



Report 07.220
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Committee Policy, Finance and Strategy
Author Chris Gray, Finance Manager

Review for the nine months ended 31 March 2007

1. Purpose

- To inform the Committee of the Council's financial performance to 31 March 2007 and to provide an explanation of major variances by division.
- To forecast the end of year position based on the management reviews completed by each division.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2006/07 Annual Plan.

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

Quarterly reviews between the Chief Executive/Chief Financial Officer and the Divisions were recently completed. It is timely, as a result of those reviews, to present a summary of the Council's nine months performance.

4. Financial Performance

4.1 Year to date Operating Performance

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.

As requested by Council the split between Eastern and Western Flood Protection is shown, these amounts are included under Catchment Management.

Wellington Regional Council Summary Statement of Financial Performance - Operating Surplus \ (Deficit) For the Nine Months Ending - 31 March 2007				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	568	(32)	(1,544)	1,512
Forestry	(515)	(569)	(581)	12
Regional Parks	437	688	(204)	892
Water Supply, Parks & Forests	490	87	(2,329)	2,416
Transport Policy and Strategy	117	302	(65)	367
Public Transport	(897)	(1,054)	(406)	(648)
Total Transport	(780)	(752)	(471)	(281)
Environment	428	191	(79)	270
Catchment Management	1,130	1,164	2,243	(1,079)
Corporate	(100)	266	120	146
WRS	111	(288)	(100)	(188)
Finance, IT & Support Services	707	900	300	600
Investment in Democracy	54	59	88	(29)
Divisional Operating Surplus	2,040	1,627	(228)	1,855
Investment Management	5,837	5,815	5,884	(69)
Business Unit Rates Contribution	(5,818)	(5,774)	(5,774)	-
Council Operating Surplus / (Deficit)	2,059	1,668	(118)	1,786
Revaluation RCC	-	-	-	-
Revaluation Forestry - Revaluation	-	-	-	-
Forestry Cost of Goods Sold	-	(807)	(1,646)	839
Parks - Grant for Waitangirua Purchase	-	-	-	-
Public Transport - Capex / Investment	141	7,808	7,614	194
Total Council Surplus / (Deficit)	2,200	8,669	5,850	2,819
Flood Protection				
Eastern	161	(434)	518	(952)
Western	1,326	1,972	1,877	95
Total Flood Protection	1,487	1,538	2,395	(857)

5.1 Water - favourable variance of \$1,512,000 due primarily to:

- Savings in chemicals of \$451,000 due to the higher exchange rate and lower usage.
- Power costs, below budget by of \$165,000, also due to lower usage.
- Decreased depreciation of \$482,000 due to the timing of capital projects. This is reflected in the lower capital expenditure forecast noted under section 10.
- Financial costs \$142,000 below budget due to lower capital expenditure.

5.2 Forestry - favourable variance of \$12,000 due primarily to:

- Harvest volumes down by 8,276 tonnes, however, while market prices were ahead of budget, overall sales were down by \$392,000. The increase in the selling price is reflected in the favourable variance for the forestry cost of goods sold of \$839,000.
- Operating costs were below budget by \$404,000 due in part to the lower volumes.

5.3 Regional Parks - favourable variance of \$892,000 due primarily to:

- Delay in taking over management of Whitiareia Park, \$124,000.
- Decreased contractor and consultant costs, \$357,000, due mainly to the phasing in of work programmes.
- Lower materials and supplies, \$71,000, due to the phasing of work programmes as noted above.
- Lower internal charges, \$127,000.

5.4 Transport Policy - favourable variance of \$367,000 due primarily to:

- Both revenue and operating expenditure are down by \$583,000 due to the delay in the Wairarapa log freight project. The project is 100% funded by LTNZ.
- Higher personnel costs of \$123,000 have reduced the requirement for contractors and consultants, which are down \$581,000 on budget.

5.5 Public Transport - unfavourable variance of \$648,000:

Operating Revenue	\$000's
Variances	
Grants and subsidies	(457)
Internal revenue	(596)
Other	(35)
Revenue	(1,088)
Operating expenses	
Bus contracts	(2,110)
Rail contract	(709)
Service improvements	147
Trolley bus contract	886
Bus stop development	404
Other projects	942
Expenditure	(440)
Total Variance	(648)

- Increased cost of bus contracts, \$2,110,000, due to the effect of the diesel price on the Land Transport (LTNZ) index. The fall in the oil price has decreased the rise in the index. An additional \$1,055,000 has been

received from LTNZ by way of grants in respect to this additional expenditure.

