budgeted levels following decreases in diesel prices during the period.
- A \$310,000 favourable variance as a result of patronage revenue being above budget, with increases in passenger numbers on public transport services.

(4) ***Landcare Favourable Variance of \$0.27 million, due to:***

- Savings in personnel costs of \$75,000 as a result of staff vacancies.
- A change in the strategy for developing both Parks and Forests Management Plans has meant a reshuffle in priorities and resources, resulting in an underspend to date of \$76,000.
- Bad weather during the month of December has resulted in an underspend on operational projects to date of \$119,000. Maintenance works on stopbank edges, buildings, roads and tracks will re-commence when weather conditions improve.

(5) ***Environment Favourable Variance of \$0.30 million, due to:***

- Increased revenue of \$158,000 as a result of some large notified resource consent applications; the Otaki Pipeline Project, \$68,000 and the upgrade of SH58 and SH2/58 (charges recovered this year - \$27,000). In addition, we have passed on the costs of disposal of the hulk of "Sarfaq" \$32,000 to the vessel owners.

- Personnel costs are presently under budget by \$24,000. Staff movements in the period have caused the under-spend.
- Material costs are slightly over budget by \$21,000. Commissioners' costs from the Otaki Pipeline and the upgrade of SH58 and SH2/58 hearings makeup most of this variance. These costs are fully recoverable from the applicant.
- External Contractors and Consultants are \$76,000 under budget. The level of expenditure on iwi projects expenditure has increased significantly with the "administrative assistance" payments (total budget \$105,000) being made during the period. So far six of the seven iwi are participating in this project. However, in total, the iwi budget trails by some \$81,000 behind our expected expenditure level for the half year.

(6) ***Wairarapa Favourable Variance of \$0.23 million, due to:***

- Bovine Tb operational savings of \$119,000 as a result of a reduction in control area (because of lower pest densities). Most of the full year surplus will be refunded to the Animal Health Board because the AHB funds 87% of the Bovine programme.
- River Management \$230,000 favourable variance due to additional shingle royalty revenue and delays in the timing of scheme maintenance expenditure.
- Reserve Forests logging revenue \$200,000 below budget due to poor returns from the remaining untended and exposed stands at the Hiwinui reserve.
- Planning & Resources savings of \$78,000 as a result of savings in personnel costs and the timing of materials and contract expenditure.

(7) ***Corporate Advisory Services Favourable Variance of \$0.12 million, due to:***

- Delays in the timing of strategic communications initiatives e.g. branding \$49,000 and reduced year to date expenditure on advocacy matters, \$57,000.

(8) ***Finance & Administration Favourable Variance of \$0.21 million, due to:***

- Reduced expenditure in the IT and Support Services department, namely reduced depreciation on the new records management system compared with budget, reduced personnel costs (as a result of vacancies) and reduced materials expenditure. In addition the department has generated unbudgeted internal revenue as a result of divisions increasing their service requests.

3.2 Net Capital Expenditure (capital expenditure net of disposals)

Year-to-date net capital expenditure for the six months to 31 December 2001 is \$1.8 million below budget.

	2001/02 YTD Actual \$000s	2001/02 YTD Budget \$000s	Actual vs Budget Variance \$000s	2001/02 Year Forecast \$000s	2001/02 Year Budget \$000s	Forecast vs Budget Variance \$000s
NET CAPITAL EXPENDITURE						
Utility Services	565	2,019	1,454 F	3,136	4,644	1,508 F
Landcare	596	899	303 F	1,835	1,695	140 U
Environment	54	149	95 F	304	323	19 F
Transport	0	35	35 F	10	35	25 F
Wairarapa	195	225	30 F	225	225	-
Corporate Advisory Services	0	0	-	0	0	-
General Manager	0	34	34 F	34	34	-
Finance & Admin	519	280	239 U	1,046	1,046	-
Investment in Democracy	0	57	57 F	117	117	-
Net Capital Expenditure	1,929	3,698	1,769 F	6,707	8,119	1,412 F

Significant components of this favourable year to date variance are as follows:

(1) ***Utility Services Favourable Variance of \$1.45 million, due to:***

- A \$1.05m favourable capital expenditure variance has been generated across the Wholesale Water Group capital works programme, the majority of which is expected to be a permanent saving, with the residual variance due to project timing differences.
- The remaining \$0.4m favourable variance is due to savings generated by purchasing significantly fewer vehicles and minor assets compared with budget, during the first six months.

