



Report 06.722
Date 12 December 2006
File G/4/1/5

Committee Policy, Finance and Strategy
Author Chris Gray, Finance Manager

Financial Report for the four months ended 31 October 2006

1. Purpose

To inform the Committee of the financial performance to 31 October 2006 of the Council and to provide an explanation of major variances by division.

2. Significance of the decision

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002.

3. Background

Accounts are prepared and presented to management for review each month. A detailed report is given to Council each quarter. In the intervening months, reports to Council are done monthly by exception. A summation of these is now provided to Council for review.

4. Financial Performance

4.1 Year to date Operating Performance

On a consolidated Council basis, the year to date operating surplus is \$1,284,000 compared with budget deficit of \$280,000. This excludes grants and rates to fund public transport capital expenditure and the effects of the new accounting standards for Forestry. Including these amounts the actual surplus is \$1,002,000, compared to the budget surplus of \$369,000.

The Council's Statement of Financial Performance is included as **Attachment 1**.

4.2 Funding Statement

The Council's Funding Statement is included as **Attachment 2**.

4.3 Statement of Financial Position

The Statement of Financial position is included as **Attachment 3**.

5. Financial Summary

The following table shows the year to date variance by division.

Wellington Regional Council				
Summary Statement of Financial Performance - Operating Surplus \ (Deficit)				
For the Four Months Ending - 31 October 2006				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	423	131	(739)	870
Forestry	8	(345)	(259)	(86)
Regional Parks	144	382	(107)	489
Water Supply, Parks & Forests	575	168	(1,105)	1,273
Transport Policy and Strategy	40	117	(5)	122
Public Transport	(112)	(284)	(299)	15
Total Transport	(72)	(167)	(304)	137
Environment	168	51	10	41
Catchment Management	857	910	884	26
Corporate	73	67	90	(23)
WRS	41	(170)	(100)	(70)
Finance, IT & Support Services	244	428	162	266
Investment in Democracy	18	(9)	39	(48)
Divisional Operating Surplus	1,904	1,278	(324)	1,602
Investment Management	2,550	2,572	2,610	(38)
Business Unit Rates Contribution	(2,585)	(2,566)	(2,566)	-
Council Operating Surplus / (Deficit)	1,869	1,284	(280)	1,564
Revaluation RCC	-	-	-	-
Forestry Valuation less Cost of Goods Sold	-	(726)	(732)	6
Parks - Grant for Waitangirua Purchase	-	-	-	-
Public Transport - Capex / Investment	31	444	1,381	(937)
Total Council Surplus / (Deficit)	1,900	1,002	369	633

5.1 Water - favourable variance of \$870,000 due primarily to:

- Savings of \$335,000 in respect of contractor costs for the new water source. This is largely a phasing of the expenditure and the amount spent will be in line with budget by year end.
- Lower personnel costs, \$134,000 due to higher allocation of staff time to capital expenditure. This is expected to reverse by year end.
- Decreased depreciation, \$196,000, due to the timing of capital projects thus reducing depreciation, a trend which is reflected in the year end forecast.

5.2 Forestry - unfavourable variance of \$86,000 due primarily to:

- Higher than budgeted harvest costs, spent mainly on maintaining road access.
- Increased replanting costs.

The expenditure for both of the above items is expected to be in line with budget by year end.

5.3 Regional Parks - favourable variance of \$489,000 due primarily to:

- Delays in taking over management of Whitireia Park, \$67,000.
- Decreased contractor and consultant costs \$395,000, due mainly to the wet conditions delaying work programs.
- Lower materials and supplies, \$87,000 due to delays in the work programs as noted above.

Excluding the savings on Whitireia Park the other variances are expected to reverse by year end.

5.4 Public Transport - favourable variance of \$15,000 due primarily to:

As in previous quarters the grants received in respect of capital expenditure have been extracted and shown separately.

While the year to date numbers are very close to budget there are a number of variances as noted below.

Revenue	\$000's
Grants and subsidies	(981)
Internal revenue	(253)
Other	139
	(1,095)
Operating expenses	
Bus contracts	(1,519)
Rail rolling stock	2,365
Service improvements	(297)
Trolley bus contract	529
Bus stop development	125
Other	(93)
	1,110
Total Variance	15

- The increased cost of bus contracts \$1,519,000 is due to the effect of diesel inflation, LTNZ cover half of this amount.
- Expenditure on rail rolling stock has been delayed, \$2,365,000. These projects include heavy maintenance, station maintenance and minor upgrades to Electrical Multiple Units (EMUs). This has reduced grants from LTNZ by \$1,100,000 accordingly. This variance is expected to reverse by year end.
- The delay in signing the trolley bus contract has delayed some maintenance on the trolley overhead wires \$529,000. LTNZ grants were reduced by \$215,000 accordingly.

5.5 Transport Policy - favourable variance of \$122,000 due primarily to:

- Group Strategy Ride Initiative deferred \$55,000
- Public Health Initiative delayed \$54,000
- Savings in internal charges of \$46,000, this will reverse by year end.