- Higher subsidy payments on the rail contract due to lower passenger revenue and higher labour costs.
- The hold up in signing the trolley bus contract has delayed some maintenance on the trolley overhead wires by \$886,000.
- Bus stop projects are running behind schedule, \$404,000 favourable variance.

5.6 Environment - favourable variance of \$270,000 due primarily to:

- Personnel costs were under budget by \$258,000 due to the timing of staff replacements.
- Higher consultant costs of \$44,000 as a result of pursuing prosecutions.
- Lower internal charges of \$96,000 due to the delay in implementing the new consent system.

5.7 Catchment Management - unfavourable variance of \$1,079,000 due primarily to:

- Revenue was \$833,000 ahead of budget due to increased vector control work, expenditure was up by a similar amount.
- Repairs for the flood damage in were higher than budgeted by \$870,000.
- Investigation work on the Lower Valley scheme review, \$103,000.

5.8 Corporate - favourable variance of \$146,000 due primarily to:

- Expenditure below budget by \$124,000 due to the phasing of some projects.

5.9 Wellington Regional Strategy - unfavourable variance of \$188,000 due primarily to:

- Costs of the finalising the Strategy and initial consultation. Funding for this has been met by the territorial authorities, Trade and Enterprise and GWRC. The unfavourable variance is due to the costs of consultation for the Strategy not being in the original budget.

5.10 Finance, IT and Support - favourable variance of \$600,000

- Lower personnel costs, \$131,000 due to delays in appointing staff.
- Contractors and consultants down by \$245,000 due to delays in implementing the consents system.

6. Finance costs

Finance costs for the six months were \$3,307,000 compared to the budget of \$4,263,000. The favourable variance reflects lower borrowings than budgeted, resulting from the reduced capital expenditure.

7. Forecast to 30 June 2007

Delays in projects, flood damage repairs and lower material costs have contributed to a number of variances to budget. These are shown in the table below with explanations.

Wellington Regional Council Summary Statement of Financial Performance - Operating Surplus \ (Deficit) For the Year Ending 30 June 2007				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Budget	Forecast	Variance
Water Group	(59)	(2,019)	(772)	1,247
Forestry	(574)	(781)	(642)	139
Regional Parks	105	(283)	270	553
Water Supply, Parks & Forests	(528)	(3,083)	(1,144)	1,939
Transport Policy and Strategy	31	(228)	83	311
Public Transport	(2,156)	(606)	(2,591)	(1,985)
Total Transport	(2,125)	(834)	(2,508)	(1,674)
Environment	237	(272)	(175)	97
Catchment Management	2,456	3,149	1,724	(1,425)
Corporate	275	113	139	26
WRS	-	(100)	(200)	(100)
Finance, IT & Support Services	785	178	343	165
Investment in Democracy	53	117	117	-
Divisional Operating Surplus	1,153	(732)	(1,704)	(972)
Investment Management	8,833	9,530	9,825	295
Business Unit Rates Contribution	(7,758)	(7,698)	(7,698)	-
Council Operating Surplus / (Deficit)	2,228	1,100	423	(677)
Revaluation RCC	2,276	-	-	-
Revaluation Forestry - Revaluation	-	3,683	3,683	-
Forestry Cost of Goods Sold	(1,745)	(2,195)	(1,085)	1,110
Parks - Grant for Waitangirua Purchase	2,800	-	-	-
Public Transport - Capex / Investment	324	59,689	18,373	(41,316)
Total Council Surplus / (Deficit)	5,883	62,277	21,394	(40,883)
Flood Protection				
Eastern	608	649	(188)	(837)
Western	1,990	2,205	2,399	194
Total Flood Protection	2,598	2,854	2,211	(643)

The significant variances to budget are:

7.1 Water - favourable variance of \$1,247,000 primarily due to:

- Projected savings in chemicals and power of \$757,000 due mainly to the high exchange rate and reduced usage.
- Contractors and consultants up \$203,000 due to expenditure on the new water source. This is mainly a timing issue, although expenditure on materials for the new source is down on budget.

