

Report 08.17  
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Committee Finance, Evaluation and Risk  
Author Barry Turfrey, Chief Financial Officer

## **Financial review for the six months ended 31 December 2007**

### **1. Purpose**

- To inform the Committee of Greater Wellington's (GWRC) financial performance for the six months ended 31 December 2007 and to provide an explanation of major variances by Division.
- To forecast the end of year position based on the management reviews completed with each Division.
- To inform the Committee of the WRC Holdings Group's financial performance for the six months ended 31 December 2007 and to provide explanations of variances to budget.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2007/08 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**

The Council prepares monthly financial statements for review. Each quarter a more detailed review of the Council's financial results is undertaken by the Chief Executive / Chief Financial Officer with each of the Divisions.

It is timely, as a result of those reviews, to present a summary of the Council's performance for the six months ended 31 December 2007.

In respect of the WRC Holdings Group, monthly financial statements are prepared and reviewed by management and the Boards of Directors of the individual companies within the Group. As such, only summary financial statements are presented for consideration by the Committee.

## 4. Financial Performance

### 4.1 Year to date Operating Performance

The Council achieved an operating surplus of \$3,323,000 (budget \$131,000). This result excludes grants and expenditure in respect of Public Transport capital expenditure. Including these amounts the Council achieved a deficit of \$1,949,000 (budget \$8,343,000).

The WRC Holdings Group achieved a net surplus before tax of \$4,558,000 (budget \$2,463,000).

## 5. Financial Summary - Council

Wellington Regional Council Summary Income Statement - Revenue For the six months ending 31 December 2007				
Total Operating Revenue \$(000)'s	Last Year	Actual	Budget	Variance
	Water Group	13,728	13,598	13,617
Forestry	3,168	2,939	3,190	(251)
Regional Parks	3,244	3,225	3,274	(49)
<b>Water Supply, Parks &amp; Forests</b>	<b>20,140</b>	<b>19,762</b>	<b>20,081</b>	<b>(319)</b>
Transport Policy and Strategy	1,442	1,397	1,792	(395)
Public Transport	32,070	35,576	36,209	(633)
<b>Total Transport</b>	<b>33,512</b>	<b>36,973</b>	<b>38,001</b>	<b>(1,028)</b>
Environment	5,867	5,967	6,087	(120)
Catchment Management	13,917	12,864	13,433	(569)
Corporate	1,033	1,161	966	195
WRS	216	2,000	2,200	(200)
Finance, IT & Support Services	3,255	3,508	3,414	94
Investment in Democracy	2,244	2,320	2,313	7
<b>Divisional Operating Revenue</b>	<b>80,184</b>	<b>84,555</b>	<b>86,495</b>	<b>(1,940)</b>
Investment Management	2,730	2,622	2,864	(242)
Business Unit Rates Contribution	(3,849)	(4,371)	(4,371)	-
<b>Council Operating Revenue</b>	<b>79,065</b>	<b>82,806</b>	<b>84,988</b>	<b>(2,182)</b>
Public Transport - Capex / Investment	3,885	8,017	16,505	(8,488)
<b>Total Council Revenue</b>	<b>82,950</b>	<b>90,823</b>	<b>101,493</b>	<b>(10,670)</b>

Wellington Regional Council				
Summary Income Statement - Expenditure				
For the six months ending 31 December 2007				
Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	13,829	12,945	14,758	1,813
Forestry	3,600	3,582	3,590	8
Regional Parks	2,814	2,891	3,292	401
<b>Water Supply, Parks &amp; Forests</b>	<b>20,243</b>	<b>19,418</b>	<b>21,640</b>	<b>2,222</b>
Transport Policy and Strategy	1,338	1,204	1,821	617
Public Transport	33,269	35,199	36,168	969
<b>Total Transport</b>	<b>34,607</b>	<b>36,403</b>	<b>37,989</b>	<b>1,586</b>
Environment	5,701	5,981	5,831	(150)
Catchment Management	12,937	11,215	12,464	1,249
Corporate	1,023	1,063	991	(72)
WRS	555	1,800	2,200	400
Finance, IT & Support Services	2,781	2,960	3,259	299
Investment in Democracy	2,239	2,249	2,401	152
<b>Divisional Operating Expenditure</b>	<b>80,086</b>	<b>81,089</b>	<b>86,775</b>	<b>5,686</b>
Investment Management	(1,048)	(1,606)	(1,918)	(312)
Business Unit Rates Contribution	-	-	-	-
<b>Council Operating Expenditure</b>	<b>79,038</b>	<b>79,483</b>	<b>84,857</b>	<b>5,374</b>
Revaluation of Debt and Stadium Advance	-	-	-	-
Forestry Cost of Goods Sold	591	638	608	(30)
Public Transport - Capex / Investment	1	12,651	24,371	11,720
<b>Total Council Expenditure</b>	<b>79,630</b>	<b>92,772</b>	<b>109,836</b>	<b>17,064</b>

