greater WELLINGTON
THE REGIONAL COUNCIL

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Committee	**Policy, Finance and Strategy**
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Half Year Review to 31 December 2003

1. Purpose

- To inform the Committee of the financial performance for the first half of the 2003/04 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 targets in the Council's 2003/04 Annual Plan.

- To seek the approval of the Council to additional expenditure requests from each Divisional Manager.

2. Background

Councillors will be aware that the Chief Executive 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 2003/04 half-year management review documents are once again being provided to Councillors through the Councillors' bulletin.

Overall, the year to date figures reflect favourable results, with the operating surplus ahead of budget ($1.2 million favourable variance) and capital expenditure below budget ($1.9 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 2004 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 2003

3.1 Operating Surplus

As noted above, the year to date operating result after six months reflects an operating surplus ahead of budget of $1.2 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	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
Water Group	672	192	480 F	979	334	645 F
Plantation Forestry	(102)	116	218 U	(457)	229	686 U
Utility Services	**570**	**308**	**262 F**	**522**	**563**	**41 U**
Transport	(187)	(363)	176 F	219	(510)	729 F
Landcare	1,542	1,204	338 F	2,025	1,973	52 F
Environment	255	191	64 F	(225)	(284)	59 F
Wairarapa	124	159	35 U	(500)	36	536 U
Corporate Advisory Services	385	261	124 F	(54)	(15)	39 U
Finance & Admin	(15)	(102)	87 F	(189)	(270)	81 F
Chief Executive	23	15	8 F	29	29	-
Investment in Democracy	62	43	19 F	148	85	63 F
Rates Collection	102	0	102 F	210	0	210 F
Net Divisional Surplus(Deficit)	**2,861**	**1,716**	**1,145 F**	**2,185**	**1,607**	**578 F**
Investment Mgmt	3,460	3,395	65 F	7,937	8,086	149 U
Business Unit Rates Contribution	(3,442)	(3,442)	-	(6,884)	(6,884)	-
Total Operating Surplus (Deficit)	**2,879**	**1,669**	**1,210 F**	**3,238**	**2,809**	**429 F**

Significant components of the $1.2 million favourable year to date operating variance are as follows:

(1) Water Group $0.48 million favourable variance, due to:

- A combination of materials, supplies and services savings of $270,000 (e.g. chemicals, rates charges and insurance premiums), plus contractor & consultant savings, $199,000, due to lower than anticipated usage during the year to date.

(2) Plantation Forestry $0.22 million unfavourable variance, due to:

- The combined impact of the sustained >0.60 NZ / US dollar exchange rate and weak local demand having generated difficult operating conditions and depressed harvesting returns, whereby total expenditure savings of $127,000 are completely outweighed by a total revenue shortfall of $345,000.

(3) Transport $0.18 million favourable variance, due to:

- Bus contract price increases, $88,000 unfavourable - impact of price increases in the recent tender round. This has been caused by external factors impacting the business of the bus operators.

- Kick-start bus services, $408,000 favourable - non-implementation of new kick-start services & the cost of remaining kick-start projects coming in below budget.

- English Electric Refurbishment, $140,000 favourable – delay in project due to uncertainty over future of Tranz Metro.

- Car park Developments, $84,000 unfavourable – budget for this has been used to help fund the infrastructure for the new Hutt Valley services.

- Petone Station, $40,000 unfavourable – additional costs incurred for the construction of the new Petone Rail Station.

- Bus Priority Measures, $73,000 unfavourable – phasing difference between budget & actual cost of Dixon/Manners St bus lane.

- Car park & bus shelter maintenance, $59,000 unfavourable – additional funding has been requested by the TLAs to maintain the existing facilities.

- Transport Model, $84,000 unfavourable – phasing difference between budget & actual costs of the model.

- Promotion & Marketing, $87,000 unfavourable – additional cost incurred in the following areas: Hutt Valley promotion, system branding and production of new Hutt Valley timetables.

- Access Planning, $150,000 favourable – delays and underspends on various projects e.g. Land use strategies, corridor studies & RLTS.

(4) Landcare $0.34 million favourable variance, due to:

- Savings in personnel costs in both Parks and Forests and Flood Protection largely as a result of staff vacancies (now filled).