- Lower depreciation \$635,000 resulting from the delay in capital projects.
- Reduced finance costs \$201,000, as a result of lower capital expenditure.

7.2 Forestry – favourable variance of \$139,000 primarily due to:

- Volumes down on budget due to problems in getting contractors partly offset by higher sale prices and lower contractor costs.
- The increase in selling prices is reflected in the favourable variance of \$1,110,000 for the cost of goods sold.

7.3 Regional Parks - favourable variance of \$553,000 primarily due to:

- The delay in taking over management of Whitireia Park until 2007/8, \$216,000.
- Higher external revenue, \$231,000.

7.4 Public Transport - unfavourable variance :

The revenue to fund capital expenditure has been separated out throughout this report. This is to enable comparison and discussion of the operating results.

Operating Revenue	\$000's
Variations	
Grants and subsidies	(1,079)
Internal revenue	(596)
Other	(206)
Revenue	(1,881)
Operating expenses	
Bus contracts	(3,006)
Trolley Bus	1,057
Rail contract	(1,211)
Rail Depot Equipment	2,222
Bus stop development	216
Rail Development	(510)
Other projects	1,336
Expenditure	104
Total Variance	(1,985)

- The increased cost of bus contracts, \$3,006,000 is due to the effect of the high oil price impacting on the LTNZ index. Additional grants are forecast to be received from LTNZ. This unfavourable variance is down on the previous forecast due to a fall in oil prices down to \$US 60/barrel for the December quarter which impacted on the LTNZ index. In addition the rise in the NZ dollar has also lessened the impact.
- The basis under which the inflation index is calculated and applied is being discussed with LTNZ. Bus contracts are being reviewed to ascertain what changes are required when they come up for renegotiation in respect of inflation.
- The continued delay in signing the trolley bus contract has deferred maintenance on the overhead wiring by \$1,057,000.

- Subsidy payments on the rail contract are expected to be up on budget by \$1,211,000. This is due to lower passenger revenue and higher operating costs, especially labour costs. LTNZ funds 60% of this additional amount.
- Delays in rail heavy maintenance projects \$2,222,000. It is proposed that these be rebudgeted to 2007/08.
- The rail development project was the ownership plan required by LTNZ as a precondition of buying the new EMUs. This plan will form the basis of an asset management plan.

7.5 Environment – favourable variance of \$97,000 due primarily to:

- External revenue higher than expected by \$225,000 due to increased consent revenue. Operating costs are also up by \$117,000 as a result of the higher workload.

7.6 Catchment Management - unfavourable variance of \$1,425,000 due primarily to:

- Increased revenue from Animal Health Board, \$742,000, expenditure is up accordingly.
- Increased expenditure of \$1,200,000 for repairs mainly to the Eastern River schemes due to flood damage. This work is to be funded through local contribution and transfers from river scheme reserves. However, \$473,000 of this expenditure was transferred to capital expenditure.
- Deficit in Bioworks of \$300,000, approximately \$100,000 of this will be funded from reserves. A major review of the business and its structure is being undertaken.
- Higher depreciation, \$221,000, due the budget number being under estimated.

7.7 Wellington Regional Strategy - unfavourable variance of \$100,000 due primarily to:

- The budget for 2006/07 did not include any allowance for GWRC undertaking the funding/coordinating role for the WRS strategy. Although GWRC will not take up the role until 1 July (subject to final approval by GWRC) there are a number of start-up costs that need to be incurred.
- GWRC will fund part of these costs with some monies coming from Trade and Enterprise.

7.8 Finance, IT and Support - favourable variance of \$165,000 due primarily to:

- Savings in personnel costs due to delays in appointing staff, \$137,000.

8. Finance costs

Finance costs are forecast to be \$4,309,000 compared to the budget of \$5,674,000. The favourable variance reflects the impact of lower forecast capital expenditure (reducing borrowing requirements).