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the six months ending 31 December 2007				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	(101)	653	(1,141)	1,794
Forestry	(432)	(643)	(400)	(243)
Regional Parks	430	334	(18)	352
<b>Water Supply, Parks &amp; Forests</b>	<b>(103)</b>	<b>344</b>	<b>(1,559)</b>	<b>1,903</b>
Transport Policy and Strategy	104	193	(29)	222
Public Transport	(1,199)	377	41	336
<b>Total Transport</b>	<b>(1,095)</b>	<b>570</b>	<b>12</b>	<b>558</b>
Environment	166	(14)	256	(270)
Catchment Management	980	1,649	969	680
Corporate	10	98	(25)	123
WRS	(339)	200	-	200
Finance, IT & Support Services	474	548	155	393
Investment in Democracy	5	71	(88)	159
<b>Divisional Operating Surplus / (Deficit)</b>	<b>98</b>	<b>3,466</b>	<b>(280)</b>	<b>3,746</b>
Investment Management	3,778	4,228	4,782	(554)
Business Unit Rates Contribution	(3,849)	(4,371)	(4,371)	-
<b>Council Operating Surplus / (Deficit)</b>	<b>27</b>	<b>3,323</b>	<b>131</b>	<b>3,192</b>
Forestry Cost of Goods Sold	(591)	(638)	(608)	(30)
Public Transport - Capex / Investment	3,884	(4,634)	(7,866)	3,232
<b>Total Council Surplus / (Deficit)</b>	<b>3,320</b>	<b>(1,949)</b>	<b>(8,343)</b>	<b>6,394</b>
<b>Flood Protection</b>				
Eastern	(65)	343	64	279
Western	1,337	1,275	1,210	65
<b>Total Flood Protection</b>	<b>1,272</b>	<b>1,618</b>	<b>1,274</b>	<b>344</b>

### **5.1 Water - favourable variance of \$1,794,000 due primarily to:**

- Decreased depreciation of \$510,000, due to the water supply assets not being revalued at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- Savings in materials and supplies \$585,000, due mainly to savings in chemicals \$283,000 and power costs \$233,000. Savings are expected to continue as the year progresses. These savings result from a 15% reduction in network charges and a lower take than budgeted from Te Marua lakes. This reduced both power and chemical use.
- Finance costs are \$307,000 below budget, due to the opening debt position being lower than budget.
- Personnel costs are \$203,000 below budget, due to staff vacancies.

### **5.2 Forestry - unfavourable variance of \$243,000 due primarily to:**

- Lower income by \$222,000 is due to falling export prices. A slight decrease in timber harvested and higher than budgeted harvest costs also contributed to the unfavourable variance.

### **5.3 Regional Parks - favourable variance of \$352,000 due primarily to:**

- Parks operational expenditure is currently \$455,000 below budget, due mainly to the timing of expenditure which is expected to reverse by year end.
- Savings of \$35,000 in respect of the Akatarawa and Hutt 1080 operations.

### **5.4 Public Transport - favourable variance of \$336,000 due primarily to:**

- Both the June and September 2007 Land Transport New Zealand (LTNZ) inflation indexes were lower than expected, resulting in \$383,000 less expenditure on the Council's bus contracts. However, as the diesel price continues to fluctuate it is not expected that this saving will continue.
- Increased expenditure of \$206,000 due to lower rail patronage, this variance is expected to continue.
- The timing of expenditure on other projects is running slightly behind budget, these are expected to reverse by year end.