5.6 Environment - favourable variance of \$41,000 due primarily to:

- Personnel costs were under budget \$208,000 due to lower staff numbers prior to the completion of the restructuring.
- External revenue down by \$106,000 but this is expected to reverse by year end.

5.7 Catchment Management - unfavourable variance of \$26,000 due primarily to:

- Revenue is \$1,620,000 ahead of budget due to increased vector control work.
- Overall expenditure is up \$1,593,000 reflecting the higher vector control work.
- Drainage schemes were \$121,000 over budget due to increased power use relating to the July and August floods.

5.8 Corporate - unfavourable variance of \$23,000 due primarily to:

- No matters of note to report.

5.9 Wellington Regional Strategy - unfavourable variance of \$70,000 due primarily to:

- The costs of the finalising the Strategy and initial consultation, Funding for this is being met by the Territorial Authorities and Greater Wellington.

5.10 Finance, IT and Support - favourable variance of \$266,000 due primarily to:

- Personnel Savings in Finance \$50,000.
- Timing of IT projects \$147,000
- Lower Material and Supplies \$91,000

Excluding savings on personnel the other variances are expected to reverse by year end.

6. Finance costs

Finance costs for the three months are \$1,599,000 compared to the budget of \$1,900,000. The favourable variance largely reflects lower capital expenditure.

7. Forecast to 30 June 2007

The forecast for October has not changed significantly from the one presented in the September report. The changes from budget are shown in the table below with explanations.

Wellington Regional Council						
Summary Statement of Financial Performance - Operating Surplus \ (Deficit)						
For the Four Months Ending - 31 October 2006						
Year to Date			OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year		
Last Year	Actual	Budget		Budget	Forecast	Last Year
423	131	(739)	Water Group	(2,019)	(1,439)	(59)
8	(345)	(259)	Forestry	(781)	(781)	(574)
144	382	(107)	Regional Parks	(283)	(67)	105
575	168	(1,105)	Water Supply, Parks & Forests	(3,083)	(2,287)	(528)
40	117	(5)	Transport Policy and Strategy	(228)	(228)	31
(112)	(284)	(299)	Public Transport	(1,736)	(3,987)	(2,158)
(72)	(167)	(304)	Total Transport	(1,964)	(4,215)	(2,127)
168	51	10	Environment	(272)	(272)	237
857	910	884	Catchment Management	3,149	2,184	2,456
73	67	90	Corporate	113	(11)	275
41	(170)	(100)	WRS	(100)	(158)	-
244	428	162	Finance, IT & Support Services	178	178	785
18	(9)	39	Investment in Democracy	117	82	53
1,904	1,278	(324)	Divisional Operating Surplus	(1,862)	(4,499)	1,151
2,550	2,572	2,610	Investment Management	9,530	9,513	8,833
(2,585)	(2,566)	(2,566)	Business Unit Rates Contribution	(7,698)	(7,698)	(7,758)
1,869	1,284	(280)	Council Operating Surplus / (Deficit)	(30)	(2,684)	2,226
-	-	-	Revaluation RCC	-	-	2,276
-	(726)	(732)	Forestry Valuation less Cost of Goods Sold	1,488	1,488	(1,745)
-	-	-	Parks - Grant for Waitangirua Purchase	-	-	2,800
31	444	1,381	Public Transport - Capex / Investment	60,819	23,931	326
1,900	1,002	369	Total Council Surplus / (Deficit)	62,277	22,735	5,883

Corporate is Corporate & Strategy Div and CE but excluding the secretariat function

The significant variances to budget are:

7.1 Water - favourable variance of \$580,000 primarily due to:

- Lower depreciation \$580,000 resulting from the delay in capital projects.

7.2 Regional Parks - favourable variance of \$216,000 primarily due to:

- Delay in taking over management of Whitireia Park, \$216,000.

7.3 Transport - unfavourable variance of \$2,551,000 due primarily due to:

Revenue	\$000's
Variances	
Grants and subsidies	2,330
	<hr/>
	2,330
Operating expenses	
Bus contracts	(4,040)
Rail Development	(410)
Other	(132)
	<hr/>
	(4,881)
	<hr/>
Total Variance	(2,551)

- The increased cost of bus contracts, due to the effect of diesel inflation is \$4,040,000. An additional \$2,020,000 is forecast to be received from LTNZ by way of grants in respect of this additional expenditure.
- The rail ownership project (as required by LTNZ) was not budgeted for as it was not under consideration at the time budgets were prepared. The grant from LTNZ will increase by \$246,000.

7.4 Catchment Management - unfavourable variance of \$965,000 due primarily to:

- Increased expenditure on flood damages \$1,200,000 as noted in previous reports.

7.5 Corporate - unfavourable variance \$124,000

- Increased recruitment expenditure to replace changes in personnel. An additional position of Health and Safety officer is also forecast.

7.6 Wellington Regional Strategy - unfavourable variance of \$58,000

This is the forecast cost of the finalising the Strategy and initial consultation to the end of 2006. Funding for this is being met by the Territorial Authorities and GWRC. If the Strategy gets approval in early 2007 then there will additional costs incurred for the balance of the 2006/7 year.