- Flood Protection work programmes falling slightly behind schedule due to rock shortages and availability of plant. This is a timing variance only and the work is expected to begin shortly.

- Land issues in Parks and Forests (mainly in Belmont and East Harbour Regional Parks) delaying environmental and infrastructural work programmes.

(5) Environment $0.06 million favourable variance, due to:

- Some large notified consents completed, providing additional revenue. The most significant of these were from CentrePort Ltd for harbour dredging and from the Lyall Bay Reef Charitable Trust.

- The Department of Conservation contributed $31,000 towards our biodiversity strategy during the period. This is the first instalment of a grant that amounts to $79,000 in total. This revenue was not included in the budget.

- Offset by increased expenditure of $46,000 including:

  - Additional Commissioners' fees for notified consent hearings.

  - Legal fees in relation to consent applications (e.g. CentrePort Ltd and the successful prosecution of KCDC for breaching its consent for the Waikanae River).

  - The division has also taken to account the full allowance for administrative support to the Iwi in the Region.

(6) Corporate Advisory Services $0.12 million favourable variance, due to:

- Underspend of $40,000 in Employment Relations mainly due to savings in materials and contractors and consultants.

- $80,000 underspend on the Social Marketing project due to a difference in the phasing of the budget and the actual costs.

(7) Finance & Administration $0.09 million favourable variance, due to:

- A favourable variance in Records Management of $40,000, which is primarily due to reduced expenditure in materials of $26,000 and reduced depreciation expense of $11,000.

- A favourable variance in IT Operations of $89,000, which is primarily due to increased recovery of PCs of $31,000 and reduced depreciation charges on the IT assets of $43,000.

- An unfavourable variance in RCC Occupancy of $44,000, which is primarily due to the renovation and re-organisation of the Regional Council Centre project completed during the year.

(8) Rates Collection $0.10 million favourable variance, due to:

- A combination of additional rates penalty revenue of $38,000 and lower than budgeted expenditure of $66,000.

(9) Investment Management $0.07 million favourable variance, due to:

- $74,000 underspend in planned maintenance as a result of deferring the installation of the air conditioning unit in Masterton Office, pending the completion of the accommodation review.

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 2003 is $1.9 million below budget. Detailed variances from budget are shown in the following table:

NET CAPITAL EXPENDITURE	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
Utility Services	1,462	2,785	1,323 F	3,986	5,852	1,866 F
Landcare	642	1,044	402 F	2,904	2,947	43 F
Environment	117	192	75 F	267	267	-
Transport	200	218	18 F	384	238	146 U
Wairarapa	112	238	126 F	349	349	-
Corporate Advisory Services	5	0	5 U	60	0	60 U
Chief Executive	30	34	4 F	34	34	-
Finance & Admin	213	184	29 U	525	513	12 U
Investment in Democracy	0	5	5 F	5	5	-
Net Capital Expenditure	**2,781**	**4,700**	**1,919 F**	**8,514**	**10,205**	**1,691 F**

Significant components of the $1.9 million favourable year to date variance are as follows:

(1) Utility Services $1.32 million favourable variance, due to:

Delays in starting and/or progressing various Water Group and Plantation Forestry capital work projects, which have generated favourable differences against budget to date of $900,000 and $165,000 respectively. In addition, significantly fewer than budgeted minor asset acquisitions occurred in the first six months, primarily due to the delay in acquiring vehicle replacements originally scheduled for October, thus producing a further favourable variance of $260,000.

(2) Landcare $0.40 million favourable variance, due to:

The year to date favourable variance of $385,000 in capital projects is largely timing related, with most capital projects still expected to be completed by year-end. The exceptions to this are:

- Baring Head Access bridge – the divison had planned to spend $78,000 this financial year as our part in a major bridge upgrade. However, a "work around" solution was found at a cost of $2,000 which will defer the cost of repairing the bridge for a few more years.

- The office and track development at East Harbour Regional Park ($150,000) has been put on hold until the land swap with Hutt City Council has been resolved.

- Jim Cooke Park realignment is running behind schedule and it now looks likely that some funding may need to be carried over into the next financial year.

(3) Environment $0.08 million favourable variance, due to:

The timing of vehicle replacements.