### **5.5 Transport Policy - favourable variance of \$222,000 due primarily to:**

- The delay in completing the transport model is holding up expenditure on access studies.
- The Wairarapa log freight project is not likely to commence in 2008/09 resulting in lower income and expenditure.

- The Regional Land Transport Strategy is delayed until outcomes from the “Next Steps” process become known.
- School, Community and Workplace travel plans are also behind schedule due to the unpredictable timing of feedback and consultation with these groups.

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

- Lower than anticipated notified consents in the first quarter resulted in a \$155,000 reduction in income, some of this is expected to reverse by year end.
- Contractors and consultants were ahead of budget by \$181,000 due to appeals on consents granted.

**5.7 Catchment Management - favourable variance of \$680,000 due primarily to:**

- The down-sizing of the BioWorks unit has reduced staff numbers and hence personnel costs by \$519,000.
- The timing of expenditure on river maintenance across the region has resulted in savings that are expected to reverse by year end, \$292,000.

**5.8 Corporate - favourable variance of \$123,000 due primarily to:**

- Additional revenue of \$182,000 including \$109,000 for the Emergency Management conference and \$61,000 from the Honda Tree planting program.

**5.9 Wellington Regional Strategy - favourable variance of \$200,000 due primarily to:**

- The phasing of revenue and expenditure has resulted in a favourable variance.

**5.10 Finance, IT and Support - favourable variance of \$393,000 due primarily to:**

- Lower personnel costs \$55,000 and the phasing of expenditure on material and supplies, \$176,000.

**5.11 Investment Management - unfavourable variance of \$554,000 due primarily to:**

- Lower capital expenditure by the Divisions has reduced borrowings and the margin earned by Investment Management.
- External interest rates are higher than budget. Currently, the 90 day bank bill rate is 8.75% compared to the budget of 8.25%.
- The sale of forward start interest rate swaps as signalled in the budget has not yet occurred, resulting in a \$165,000 unfavourable variance.

## 6. Finance costs

Finance costs for the six months to 31 December were \$2,451,000 compared to the budget of \$2,405,000, an unfavourable variance of \$46,000. The unfavourable variance is due to higher interest rates than budgeted, partly offset by the lower level of borrowing.

## 7. Forecast to 30 June 2008

Council's forecast to 30 June 2008 is an operating surplus of \$3,027,000 compared with the budget of \$1,459,000. These amounts exclude grants and expenditure in respect of Public Transport capital expenditure. Including these amounts the Council's forecast deficit is \$8,586,000 (budget deficit \$14,869,000). However, as noted previously these deficits are due to the accounting treatment of the funding for Greater Wellington Rail Ltd to purchase the rail rolling stock.

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the Year Ending 30 June 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	(363)	945	(1,933)	2,878
Forestry	21	(1,027)	(909)	(118)
Regional Parks	187	(123)	(321)	198
<b>Water Supply, Parks &amp; Forests</b>	<b>(155)</b>	<b>(205)</b>	<b>(3,163)</b>	<b>2,958</b>
Transport Policy and Strategy	282	66	(133)	199
Public Transport	2,687	(840)	(112)	(728)
<b>Total Transport</b>	<b>2,969</b>	<b>(774)</b>	<b>(245)</b>	<b>(529)</b>
Environment	(513)	(109)	(111)	2
Catchment Management	1,585	2,843	3,061	(218)
Corporate	96	(90)	(51)	(39)
WRS	(221)	400	-	400
Finance, IT & Support Services	1,568	440	226	214
Investment in Democracy	84	(172)	(172)	-
<b>Divisional Operating Surplus / (Deficit)</b>	<b>5,413</b>	<b>2,333</b>	<b>(455)</b>	<b>2,788</b>
Investment Management	6,200	9,436	10,656	(1,220)
Business Unit Rates Contribution	(9,768)	(8,742)	(8,742)	-
<b>Council Operating Surplus / (Deficit)</b>	<b>1,845</b>	<b>3,027</b>	<b>1,459</b>	<b>1,568</b>
Revaluation of Debt and Stadium Advance	4,255	-	-	-
Revaluation Forestry - Revaluation	529	3,029	3,029	-
Forestry Cost of Goods Sold	(1,745)	(1,285)	(1,118)	(167)
Public Transport - Capex / Investment	(9,466)	(13,357)	(18,239)	4,882
<b>Total Council Surplus / (Deficit)</b>	<b>(4,582)</b>	<b>(8,586)</b>	<b>(14,869)</b>	<b>6,283</b>
<b>Flood Protection</b>				
Eastern	(220)	584	519	65
Western	2,637	2,492	2,444	48
<b>Total Flood Protection</b>	<b>2,417</b>	<b>3,076</b>	<b>2,963</b>	<b>113</b>

