THE REGIONAL COUNCIL

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Report to the Policy, Finance and Strategy Committee
from Paul Laplanche, Finance Manager

Annual Report for the year ended 30 June 2002

1. Purpose

To report the results of the Council for the year ended 30 June 2002 and to seek Committee approval of the draft Annual Report (forwarded as a separate document).

2. Background

By 30 November each year the Council is formally required to adopt the Annual Report to enable the Audit Certificate to be released by Audit New Zealand.

The Council normally adopts the Annual Report by the end of October each year, which is the case again this year.

Erica Mason, our audit Director from Audit New Zealand, will be in attendance at the meeting on 31 October 2002 to summarise the results of the annual audit and to answer any questions that the Committee may have.

Although Audit New Zealand have yet to provide formal clearance on the Annual Report we are confident that clearance will be provided before the meeting so that the signed Audit Certificate will be available at the meeting on 31 October 2002, once the accounts are adopted by the Council.

3. Annual Report Document

The 2002 Annual Report has been modelled on those prepared in previous years, which is not surprising given it is fundamentally a compliance report, with the majority of disclosures required by law.

Last year the format was updated to reflect the style used within the "Investing in the Future" planning document. The 2002 Annual Report reports against year two of the Council's Long Term Financial Strategy, "Investing in the Future 2000-2010".

4. Financial Performance for the year ended 30 June 2002

4.1 Operating Surplus

The Council's operating surplus for the 2001/02 financial year was $6.7 million compared with a budgeted surplus of $3.8 million, resulting in an operating surplus ahead of budget of $2.9 million.

The majority of the surplus has been generated within the Water Supply, Transport and Investment Management areas.

Variances from the budget, by activity, are shown below:

OPERATING SURPLUS (DEFICIT)	**2001/02 Actual $000s**	**2001/02 Budget $000s**	**Variance $000s**
Water Group	3,172	1,537	1,635 F
Plantation Forestry	(649)	(546)	103 U
Utility Services	**2,523**	**991**	**1,532 F**
Transport	414	(270)	684 F
Landcare	1,021	1,343	322 U
Environment	141	(282)	423 F
Wairarapa	230	485	255 U
Corporate Advisory Services	(63)	(7)	56 U
Finance & Admin	(568)	(518)	50 U
General Manager	102	26	76 F
Investment in Democracy	(68)	(136)	68 F
Rates Collection	(206)	0	206 U
Net Divisional Surplus (Deficit)	**3,526**	**1,632**	**1,894 F**
Investment Management	9,097	7,979	1,118 F
Business Unit Rates Contribution	(5,910)	(5,782)	128 U
Total Operating Surplus (Deficit)	**6,713**	**3,829**	**2,884 F**

Significant components of the $2.9 million favourable variance are as follows:

(1) Water Supply favourable variance of $1.64 million, due to:

- Efficiencies in the ongoing bulk water activities, specifically total direct cost savings of $1,249,000 and financial cost savings of $401,000.

- The cessation of the WSA with WCC in November 2001 is the primary reason for a net unfavourable external revenue variance of $1,455,000. However, as cost savings associated with this contract have been of a corresponding magnitude, the net impact of the loss of this contract is minimal.

(2) Plantation Forestry unfavourable variance of $0.10 million, due to:

- Significantly higher roading maintenance costs and contract costs associated with the commencement of the Puketiro Forest harvest of $701,000 exceed the higher revenue returns of $551,000 that were achieved.

(3) Transport favourable variance of $0.7 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 as it was not sufficiently certain to recognise in the 2000/01 accounts.

- A $219,000 favourable variance with kickstart services having commenced later than planned as a result of delays in the Transfund approval process.

- A $143,000 favourable variance with the upgrade of Raumati Station postponed until the future of Tranz Metro is more certain.

(4) Landcare unfavourable variance of $0.32 million, due to:

- Asset writeoffs and adjustments of $390,000 identified as a result of the Flood Protection asset revaluation exercise at 30 June 2002.

