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**Committee** Policy, Finance and Strategy  
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## **Financial Report for the three months ended 30 September 2003**

### **1. Purpose**

To inform the Committee of the financial performance of the Council for the three months ended 30 September 2003.

### **2. Comment**

Consistent with the wishes of the Council, financial results are reported each quarter, with updates by exception in the intervening months.

The year-to-date figures reflect favourable financial results in both operating and net capital expenditure, with the operating surplus ahead of budget by \$1.0 million and net capital expenditure below budget by \$1.3 million. Many projects are still in start up phases, and the variances are therefore mainly due to timing differences rather than being permanent savings.

At this time the “Forecast” figures assume no variance from the original budget. It is our normal practice for the year end forecast figures to be prepared as part of the half year review in February. This enables the Council to consider any unforeseen changes in expenditure priorities at the half year within the context of the likely year end financial result.

### **3. Financial Performance for the three months to 30 September 2003**

#### **3.1 Operating Surplus**

The year-to-date operating result after three months reflects an operating surplus ahead of budget of \$1.0 million.

Detailed variances from budget are shown in the following table:

	2003/04 YTD Actual \$000s	2003/04 YTD Budget \$000s	Actual vs Budget Variance \$000s	2003/04 Year Forecast \$000s	2003/04 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>OPERATING SURPLUS (DEFICIT)</b>						
Water Group	410	8	402 F	335	335	-
Plantation Forestry	(89)	56	145 U	229	229	-
<b>Utility Services</b>	<b>321</b>	<b>64</b>	<b>257 F</b>	<b>564</b>	<b>564</b>	-
Transport	96	(212)	308 F	(510)	(510)	-
Landcare	853	766	87 F	1,973	1,973	-
Environment	48	143	95 U	(284)	(284)	-
Wairarapa	206	(21)	227 F	36	36	-
Corporate Advisory Services	220	120	100 F	(15)	(15)	-
Finance & Admin	(55)	(80)	25 F	(270)	(270)	-
General Manager	23	8	15 F	29	29	-
Investment in Democracy	52	21	31 F	85	85	-
Rates Collection	44	0	44 F	0	0	-
<b>Net Divisional Surplus (Deficit)</b>	<b>1,808</b>	<b>809</b>	<b>999 F</b>	<b>1,608</b>	<b>1,608</b>	-
Investment Management	1,747	1,714	33 F	8,086	8,086	-
Business Unit Rates Contribution	(1,721)	(1,721)	-	(6,884)	(6,884)	-
<b>Total Operating Surplus (Deficit)</b>	<b>1,834</b>	<b>802</b>	<b>1,032 F</b>	<b>2,810</b>	<b>2,810</b>	-

Significant elements of the \$1.0 million favourable year to date operating variance are outlined below:

- (1) Water Group \$0.40 million favourable variance, due to:
  - The aggregation of multiple minor direct and indirect expenditure savings across all cost category types primarily related to materials, supplies and services, contractors and consultants, and financial costs.
- (2) Plantation Forestry \$0.14 million unfavourable variance, due to:
  - The combined impact of a sustained 0.60 NZ / US dollar exchange rate and weak local demand for wood has generated difficult operating conditions and has depressed currently available returns from harvesting.
- (3) Transport \$0.31 million favourable variance, due to:
  - A range of factors as follows:
    - ⇒ Favourable variance of \$68,000 due to the delay of installation of air monitoring station (joint project with Environment), now anticipated being before Christmas.
    - ⇒ Favourable variance of \$359,000 due to kick-start bus services which were included in the budget not occurring, with others coming in below budget.
    - ⇒ Favourable variance of \$88,000 due to delays in carpark developments.

⇒ Favourable variance of \$49,000 due to delays in Porirua Interchange investigation.

⇒ Favourable variance of \$70,000 due to delays in English Electric Refurbishment.

- These have been partially offset by reduced Transfund revenue compared with budget.

(4) Landcare \$0.09 million favourable variance, due to:

- Indirect expenses (depreciation and financial costs) are under budget by \$36,000 as a result of the lower than planned capital expenditure spend in 2002/03 (Flood Protection) and as a result of the recent asset revaluation exercise.
- Unplanned vehicle disposals have created an unbudgeted gain on sale of \$13,000 with a further \$10,000 favourable variance created by the earlier than planned disposal of other vehicles.

