greater WELLINGTON
THE REGIONAL COUNCIL

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Committee Policy, Finance and Strategy
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Half Year Review to 31 December 2002

1. Purpose

- To inform the Committee of the financial performance for the first half of the 2002/03 financial year 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 indicators in the Council's 2002/03 Annual Plan.
- 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 2002 half-year management review documents have recently been provided to Councillors through the Councillors' bulletin.

Overall, the year to date figures reflect favourable results, with the operating surplus ahead of budget ($0.97 million favourable variance) and capital expenditure below budget ($0.54 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 2003 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 2002

3.1 Operating Surplus

As noted above, the year to date operating result after six months reflects an operating surplus ahead of budget of $0.97 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Forecast $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Water Group	882	323	559 F	1,513	565	948 F
Plantation Forestry	(270)	(110)	160 U	57	(225)	282 F
Utility Services	**612**	**213**	**399 F**	**1,570**	**340**	**1,230 F**
Transport	519	161	358 F	(57)	(106)	49 F
Landcare	1,256	984	272 F	1,632	1,558	74 F
Environment	191	(112)	303 F	(41)	(134)	93 F
Wairarapa	(92)	187	279 U	(148)	(108)	40 U
Corporate Advisory Services	(239)	(63)	176 U	(207)	(15)	192 U
Finance & Admin	157	23	134 F	(234)	(170)	64 U
General Manager	1	(15)	16 F	(54)	(54)	-
Investment in Democracy	4	(1)	5 F	(24)	(3)	21 U
Rates Collection	88	0	88 F	(91)	0	91 U
Net Divisional Surplus(Deficit)	**2,497**	**1,378**	**1,120 F**	**2,346**	**1,308**	**1,038 F**
Investment Mgmt	3,479	3,628	149 U	8,149	8,163	14 U
Business Unit Rates Contribution	(2,913)	(2,913)	-	(5,827)	(5,827)	-
Total Operating Surplus (Deficit)	**3,063**	**2,093**	**971 F**	**4,668**	**3,644**	**1,024 F**

Significant components of the $0.97 million favourable year to date operating variance are as follows:

(1) Water Group $0.56 million favourable variance, due to:

- A favourable variance of $431,000 within the Strategy and Asset area primarily as a result of financial cost savings of $152,000 (due to lower than planned debt levels) and lower than budgeted expenditure on materials, supplies, services, contractors and consultants of $308,000.

- A favourable variance within the Operations area of $218,000, as a result of lower than budgeted expenditure on power and chemicals.

(2) Plantation Forestry $0.16 million unfavourable variance, due to:

- The impact of higher than budgeted roading maintenance costs incurred in the first quarter of the financial year, in order to facilitate the ongoing Puketiro Forest harvest during the winter period.

(3) Transport $0.36 million favourable variance, due to:

- A $308,000 favourable variance with new kick-start services to be finalised following the completion of the Hutt Valley Service Review.

- A $240,000 favourable variance with English Electric refurbishments deferred until agreement can be reached with the Passenger Rail Operator over capital funding (as part of a new contract).

- A $212,000 unfavourable variance with patronage revenue below budget.

(4) Landcare $0.27 million favourable variance, due to:

- Savings in personnel costs of $157,000 resulting from changes to the structure and associated staff vacancies.

- Depreciation across the division is $121,000 under budget due to lower than planned levels of capital spend.

- The operational work programme in Parks and Forests is approx $120,000 behind budget. This is mainly due to a variety of projects having been put on hold over the summer period to allow Assistant Rangers to keep visitor centres tidy and open, and as a result of the staff vacancies noted above.

- Flood Protection is ahead of schedule in some of its Kapiti operational work, predominantly the in-channel maintenance on the Otaki River. This has resulted in an unfavourable variance of $80,000. However, deferring some low priority jobs to next financial year is expected to offset this.

(5) Environment $0.30 million favourable variance, due to:

- External contractors and consultants are $237,000 under budget due to;

  - Participation in the unwanted agricultural chemical collection has been less than expected, especially on the Western side of the Region resulting in a favourable variance of $107,000. A final round of collections is planned for early 2003.
  - The stormwater investigation has been slow resulting in a favourable variance of $58,000. The collection of reliable samples is the main cause.
  - A favourable variance of $35,000 is due to delays in a contaminated site project, the soil background survey for the Region.

- Timing of expenditure on a number of projects have resulted in a favourable variance of $67,000, e.g. Care Groups.

(6) Wairarapa $0.28 million unfavourable variance, due to:

- Additional River Management expenditure of $250,000 due to minor flood damage repairs, very good progress with scheme maintenance programmes, and unbudgeted depreciation on river infrastructure assets.

(7) Corporate Advisory Services $0.18 million unfavourable variance, due to:

- Increased personnel costs of $81,000 primarily due to an unbudgeted staff member in the communications department, unbudgeted management training costs and training costs which are yet to be charged out to departments.

- Increased expenditure on consultants associated with the LTCCP documentation, in order to comply with the new Local Government Act, and increased survey expenditure in the communications and corporate policy areas.

(8) Finance & Administration $0.13 million favourable variance, due to:

- Personnel savings of $92,000 due to staff vacancies.