(5) Environment favourable variance of $0.42 million, due to:

- Increased revenue from some large notified resource consent applications. These were:
  - the Otaki Pipeline Project ($67,000);
  - the upgrade of SH58 and SH2/58 (charges recovered this year - $90,000);
  - the Oriental Bay Beach Enhancement Project ($38,000);
  - Exide's air discharge for their lead battery recycling business ($16,000);
  - SH2 from Te Marua to Kaitoke realignment works ($18,000); and
  - the Western Wastewater Treatment Plant overflows ($14,000).

- Staff movements resulted in a reduced personnel spend of $22,000.

- Material costs were slightly over budget by $109,000. Commissioners' costs that arose from the Otaki Pipeline, the upgrade of SH58 and SH2/58, and the Oriental Bay Beach Enhancement Project hearings make up most of this variance. These costs are fully recoverable from the applicant.

- External Contractors and Consultants were $203,000 under budget for the period. The shortfall is with the collection of unwanted agricultural chemicals ($20,000), remedial work at some of our contaminated sites ($76,000) and the stormwater investigation work ($67,000). However, some of the contaminated sites budget under-spend on consultants has been offset by engineering work ($13,000) that was undertaken internally and extra staff time ($32,000). Overall that project was $31,000 underspent.

- Some of the stormwater budget has been carried over, as an insurance measure, because weather conditions prevented samples being collected. Similarly, the painting of the Front Lead Light has been postponed ($45,000), because of the poor summer weather, with funding carried over until the next financial year.

- The spending gap for iwi projects has been narrowed, with the spend only some $5,000 behind our budgets.

(6) Wairarapa unfavourable variance of $0.26 million, due to:

- Reduced Reserve Forests logging revenue of $360,000 because of poor quality trees and inability to gain road access into the Tauanui Reserve. Total harvest volume (11,000 tonnes) for the year was nearly 50% below target.

- Bovine Tb savings of $73,000 as a result of delays to control operations near the Upper Hutt area because of opposition to 1080 toxin use. However, 311,000 hectares or 96% of the Bovine Tb vector control programme was successfully completed to AHB specifications.

- Reduced Pest Plants expenditure of $25,000 because the rebudgeted KNE work for East Harbour and Otaki river was completed in 2000/01.

(7) Rates Collection unfavourable variance of $0.21 million, due to:

- An increase in the provision for doubtful debts.

(8) Investment Management favourable variance of $1.12 million, due to:

- This is primarily due to WRC Holdings paying a higher than expected dividend ($1.1 million greater than budget) as a result of CentrePort paying a higher dividend than was budgeted.

(9) Business Unit Rate Contribution unfavourable variance of $0.13 million, due to:

- Corporate charges relating to the WCC water network contract not being charged to that area since the unit ceased operating (December 2001).

4.2 Net Capital Expenditure

Net capital expenditure for the year was $1.8 million below budget.

Variances from the budget, by activity, are shown below:

NET CAPITAL EXPENDITURE	2001/02 Actual $000s	2001/02 Budget $000s	Variance $000s
Utility Services	3,634	4,644	1,010 F
Landcare	1,447	1,695	248 F
Environment	253	323	70 F
Transport	0	35	35 F
Wairarapa	228	225	3 U
General Manager	19	34	15 F
Finance & Admin	793	1,046	253 F
Investment in Democracy	(4)	118	122 F
Total Net Capital Expenditure	**6,370**	**8,120**	**1,750 F**

Significant components of the $1.8 million favourable variance are as follows:

(1) Utility Services favourable variance of $1.01 million, due to:

- Savings generated by purchasing significantly fewer minor assets, combined with the Operations Network asset disposal programme, have produced a net $642,000 favourable variance for divisional asset acquisitions and disposals.

  In addition, a favourable variance of $368,000 was generated within the division's capital works programme, across a wide range of projects.

(2) Landcare favourable variance of $0.25 million, due to:

- The deferral of the Findlay St realignment (awaiting consultation with WCC) has resulted in a favourable variance of $320,000 in construction cost but has also created an unfavourable variance of $450,000 in asset sales (total impact of Findlay St being unfavourable $130,000).

- Timing impacts on jobs in the Hutt and Waikanae FMPs resulting in a favourable variance of $43,000.

- Replacement of Tunnel Gully Culvert due to flood damage resulting in an unfavourable variance of $90,000.