(4) Wairarapa $0.13 million favourable variance, due to:

The timing of vehicle replacements.

4. Year End Forecast Position

4.1 Operating Surplus

The operating surplus for the year ending 30 June 2004 is forecast to be $0.43 million above the budgeted surplus of $2.81 million. This is primarily due to variances within the following areas of the Council:

(1) Water Supply $0.65 million favourable variance, due to:

- Sustained savings on materials, supplies and services, $425,000, and contractors and consultants, $330,000, partially offset by higher than budgeted Total Indirect Expenditure of $85,000.

(2) Plantation Forestry $0.69 million unfavourable variance, due to:

- A continuation of the current adverse operating conditions throughout the second half of the financial year, which are anticipated to simultaneously depress harvesting returns and reduce margins.

(3) Transport $0.73 million favourable variance, due to:

- A combination of favourable and unfavourable variances compared with budget including:

  - English Electric Refurbishment, $280,000 favourable – delay in project.

  - Integrated Ticketing, $250,000 favourable – delay in project.

(4) Wairarapa $0.54 million unfavourable variance, due to:

- Bringing forward the $150,000 repainting of the Barrage gates for the Lower Wairarapa Valley Development Scheme (originally budgeted for 2004/05).

- Flood damage repair expenditure of $112,000 for the Waipoua and Lower Wairarapa Valley Development Schemes in addition to the routine maintenance programme.

- Additional expenditure of $70,000 for Lower Wairarapa Valley Development Scheme Review.

- Under-budgeted vehicle depreciation $208,000 for Biosecurity and Land & River Operations.

(5) Finance & Administration $0.08 million favourable variance, due to:

- A favourable variance in IT Operations of $90,000 due to increased internal revenue of $50,000 resulting from additional PC recoveries and decreased depreciation charges of $80,000 which is partially offset by increased communication expenditure of $40,000.

(6) Investment In Democracy $0.06 million favourable variance due to:

- Savings in councillors' fees of $15,000 (because when setting the budget for the 2003/04 year there was no indication of where the Remuneration Authority was going to set the indicative pool for Elected Members) and refreshments of $10,000 and advertising and promotions of $15,000.

- Decreased internal charges of $40,000. This is made up of mainly the cost of producing the 2004/05 Annual Plan now forecast to cost $30,000 less than originally budgeted.

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

- Compliance with the new Local Government (Rating) Act 2002 costing less than expected and rates penalties revenue now forecast to be higher than budgeted.

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

- $170,000 lower than expected dividend revenue from WRC Holdings Ltd due to lower forecast dividend from CentrePort to Port Investments Ltd.

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.

	2003/04 year end forecast ($000)	**2003/04 year end budget ($000)**	**Forecast Vs Budget variance ($000)**
Water supply (1)	979	334	645F
Transport (2)	219	(510)	729F
Other regional responsibilities (2)	2,040	2,985	945U
	3,238	**2,809**	**429F**

Notes: (1) Funded by the water levy
(2) Funded by regional rates

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

Therefore across the Council's remaining regional responsibilites, officers are now forecasting an operating surplus of $2,040,000 at 30 June 2004, compared with a budgeted operating surplus of $2,985,000.

On the face of it this forecast unfavourable variance of $945,000 provides some cause for concern as it suggests that the additional expenditure items detailed in section 4.1.2 below (excluding the transport item which will be funded from the Transport reserve) will need to be funded from debt as opposed to operating surpluses. In fact, even excluding the additional expenditure items we are forecasting an unfavourable surplus position, (excluding water supply and transport) compared with budget.

However, counteracting this is the fact that the Council's total debt is currently running at a historic low and can cope in my view with this unbudgeted expenditure on this occasion.

I am therefore advising the Committee that it would not be financially imprudent if all additional expenditure items noted in sections 4.1.2 and 4.2.1 below were approved.

4.1.2 Material additional operating expenditure projects are as follows:

The following additional operating expenditure items have been incorporated into the forecast position at 30 June 2004.