(2) ***Landcare Favourable Variance of \$0.30 million, due to:***

- Work on the Stratton Street Woolshed was initially delayed due to the architect not completing design work by due dates. Plans have now been completed and construction has commenced. Wet weather, however, has slowed progress on construction causing an underspend to date of \$55,000. The project is now due for completion in February 2002.
- Work on Phase Five of the implementation of the Hutt River Floodplain Management Plan is on target to be completed to programme by year-end.

The \$177,000 year to date underspend has occurred due to incorrect budget phasing.

- Although the Paekakariki Toilet Replacement project is \$68,000 favourable to date, construction is now underway and the work is due for completion in February 2002.

(3) ***Environment Favourable Variance of \$0.10 million, due to:***

- The purchase of the Ecobus, the vehicle to be used as part of the Take Action Programme, has been slightly delayed (\$175,000). However, the favourable variance has been offset to some extent by the purchase of three vehicles (total cost - \$18,500). These were surplus to the Water Group's needs and are being used by the Environment division over the summer period. Our budgets provided for a short-term lease for two of these vehicles whilst the other is unbudgeted. It is planned to dispose of these vehicles by 30 April 2002.

(4) ***Finance & Admin Unfavourable Variance of \$0.24 million, due to:***

- The unfavourable variance for the period is a reflection of the timing of the implementation of the new records management system compared with the estimated timing in the budget. The project is on track for completion of the initial implementation by the end of June 2002. Departments will then be progressively brought onto the new system.

4. Year End Forecast Position

4.1 Operating Surplus

The operating surplus for the year ending 30 June 2002 is forecast to be \$0.6 million above the budgeted surplus of \$3.8 million. This is primarily due to favourable variances within the following areas of the Council:

(1) ***Water Supply favourable variance of \$1.04 million, due to:***

- Personnel cost savings of \$495,000 which reflects the fact that the Water Supply personnel headcount has been significantly reduced, with the completion of the WSA work performed on behalf of Wellington City Council. (The budget assumed the Council would continue to complete this work for the full 12 months.) These forecast savings are also after the one off redundancy charge in relation to closure of the Network Operation. The remainder of the variance constitutes anticipated permanent savings generated within the Materials & Services, Contractors & Consultants, Travel & Transport and Financial Costs categories.

(2) ***Plantation Forestry unfavourable variance of \$0.35 million, due to:***

- It is anticipated that whilst both revenue and the majority of costs for the second half of 2001/02 will track on budget, external contractor costs will exceed the second half year's budget by an additional \$155,000. This, coupled with the unfavourable variance for the year to date (explained in section 3.1 of this report) means the projected unfavourable variance is expected to be \$351,000 by 30 June 2002.

(3) ***Transport favourable variance of \$0.22 million, due to:***

The key drivers of the year to date favourable variance also provide the main reasons for the forecast favourable position at year end. i.e.

- A \$343,000 variance as a result of Transfund's payment for WRC's claim for expenditure over the 2000/01 Regional Programme. This claim was included as a contingent asset in the 2000/01 accounts.
- A \$260,000 favourable variance as a result of inflation being below budgeted levels due to decreases in diesel prices.
- A \$300,000 favourable variance as a result of patronage revenue being above budget with increases in passenger numbers on public transport.

However, these favourable variances are expected to be partially offset by the following unfavourable variances:

- \$293,000 unbudgeted joint venture consultancy costs.
- \$390,000 additional costs on timetables and promotion to incorporate all the new kickstart services.

(4) ***Wairarapa unfavourable variance of \$0.42 million, due to:***

- Reduced logging revenue of \$240,000, additional river scheme expenditure of \$67,000 (for flood damage repairs not completed during the 2000/01 year), and the additional unbudgeted expenditure items listed in section 4.1.1 of this report.

It is important to identify which areas of the Council are forecasting surpluses and deficits to assist in deciding on additional expenditure items later in this report. (As there are different communities of interest involved).