(5) Environment \$0.10 million unfavourable variance, due to:

- Some incomplete notified resource consent applications (work in progress) e.g. CentrePort's resource consent applications to dredge the harbour's entrance and near the vessel berths in the inner harbour.
- The balance of the shortfall is from a delay in some internal transactions. The largest, the Transport air monitoring station (\$68,000) is presently being constructed and officers anticipate that the station will be fully operational before mid December.

(6) Wairarapa \$0.22 million favourable variance, due to:

- Timing differences between revenue and expenditure in the Planning & Resources Department for the Coastal Strategy and Waahi Tapu projects.
- Biosecurity Department savings of \$79,000 due to the timing of Bovine Tb vector control and KNE contracts.

(7) Corporate Advisory Services \$0.10 million favourable variance, due to:

- Generally underspent in materials and consultants. Mainly relates to the Social Marketing project that has just started. Other variances are due to timing differences between actual and budget expenditure, although these are expected to be on track by year end.

### 3.2 Net Capital Expenditure

Year-to-date net capital expenditure for the three months is \$1.3 million below budget.

	2003/04 YTD Actual \$000s	2003/04 YTD Budget \$000s	Actual vs Budget Variance \$000s	2003/04 Year Forecast \$000s	2003/04 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>NET CAPITAL EXPENDITURE</b>						
Utility Services	432	1,033	601 F	5,852	5,852	-
Landcare	82	506	424 F	2,947	2,947	-
Environment	21	127	106 F	267	267	-
Transport	150	187	37 F	238	238	-
Wairarapa	89	95	6 F	349	349	-
Finance & Admin	18	134	116 F	513	513	-
General Manager	30	34	4 F	34	34	-
Rates Collection	21	0	21 U	0	0	-
Investment in Democracy	0	0	-	5	5	-
<b>Total Net Capital Expenditure</b>	<b>843</b>	<b>2,116</b>	<b>1,273 F</b>	<b>10,205</b>	<b>10,205</b>	<b>-</b>

Significant elements of the \$1.3 million year to date favourable variance are outlined below:

- (1) Utility Services \$0.60 million favourable variance, due to:
  - Delays in starting and / or progressing various capital work projects, which have generated a favourable timing difference of \$507,000. In addition, fewer than budgeted minor asset acquisitions have occurred to date, producing a further favourable variance of \$94,000.
- (2) Landcare \$0.42 million favourable variance, due to:
  - The majority of the favourable variance (\$289,000) is the result of a timing difference in the vehicle purchasing round as this year we are combining September and March into one buy round.
  - The other significant variance (\$59,000) is the result of delays in the letting of the construction tender for the two new toilet blocks at Queen Elizabeth Park. The job is still on schedule to be completed by 30 June 2004.
- (3) Environment \$0.11 million favourable variance, due to:
  - Delays in completion of a new Air Monitoring Station (\$68,000) for the inner city, which is being built for and funded by the Transport Department for their use.
- (4) Finance and Admin \$0.12 million favourable variance, due to:
  - Delays in the rollout of the Records Management System for Wairarapa and Transport and delays in acquiring new IT equipment.

### 4. Treasury Management Policy Limits

All Treasury limits have been complied with during the three months to 30 September with one minor exception. A 30 September 2003 the Council is technically in breach of the following policy contained within the overall Treasury Management Policy:

*A mixture of undrawn committed lines and liquid financial investments are available for the Council's self-insured infrastructural assets and contingency reserves.*

At 30 September the Council has available liquidity of \$50.4 million to cover self-insurance requirements and contingency reserves of \$51.5 million, giving a rise to a shortfall of \$1.1 million.

This issue is not considered serious due to the small size of the breach compared to the available liquidity (i.e. the self insured assets and contingency reserves are 98% covered). However, the Treasury Management Group will continue to monitor the situation and, if necessary, a recommendation will be made to the Committee for increased committed line funding in the new year.

## **5. Communications**

It's too early in the year to focus on the results in a meaningful way.

## **6. Recommendations**

*That the Committee recommend that the Council receive the report and note its contents.*

Report prepared by:

Report approved by:

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Financial Accountant

**Greg Schollum**  
Chief Financial Officer

**Attachment 1:** Treasury Management Compliance Report as at 30 September 2003