9. Capital Expenditure

9.1 Year to date

On a year to date basis the Council's capital expenditure is now behind budget by \$4,567,000. The main variances in Public Transport, some \$619,000 ahead of budget, Water \$1,440,000 behind, Catchment Management \$1,322,000 below and IT \$380,000 behind budget.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the Nine Months Ending - 31 March 2007				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	5,094	2,683	4,123	(1,440)
Forestry	83	229	223	6
Regional Parks	207	357	557	(200)
Water Supply, Parks & Forests	5,384	3,269	4,903	(1,634)
Transport Policy and Strategy	-	-	-	-
Public Transport	319	11,119	1,588	9,531
Public Transport Investment Additions	-	-	10,150	(10,150)
Total Transport	319	11,119	11,738	(619)
Environment	239	250	441	(191)
Catchment Management	3,398	2,345	3,667	(1,322)
Corporate	52	181	49	132
WRS	-	-	-	-
Finance, IT & Support Services	317	545	925	(380)
Investment in Democracy	13	-	-	-
Divisional Capital and Investment expenditure	9,722	17,709	21,723	(4,014)
Parks - Waitangirua Purchase	-	-	-	-
Investment Management	3	22	575	(553)
Business Unit Rates Contribution	-	-	-	-
Council Capital and Investment expenditure	9,725	17,731	22,298	(4,567)
Flood Protection				
Eastern	-	150	785	(635)
Western	3,200	1,930	2,626	(696)
Total Flood Protection	3,200	2,080	3,411	(1,331)

9.2 Water - favourable variance of \$1,440,000 primarily due to:

- A number of projects have been delayed or reduced in scope. These are reflected in the forecast and noted in more detail under section 10.1.

9.3 Regional Parks - favourable variance of \$200,000 due primarily to:

- Delay in taking over Whitireia Park has also delayed building of accommodation etc, \$150,000.

- Delay in funding a suitable site for the East Harbour regional office, \$37,500.

9.4 Transport - favourable variance of \$619,000 as detailed below:

Public Transport Capital Expenditure	Year to Date		
	Actual \$ 000's	Budget \$ 000's	Variance \$ 000's
SW Wairarapa Cars	9,699	1,615	8,084
New EMU's	1,057	2,700	(1,643)
Ganz Mavag Refurbishment	-	100	(100)
Western Corridor Rail Projects	-	100	(100)
Rail Depot Equipment	-	2,625	(2,625)
Rail Station Upgrades & Maintenance	293	2,625	(2,332)
Rail Security	-	385	(385)
J'ville Mall	-	750	(750)
PT Enhancements	-	500	(500)
Concessionary Cards	-	180	(180)
Other Assets	70	158	(88)
Total Capital Expenditure	11,119	11,738	(619)

- There have been no payments made on the SW Wairarapa cars to date but the year to date numbers reflect the accrual for work completed by the end of March. The budget was phased on a payment basis.
- The monies spent on the new EMUs are due to payments to the consultants in preparing and evaluating the proposals. This project is running a little behind schedule, for further detail refer to section 10.4.
- A number of rail projects are running behind schedule or have been delayed until 2007/08, for further detail refer to section 10.4.

9.5 Catchment Management - favourable variance of \$1,322,000 due primarily to:

- Delays in a number of projects, in particular Chrystalls extended stopbank, Whirinaki Crescent, South Waitohu and Ava Bridge. Further detail is provided in section 10.3.

9.6 Finance, IT and Support - favourable variance of \$380,000

- The consents system has been delayed due to a slower than anticipated review and selection process.

10. Capital Expenditure - Full year forecast

On a forecast basis capital expenditure is forecast to be \$60,537,000 below budget by year end. The major contributor to this is delays in Public Transport as detailed in section 10.4.

In addition a number of projects in Water and Catchment Management are forecast to be delayed or reduced in scope.

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	3,892	(2,732)
Forestry	179	286	370	84
Regional Parks	5,920	720	548	(172)
Water Supply, Parks & Forests	12,763	7,630	4,810	(2,820)
Transport Policy and Strategy	37	-	-	-
Public Transport	505	2,603	129	(2,474)
Public Transport Investment Additions	-	80,292	28,446	(51,846)
Total Transport	542	82,895	28,575	(54,320)
Environment	349	891	564	(327)
Catchment Management	6,411	6,555	4,240	(2,315)
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	99,040	39,453	(59,587)
Parks - Waitangirua Purchase	5,600	-	-	-
Investment Management	4	1,100	150	(950)
Business Unit Rates Contribution	-	-	-	-
Council Capital and Investment expenditure	26,250	100,140	39,603	(60,537)
Flood Protection				
Eastern	690	885	518	(367)
Western	5,480	5,405	3,486	(1,919)
Total Flood Protection	6,170	6,290	4,004	(2,286)