	2001/02 year end forecast	2001/02 year end budget	Forecast vs Budget variance
	(\$000)	(\$000)	(\$000)
Water supply	2,578	1,537	1,041 F
Transport	(46)	(270)	224 F
Other Regional responsibilities	1,888	2,562	674 U
Total Council Position	4,420	3,829	591 F

N.B: Other Regional responsibilities include all other areas of Council activities, including forestry where there is currently an operating deficit.

4.1.1 ***Material additional Operating Expenditure Items are as follows:***

- *Wairarapa*
 - Wairarapa Coastal Strategy \$58,000
(Joint project being undertaken with 3 District Councils in the Wairarapa)
 - Wairarapa Irrigation Investigation \$25,000
(Joint project being undertaken with Central Government, the 3 Wairarapa District Councils and business groups)
 - Farm Environment Awards \$20,000
(Refer Report 01.728)
 - River Scheme Maintenance \$50,000
(Unscheduled maintenance of LWVD Scheme to be funded 50/50 from local scheme/general rate)
- *Landcare*
 - Flood damage repairs \$100,000
(Belmont Regional Park)

- Flood damage (Porirua Stream)	\$25,000
- Clean up costs of contaminated site (Flood Protection land, Waikanae)	\$12,000
• <i>Environment</i>	
- Additional soil monitoring (Refer Report 01.631)	\$12,500

4.2 Net Capital Expenditure

The forecast net capital expenditure position for the year ending 30 June 2002 is expected to be \$1.4 million below the budgeted net capital expenditure programme of \$8.1 million.

This is primarily due to a favourable variance projected in the water supply area of \$1.5 million.

This variance is similar to the year to date favourable variance in capital expenditure as a result of the majority of the year to date savings being considered to be permanent savings.

4.2.1 *Material additional Capital Expenditure Items are as follows:*

• <i>Landcare</i>	
- Tunnel Gully Culvert replacement as a result of flood damage (To be loan funded)	\$82,500
• <i>Utility Services</i>	
- Sustainable Yield Model upgrade NIWA have recommended upgrade based on a recent software advance (To be loan funded)	\$100,000
- Treatment Plant Minor upgrading works underestimated (To be loan funded)	\$60,000
- Wainuiomata Conversion to Dry Polymer Dosing following successful trials (To be loan funded)	\$55,000

5. Annual Plan Performance Indicators

Divisional Managers have reported their expectation that all significant annual plan performance indicators will be achieved by 30 June 2002.

6. **Compliance with Treasury Management Policy**

There were no instances of non-compliance with the Treasury Management Policy during the six months to December 2001. (Refer **Attachment 1**)

7. **Costs Associated with Joint Venture Proposal (Rail)**

The updated schedule of the external costs associated with the joint venture proposal is attached as **Attachment 2**.

8. **Communications**

Council's half year results again reflect solid operational and financial performance which should be reported to the community.

9. **Recommendations**

That the Committee recommend to Council that it:

- (1) *Receive the report and note its contents.*
- (2) *Approve the following additional operating expenditure items:*
 - (a) *\$58,000 in the Wairarapa budget to fund Coastal Strategy studies.*
 - (b) *\$25,000 in the Wairarapa budget to fund the Wairarapa Irrigation investigation.*
 - (c) *\$20,000 in the Wairarapa budget to fund the Farm Environment Awards.*
 - (d) *\$50,000 in the Wairarapa budget to fund additional maintenance expenditure on the Lower Valley Development Scheme.*
 - (e) *\$100,000 in the Landcare budget to fund flood damage repairs in Belmont Regional Park.*
 - (f) *\$25,000 in the Landcare budget to fund flood damage repairs in the Porirua Stream.*
 - (g) *\$12,000 in the Landcare budget to fund the clean up costs of contamination on Flood Protection land at Waikanae.*
 - (h) *\$12,500 in the Environment budget to fund additional soil monitoring.*
- (3) *Approve the following additional capital expenditure items:*
 - (a) *\$82,500 in the Landcare budget to fund the replacement of a culvert at Tunnel Gully.*

- (b) \$100,000 in the Utility Services budget to fund the upgrade of the Sustainable Yield Model.*
- (c) \$60,000 in the Utility Services budget to fund treatment plant minor upgrading work.*
- (d) \$55,000 in the Utility Services budget to fund the Wainuiomata Dry Polymer Dosing Conversion.*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Treasury Management Policy Compliance Report

Attachment 2: Joint Venture Consultancy costs to 31 December 2001