- **Wairarapa**

Barrage gates repainting brought forward from 2004/05	$150,000

- **Wairarapa**

Flood damage cost of repairs to flood protection assets (to be funded from a combination of existing maintenance budgets and reserves)	$228,000

- **Wairarapa**

Lower Wairarapa Valley Development Scheme review – more extensive contour mapping	$70,000

- **Wairarapa**

Ecological mapping associated with preparation of the coastal strategy	$18,500

- **Landcare**

Flood damage cost of repairs to Parks and Forests assets	$33,000

- **Landcare**

Queen Elizabeth Park munitions disposal	$20,000

- **Corporate Advisory Services**

New signage associated with Council's rebranding covering new regional boundary signs, RCC signage and Stadium signage	$33,000

- **Investments (Council Admin Properties)**

Wairarapa accommodation review	$35,000

- **Transport**

Costs associated with new infrastructure to support Hutt Valley bus service review	$370,000

4.2 Net Capital Expenditure

The forecast net capital expenditure position for the year ending 30 June 2004 is expected to be $1.7 million below the budgeted net capital expenditure programme of $10.2 million.

(1) Utility Services $1.87 million favourable variance, due to:

Savings forecast to be made within the Water Group and Plantation Forestry capital works programmes ($1,482,000 and $278,000 respectively) variously associated with project delays, deferrals and changes in scope. It is currently anticipated that $892,000 of the forecast total Water Group savings will be rebudgeted into future years. In addition, it is forecast that permanent savings of $105,000 will be achieved, with respect to the total 2003/04 minor asset acquisition budget.

(2) Transport $146,000 unfavourable variance is due to:

The implementation of the Journey Planner software now forecast to be in excess of the budget.

(3) Corporate Advisory Services $0.06 million unfavourable variance, due to:

Additional funding of $60,000 associated with the implementation of a new health and safety system.

4.2.1 Material additional capital expenditure projects are as follows:

The following additional capital expenditure items have been incorporated into the forecast position at 30 June 2004.

- **Landcare**

Preliminary design work on Ava Railway Bridge brought forward from 2004/05 (to be funded as part of the overall project)	$30,000

- **Utility Services**

Additional costs forecast in the water capex programme across a range of projects, more than offset by savings in other capex projects (refer to report 04.43 considered by the Utility Services Committee on 9 February 2004)	$722,000

- **Corporate Advisory Services**

Implementation of a corporate Health and Safety system to replace various existing Health and Safety systems within the organisation (to be funded in 2003/04)	$60,000

5. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2004. However, I would expect that as a result of the third quarter review a number of projects will need to be rebudgeted (as has been our normal practice).

6. Compliance with Treasury Management Policy

As at 31 December 2003, all Treasury Management Policy limits have been complied with. Refer to **Attachment 1**.

7. Communications

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

8. 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) \$150,000 in the Wairarapa budget to fund the repainting of the Barrage gates.

(b) \$228,000 in the Wairarapa budget for flood damage repairs to be funded from a combination of existing maintenance budgets and reserves.

(c) \$70,000 in the Wairarapa budget to fund more extensive contour mapping as part of the Lower Wairarapa Valley Development Scheme review.

(d) \$18,500 in the Wairarapa budget to fund ecological mapping associated with preparation of the coastal strategy.

(e) \$33,000 in the Landcare budget to fund flood damage repairs to Parks and Forests assets.

(f) \$20,000 in the Landcare budget to fund the disposal of munitions in Queen Elizabeth Park.

(g) \$33,000 in the Corporate Advisory Services budget to fund new signage including new regional boundary signs, RCC signage and Stadium signage.

(h) *$35,000 in the investment budget (Admin properties) to fund the Wairarapa accommodation review*

(i) *$370,000 in the transport budget to fund the costs of the new infrastructure necessary to support the Hutt Valley bus service review.*

3. *Approve the following additional capital expenditure projects:*

(a) *$30,000 in the Landcare budget to enable the preliminary design on the Ava Railway Bridge to be brought forward from 2004/05 (to be funded as part of the overall project).*

(b) *$722,000 in the Utility Services budget (water group) covering the forecast additional costs across the water group capital expenditure programme for 2003/04 (to be funded from savings in other capital projects).*

(c) *$60,000 in the Corporate Advisory Services budget for the implementation of a new Health and Safety system (to be funded in 2003/04).*

Report prepared by:

Greg Schollum
Chief Financial Officer

Attachment 1: Treasury Management Compliance Report