The major variances are as follows:

10.1 Water - favourable variance of \$2,732,000 primarily due to:

- Treatment Plant projects are down on budget by \$848,000. The budget used a replacement cost based on 2% of the value. However, the need to replace equipment has been less than anticipated.
- The pipeline on the Silverstream Bridge from Kaitoke to Karori has been deferred, saving \$755,000.
- Delay in a number of smaller projects which will be rebudgeted to 2007/08, \$437,000.
- Savings in a variety of projects, \$359,000.

10.2 Parks & Forests - favourable variance of \$172,000 primarily due to:

- The Orange Hut replacement will cost \$30,000 less than budgeted due to volunteer assistance.
- East Harbour office and work on Whitireia Park have been deferred, \$250,000.

- The Red Barn at Queen Elizabeth Park is forecast to cost \$89,000 which was not budgeted. Approval for this was given at the half year review.

10.3 Catchment Management - favourable variance of \$2,315,000 primarily due to:

- Chrystalls extended stopbank reduced by \$972,000 due to a delay in obtaining access to land. This will be rebudgeted for 2007/8.
- The South Waitohu project, \$264,000 due to hold up in gaining land for construction. This will be rebudgeted for 2007/8.
- Whirinaki Crescent stopbank expenditure reduced by \$461,000 due to delays in getting access to the land.
- Ava rail bridge improvements decreased by \$404,000, however this is a timing issue as the project is on budget.
- Lower Wairarapa Valley Development scheme capital expenditure of \$585,000 will be deferred until 2007/08 due to flood damage work taking precedence.
- Offsetting the above is \$473,000 of operational expenditure on flood damage repairs now capitalised.

10.4 Public Transport – favourable variance of \$54,320,000

Public Transport Capital Expenditure	Full Year Forecast		
	Forecast \$ 000's	Budget \$ 000's	Variance \$ 000's
SW Wairarapa Cars	22,930	26,420	(3,490)
Ganz Mavag Refurbishment	-	200	(200)
New EMU's	2,000	44,172	(42,172)
Western Corridor Rail Projects	-	200	(200)
Rail Depot Equipment	-	5,250	(5,250)
Rail Station Upgrades & Maintenance	3,223	3,500	(277)
Rail Security	293	550	(257)
J'ville Mall	-	1,000	(1,000)
PT Enhancements	-	1,000	(1,000)
Concessionary Cards	-	360	(360)
Other Assets	129	243	(114)
Total Capital Expenditure	28,575	82,895	(54,320)

- The Johnsonville Mall development (park and ride) has been delayed as negotiations between the developers and GWRC continue, \$750,000.
- The South Wairarapa cars will start to come into service in May 2007. However, a shortage of bogies in New Zealand has delayed the arrival of the last cars.
- The negotiations between GWRC, LTNZ and Toll on the procurement process for the new EMUs took longer than planned. While the date for the introduction of the new EMUs into service is unchanged the final

contract will not be signed until August 2007. In addition, payments for the EMUs will be made later than originally planned.

- Rail depot equipment will now be funded as operating expenditure, partly in the current year with the balance in future years.

10.5 Investment Management - favourable variance of \$555,000 primarily due to:

- Delays in progressing the Masterton building redevelopment. It is expected that a proposal will come to Council at the end of June.

11. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2007. The majority of these targets are of an operational nature.

12. Compliance with Treasury Management Policy

As at 31 December 2006, the majority of Treasury Management Policy limits have been complied with apart from the internal borrowing limit for Forestry and Parks. The Forestry breach is a result of the low timber prices affecting log returns and the forestry valuation. The Parks breach is a result of the purchase of additional land in Belmont Regional Park last year, refer **Attachment 4**.

13. Communications

No communications are necessary at this time.

14. Recommendations

That the Committee recommends that Council:

1. *Receive the report.*
2. *Note 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

Attachment 4: Compliance with Treasury Management Policy