- Delays in the roll out of the records management project have resulted in an under-spend of $46,000.

(9) Investment Management $0.15 million unfavourable variance, due to:

- The average year to date interest rates have been slightly lower than the budgeted interest rate which has resulted in an unfavourable variance of $120,000 on Council's bank deposits.

3.2 Net Capital Expenditure (capital expenditure net of disposals)

As noted above the year-to-date net capital expenditure for the six months to 31 December 2002 is $0.54 million below budget. Detailed variances from budget are shown in the following table:

NET CAPITAL EXPENDITURE	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Forecast $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Utility Services	1,028	1,143	115 F	3,052	3,093	41 F
Landcare	488	724	236 F	2,444	3,282	838 F
Environment	143	208	65 F	299	299	-
Transport	0	27	27 F	35	27	8 U
Wairarapa	167	190	23 F	290	290	-
Corporate Advisory Services	0	0	-	0	0	-
General Manager	0	0	-	0	0	-
Finance & Admin	86	165	79 F	470	484	14 F
Investment in Democracy	32	30	2 U	62	30	32 U
Net Capital Expenditure	**1,944**	**2,487**	**543 F**	**6,652**	**7,505**	**853 F**

Significant components of the $0.54 million favourable year to date variance are as follows:

(1) Utility Services $0.12 million favourable variance, due to:

- Minor asset acquisitions in the first six months of the financial year have been fewer than budgeted, resulting in a favourable variance of $135,000.

(2) Landcare $0.24 million favourable variance, due to:

- The delay in the tendering process for the 4 wheel drive vehicle replacements has resulted in a timing variance of $194,000.

4. Year End Forecast Position

4.1 Operating Surplus

The operating surplus for the year ending 30 June 2003 is forecast to be $1.02 million above the budgeted surplus of $3.64 million. This is primarily due to variances within the following areas of the Council:

(1) Utility Services $0.95 million favourable variance, due to:

- Favourable variances within the Strategy and Asset area of $317,000, as a result of forecast financial cost savings arising from lower than planned debt levels.

- Favourable variances within the Operations area of $292,000 as a result of forecast expenditure on power and chemicals being lower than budget.

- Lower than budgeted full year expenditure of $312,000 on other materials, supplies and services, across the whole Water Group.

(2) Plantation Forestry $0.28 million favourable variance, due to:

- Tight control over roading maintenance expenditure, in combination with the availability of more harvest crews and ongoing favourable market conditions.

(3) Corporate Advisory Services $0.19 million unfavourable variance, due to:

- Unbudgeted expenditure on the LTCCP process (budget is within Finance) and additional personnel costs in employment relations and communications departments as a result of additional staff in these areas.

4.1.1 Analysis of Forecast Operating Surplus

It is important to identify which areas of the Council are forecasting surpluses and deficits as there are different communities of interest involved.

	2002/03 year end forecast ($000)	2002/03 year end budget ($000)	Forecast vs Budget variance ($000)
Water supply	1,513	565	948F
Transport	(57)	(106)	49F
Other regional responsibilities	3,212	3,185	27F
	4,668	3,644	1,024F

As can be seen from the above table the majority of the forecast surplus above budget relates to the levy funded water supply activity.

4.1.2 Material additional operating expenditure projects are as follows:

- Rate Collection
  - Estimated one-off costs associated with the implementation of the new Rate Collection agreements with TLA's under the Local Govt (Rating) Act 2002 (Refer report PE 02.659)

    $100,000
- Finance and Administration (WRC Tenancy)
  - Estimated costs of changes to the fit out on a number of floors of the RCC as a result of the need to accommodate an expanded Transport Division

    $150,000

4.2 Net Capital Expenditure

The forecast net capital expenditure position for the year ending 30 June 2003 is expected to be $0.9 million below the budgeted net capital expenditure programme of $7.5 million.

This is primarily due to a favourable variance projected in Landcare of $0.8 million, relating largely to savings expected in 2002/03 on the Strand Park Channel realignment project (mostly timing).

4.2.1 Material additional capital expenditure projects are as follows:

Divisional Managers have advised that there are no unbudgeted capital projects which require approval of the Committee at this time.

5. Annual Plan Performance Indicators

Divisional Managers have reported their expectation that all significant annual plan performance indicators will be achieved by 30 June 2003.

6. Compliance with Treasury Management Policy

There was one instance of non-compliance with the Treasury Management Policy during the six months to December 2002. All external borrowing limits have been complied with during the quarter but one internal limit (forestry) has been breached. (Refer **Attachment 1)**. This breach is considered minor as Council remains well within all external debt limits. However, the forestry internal limit will be amended as part of the upcoming review of the Council's Treasury Management Policy.

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 projects:

(a) $100,000 in the Rate Collection budget to fund one-off costs of implementing new Rate Collection Agreements with Territorial Local Authorities.

(b) $150,000 in the Finance and Administration budget to fund one-off costs of fit out changes to the Regional Council Centre.

Report prepared by:

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Attachment 1: Treasury Management Compliance Report

Attachment 2: Joint Venture Consultancy Costs to 31 December 2002