8. Capital Expenditure

8.1 Year to date

On a year to date basis the capital expenditure is behind budget on a Council basis by \$2,425,000. The main contributor to this is in Public Transport, some \$1,277,000 below budget. The other variances in capital expenditure are expected to reverse by year end except as noted below in Section 9.

Wellington Regional Council				
Capital Expenditure and Transport Investment Additions				
For the Four Months Ending - 31 October 2006				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	1,920	694	1,136	(442)
Forestry	48	20	83	(63)
Regional Parks	59	159	217	(58)
Water Supply, Parks & Forests	2,027	873	1,436	(563)
Transport Policy and Strategy	-	-	-	-
Public Transport	(6)	191	409	(218)
Public Transport Investment Additions	-	-	1,277	(1,277)
Total Transport	(6)	191	1,686	(1,495)
Environment	110	97	152	(55)
Catchment Management	636	751	413	338
Corporate	(25)	51	-	51
WRS	-	-	-	-
Finance, IT & Support Services	110	66	695	(629)
Investment in Democracy	(12)	-	-	-
Divisional Capital and Investment expenditure	2,840	2,029	4,382	(2,353)
Parks - Waitangirua Purchase	-	-	-	-
Investment Management	1	3	75	(72)
Business Unit Rates Contribution	-	-	-	-
Council Capital and Investment expenditure	2,841	2,032	4,457	(2,425)

8.2 Transport - \$1,495,000 favourable variance

Public Transport Capital Expenditure	Year to Date		
	Actual \$ 000's	Budget \$ 000's	Variance \$ 000's
New EMU's	99	-	99
Rail Station Upgrades & Maintenance	87	1,167	(1,080)
Rail Security	-	110	(110)
J'ville Mall	-	333	(333)
Other Assets	5	76	(71)
Total Capital Expenditure	191	1,686	(1,495)

9. Capital Expenditure - Full year forecast

On a forecast basis capital expenditure is forecast to be \$48,606,000 below budget by year end. The major contributor to this is delays in Public Transport.

Wellington Regional Council
 Capital Expenditure and Transport Investment Additions
 For the Year Ending 30 June 2007

Capital Expenditure and Investments \$(000)'s	Full Year			
	Last Year	Budget	Forecast	Variance
Water Group	6,664	6,624	6,624	-
Forestry	179	286	286	-
Regional Parks	5,920	720	565	(155)
Water Supply, Parks & Forests	12,763	7,630	7,475	(155)
Transport Policy and Strategy	37	-	-	-
Public Transport	505	2,603	1,603	(1,000)
Public Transport Investment Additions	-	80,292	33,734	(46,558)
Total Transport	542	82,895	35,337	(47,558)
Environment	349	891	891	-
Catchment Management	6,411	6,555	5,467	(1,088)
Corporate	61	49	244	195
WRS	-	-	-	-
Finance, IT & Support Services	507	975	975	-
Investment in Democracy	13	45	45	-
Divisional Capital and Investment expenditure	20,646	83,780	50,434	(48,606)
Parks - Waitangirua Purchase	5,600	-	-	-
Investment Management	4	1,100	1,100	-
Business Unit Rates Contribution	-	-	-	-
Council Capital and Investment expenditure	26,250	84,880	51,534	(48,606)

The major variances are as follows;

9.1 Catchment Management - favourable variance of \$1,088,000 primarily due to:

- Chrystalls extended stopbank reduced by \$772,000 representing a delay in the commencement of construction. This will be rebudgeted for 2007/8.
- The South Waitohu project, \$204,000 due to delay in gaining land for construction. This will be rebudgeted for 2007/8.
- The \$585,000 Lower Wairarapa Development scheme project has been deferred until 2007/8 as repairing the flood damage has impacted on resources and materials.
- Expenditure on river schemes budgeted as operating has been capitalised, \$473,000.

9.2 Transport - \$47,558,000 favourable variance primarily due to:

- The Johnsonville Mall development (park and ride) has been delayed as negotiations between the developers and GWRC continue.
- The South Wairarapa cars will start to come into service in March 2007. However, a shortage of bogies in New Zealand may delay the arrival of the last cars.
- The negotiations between GWRC, LTNZ and Toll on the procurement process for the new EMU's took longer than planned. While the date for

the introduction of the new EMU's into service is unchanged it is expected that the final contract will be signed by July 2007.

10. Finance Costs

Finance costs are forecast at \$4,956,000 compared with the budget of \$5,674,000.

The forecast delays in capital expenditure have reduced the need to borrow additional funds in the short term.

11. Communications

No communications are necessary at this time.

12. Recommendations

That the Committee recommends that Council:

1. *Receives the report.*
2. *Notes the content of the report.*

Report prepared by:

Report approved by:

Chris Gray
Finance Manager

Barry Turfrey
Chief Financial Officer

Attachment 1: Statement of Financial Performance

Attachment 2: Funding Statement

Attachment 3: Statement of Financial Position