- Better than expected sale values for assets disposed of during the year.

(3) Finance and Admin favourable variance of $0.25 million due to:

- Part of the records management system ($131,000) and some of the general IT operations capital expenditure ($128,000) has been deferred until 2002/03.

(4) Investment in Democracy favourable variance of $0.12 million due to:

- The allowance for plant and equipment of $75,000 was not required in 2001/02. In addition, the budget of $43,000 for the Chairperson's vehicle has been re-budgeted to the 2002/03 year.

4.3 Funding Position

The table below summarises the overall funding movements of the Council compared with budget:

	2001/02 Actual $000s	2001/02 Budget $000s	Variance $000s
Regional Water Supply	3,172	1,537	1,635
Regional Transport	422	(270)	692
Regional Stadium	649	649	-
Other Regional Responsibilities	2,470	1,913	557
Operating Surplus (Deficit)	**6,713**	**3,829**	**2,884**
Movement in Reserves	308	1,159	(851)
Add Back Non Cash Items	8,460	8,147	313
Funding Surplus from Operations	**15,481**	**13,135**	**2,346**
Less:			
Net Capital Expenditure	6,370	8,119	(1,749)
Investment Additions	1,543	1,574	(31)
New Loans	(6,498)	(7,351)	853
Investment Redemption	-	-	-
Net Capital Expenditure and Investment	**1,415**	**2,342**	**(927)**
Working Capital Movement	3,357	-	3,357
Debt Repayment	10,709	10,793	(84)
Net Funding Surplus (Deficit)	**-**	**-**	**-**

As has been past Council practice, the surplus above budget in the Regional Water Supply area has been applied to debt reduction and the surplus in Regional Transport has been transferred into the Transport reserve. Other surpluses or deficits relating to other separate areas of benefit (eg. River and Pest rates) have also been applied to their specific reserves, in proportion to their respective funding policy ratios (refer to section 4.4 below on reserves). Reserves have also been adjusted to reflect the expenditure rebudgeted from 2001/02 into 2002/03. Through the expenditure rebudgeted and associated reserve transfers the Council has effectively carried forward approximately $1 million of the 2001/02 surplus into the 2002/03 year.

The Council has a longstanding policy of using all surplus funds after reserve transfers and working capital requirements to repay debt. While there are no additional funds available this year for debt repayment, the unbudgeted increase in working capital has enabled maturing debt to be repaid early 2002/03 (July 02).

The figures presented do not include a forestry dividend for the 2001/02 year and it is recommended that 2001/02 dividends from both forestry areas, Plantation Forestry and Reserve Forests be waived (as was the case last year).

4.4 Financial Position at 30 June 2002

The Council's financial position remains strong.

(1) Debt Position

Net Council debt has decreased by $3.9 million during the year from $82.3 million at 30 June 2001 to $78.4 million at 30 June 2002. The Council has a net debt to equity ratio of 18:82, or put another way, Council's assets are supported by 18% of debt and 82% of ratepayers' equity. The consolidated position, incorporating the WRC Holdings Group (including CentrePort) also makes good reading with a consolidated debt to equity ratio of 23:77.

The two main components of the Council debt include the Water Supply debt and the debt associated with the Stadium. In fact, Other Regional Responsibilities when taken together, are now nearly debt free.

This further decline in debt levels and surpluses above budget should provide the Standard and Poor's rating agency (S&P) with continuing comfort around our ability to service our financial obligations. Our current credit rating (AA/A1+) factors in the expectation that our debt levels will continue to decline, as projected in the Council's long term financial plan.

(2) Investments

The Council manages a significant portfolio of investments comprising equity investments, forestry, sinking funds, special funds and, from time to time, short-term money market deposits. The Treasury Management Policy (last updated 2 November 1999) includes the Council's philosophy and approach to management of its investments.

These investments are explained in more detail within the Annual Report. (Refer to Note 6 on page 36 and the Investments section on page 128).

(3) Reserve Position

A detailed analysis of reserve movements during the 2001/02 year is provided as **Attachment 1** of this report, along with explanations of variances between budgeted and actual reserve movements. All variances from budgeted reserve movements need to be approved by the Council as part of its adoption of the 2002 Annual Report. (The budgeted reserve movements were implicitly approved as part of the 2001/02 Annual Plan.)

A reminder that the Council has four types of reserves. They can be categorised as follows:

- ***Reserves for each Different Area of Benefit.***

These reserves are used where there is a discrete set of rate or levy payers as distinct from the general rate, e.g. Regional Water Supply, Transport, Bovine Tb, Parks Land Purchase, River Rates, and Wairarapa Schemes.

Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves, in proportion to their respective funding policy ratios.

If the Council establishes other separate funding sources in the future the same will apply. Such reserves are often long-term in nature, in that the use of the available funding spans many years.

- ***Contingency Reserves***

The Council has traditionally set aside reserves which can be made available when a specific unforeseen event occurs. This currently includes Water Supply Quality, Environment Legal, Flood and Rural Fire Contingency reserves.

The release of these funds generally can only be approved by Council, with some delegation to Divisional Managers. Again, these reserves are long-term in nature.

- ***Reserves where there has been Rebudgeting of Expenditure***

As part of each planning process Department Managers indicate the funds needed to achieve specific outputs during the year. Any surpluses generated as a result are available for Council use (unless there is an area of benefit issue) and unless determined otherwise by the Council those surpluses will be used to reduce Council debt. This benefits the Council as a whole.

One exception to this rule is where a specific project has been planned to be completed during the financial year, but has not been. If this project is still a priority of the Council, then it is appropriate to rebudget this expenditure in the following year. This process is undertaken as part of finalising the Annual Plan in June each year.

Funds are made available in the following year to fund these projects and the main mechanism to achieve this is through the use of a reserve (except for loan funded projects where the raising of the loan is merely delayed). By doing this the Council does not rate the community twice for the same project. The actual transfer to reserve occurs now as part of finalising the Annual Report.

- ***Special Reserves***

The only special reserve of the Council is the Election Reserve. The reserve is necessary to smooth the costs of the local body elections across the three years of the triennium.

(4) Asset Management

Asset management plans remain an important building block in Council's financial management framework. The majority of the Council's asset base consists of Regional Water Supply and Flood Protection assets. These important community assets are required to be maintained and, where possible enhanced, to enable the Council to continue to provide the agreed service levels to the community in future years.

During the year the Council made further progress in its asset management planning with the Flood Protection Infrastructural Assets being revalued, resulting in an increase in value of approximately $20 million.

In 2002/03 officers plan to conduct a revaluation of Parks & Forests assets (excluding the plantation forests themselves which are revalued annually).

5. Non Financial Results

The Council is required by law to report in its Annual Report its achievements against the performance indicators published in the 2001/02 Annual Plan.

Reporting is therefore grouped into Council's significant activities as follows:

Environment Management
Regional Transport
Regional Water Supply
Land Management
Flood Protection
Parks & Forests

In addition we have separately reported on Investment in Democracy and the Council's involvement with the Stadium and other Investments.

Overall, it is pleasing to see that once again the majority of performance targets have been met. Where shortfalls have occurred, the reasons are clearly stated.

6. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the twelve months to 30 June 2002 (refer **Attachment 2**).

7. Communications

The Council's Annual Report is essentially a compliance report, which is required by law. However, Council's continued good financial performance and prudent debt management should be communicated publicly. A suitable press release has been prepared.

8. Recommendations

That the Committee recommend to Council that it:

(1) Receive the report and note its contents.

(2) Approve the following net amounts, in addition to those budgeted, be added to or deducted from, the respective reserves:

(a)	*Regional Parks Land Purchase*	*$4,000*
(b)	*Transport Rate*	*$564,000*
(c)	*Bovine Tb Rate*	*$37,000*
(d)	*Wairarapa Schemes – Catchment Awhea*	*$12,000*
(e)	*Wairarapa Schemes – Catchment Whareama*	*($4,000)*
(f)	*Wairarapa Schemes – Catchment Homewood*	*($1,000)*
(g)	*Wairarapa Schemes – Catchment Maungaraki*	*$3,000*
(h)	*Wairarapa Schemes – Catchment Kaiwhata*	*($1,000)*
(i)	*Wairarapa Schemes – Drainage*	*($17,000)*
(j)	*Wairarapa Shingle Royalty*	*($101,000)*
(k)	*Water Operations Network*	*$10,000*
(l)	*Wairarapa workshop*	*$2,000*
(m)	*Akura Nursery*	*($24,000)*
(n)	*Wairarapa Schemes – River LWVD*	*($49,000)*
(o)	*Wairarapa Schemes – River Waiohine*	*$24,000*
(p)	*Wairarapa Schemes – River Upper Ruamahanga*	*$26,000*
(q)	*Wairarapa Schemes – River Waipoua*	*$10,000*
(r)	*Wairarapa Schemes – River Waingawa*	*$9,000*
(s)	*Wairarapa Schemes – River Lower Tauera*	*$3,000*
(t)	*Wairarapa Schemes – River Lower Whangaehu*	*$2,000*
(u)	*River Rate – Hutt City*	*$51,000*
(v)	*River Rate – Kapiti Coast District*	*($77,000)*
(w)	*River Rate – Porirua City*	*($20,000)*
(x)	*River Rate – Upper Hutt City*	*$21,000*
(y)	*River Rate – Wellington City*	*$43,000*
(z)	*Election*	*$8,000*
(aa)	*Expense Rebudget – KNE Pest Plants*	*$25,000*
(ab)	*Expense Carry Forward - Wai Planning Vehicle*	*($18,000)*
(ac)	*Expense Carry Forward – Comms Branding*	*($134,000)*
(ad)	*Expense Rebudget – Catchment Management*	*$85,000*
(ae)	*Expense Rebudget – Land Swap HCC*	*$71,000*
(af)	*Expense Rebudget – Ecobus*	*$50,000*
(ag)	*Expense Rebudget – Front Lead Light*	*$45,000*
(ah)	*Expense Rebudget – Care Groups*	*$20,000*

(ai)	*Expense Rebudget – GM's Training/Development*	*$40,000*
(aj)	*Expense Rebudget – Branding Implementation*	*$20,000*
(ak)	*Expense Rebudget – Intranet Development*	*$30,000*
(al)	*Expense Rebudget – Chairperson's Vehicle*	*$25,000*
(am)	*Expense Rebudget – IT Capex Programme*	*$128,000*
(an)	*Expense Rebudget – Bovine TB control*	*$31,000*
(ao)	*Expense Rebudget – Public Trans Mngers Vehicle*	*$15,000*
(ap)	*Expense Rebudget – Petone Station Upgrade*	*$100,000*
(aq)	*Expense Rebudget – QE2 National Trust*	*$32,000*
(ar)	*Expense Rebudget – Aerial Photos*	*$10,000*
(as)	*Expense Rebudget – Stormwater Investigations*	*$74,000*
(at)	*Expense Rebudget – Coastal Landscape*	*$28,000*
(au)	*Expense Rebudget – Belmont Track Repair*	*$85,000*
(av)	*Expense Carry Forward – Lab TOC Analyser*	*$60,000*
(aw)	*Expense Carry Forward – Planning Vehicle*	*$22,000*
(ax)	*Expense Carry Forward – Moving/Storage Costs*	*$60,000*

(3) Agree that the requirement for the forestry business units to pay a dividend be waived for the 2001/02 year.

(4) Agree that in line with Council policy, the remaining surplus after reserve transfers and working capital requirements, be applied to debt reduction.

(5) Adopt the Financial Statements and accompanying notes for the year ended 30 June 2002 subject to receipt of the Audit Report, and agree that any minor adjustments requested by Audit New Zealand be considered by officers and, if necessary, amended, pursuant to resolution (6) below.

(6) Agree that the 2002 Annual Report be published subject to any minor editorial amendments which should be approved by the Chief Financial Officer, in conjunction with the Chairperson.

Report prepared by: Approved by:

PAUL LAPLANCHE
Finance Manager

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Department Reserve Analysis

Attachment 2: Compliance with Treasury Management Policy

Attachment 3: Rail JV costs to 30 June 2002

2002 Draft Annual Report is enclosed as a separate attachment to this report