The significant variances between forecast and budget are:

**7.1 Water - favourable variance of \$2,878,000 due primarily to:**

- Lower depreciation \$1,016,000 as the water supply assets were not revalued at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- The half year savings for chemicals and power are expected to continue, saving \$900,000.
- Lower finance costs, \$300,000, the result of lower debt levels.

**7.2 Forestry - favourable variance of \$97,000 due primarily to:**

- Overall there is no change to the forecast; \$97,000 has been reclassified as cost of goods sold.

**7.3 Public Transport - unfavourable variance of \$728,000 due primarily to:**

- Oil prices are currently US \$90/barrel, an additional \$550,000 (rates component) has been added to the forecast expenditure.
- Rail patronage is not expected to recover resulting in higher payments to the rail operator, \$600,000.

**7.4 Public Transport – Improvement projects - favourable variance \$4,882,000 due primarily to:**

- A number of upgrade projects such as platforms, signalling and power supply have been delayed as specifications are being completed by third parties.

**7.5 Catchment Management - unfavourable variance of \$218,000 due primarily to:**

- Under recovery of overheads from Bioworks.
- Downsizing of the BioWorks unit with the associated costs, which will be largely funded by existing reserves.

**7.6 Investment Management - unfavourable variance \$1,220,000 due primarily to:**

- Higher external interest rates than budgeted.
- Lower interest income from the Divisions due to lower debt than budgeted as a result of capital expenditure being below budget.
- Unrealised gains on our debt and swaps being lower than budgeted, \$600,000.

## 8. Capital Expenditure

### 8.1 Year to date

Actual capital expenditure is \$5,031,000 compared with the budget of \$11,247,000. The significant variances are noted below.

Wellington Regional Council				
Capital Expenditure and Transport Investment Additions				
For the six months ending 31 December 2007				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	1,467	1,024	1,659	635
Forestry	152	123	228	105
Regional Parks	239	69	256	187
<b>Water Supply, Parks &amp; Forests</b>	<b>1,858</b>	<b>1,216</b>	<b>2,143</b>	<b>927</b>
Transport Policy and Strategy	-	-	17	17
Public Transport	55	9	323	314
Public Transport Investment Additions	5,211	62	3,558	3,496
<b>Total Transport</b>	<b>5,266</b>	<b>71</b>	<b>3,898</b>	<b>3,827</b>
Environment	178	1	428	427
Catchment Management	1,217	3,609	3,091	(518)
Corporate	139	21	-	(21)
WRS	-	-	-	-
Finance, IT & Support Services	155	82	1,138	1,056
Investment in Democracy	-	26	49	23
<b>Divisional Capital and Investment expenditure</b>	<b>8,813</b>	<b>5,026</b>	<b>10,747</b>	<b>5,721</b>
Investment Management	20	5	500	495
<b>Council Capital and Investment expenditure</b>	<b>8,833</b>	<b>5,031</b>	<b>11,247</b>	<b>6,216</b>
<b>Flood Protection</b>				
Eastern	150	114	460	346
Western	891	3,495	2,382	(1,113)
<b>Total Flood Protection</b>	<b>1,041</b>	<b>3,609</b>	<b>2,842</b>	<b>(767)</b>

### 8.2 Water - favourable variance of \$635,000 due primarily to:

A large number of capital projects are below budget or have a reduced scope. This trend is forecast to continue.

### 8.3 Public Transport – unfavourable variance \$3,810,000 due primarily to:

- A number of our upgrades such as stations and carparks are delayed awaiting completion of specification from third parties.
- Contractual payments for the EMUs are later than budgeted. The project remains on schedule.
- Redesign of CBD Metlink signage.

### 8.4 Environment - favourable variance of \$427,000 due primarily to:

- Delays in upgrading the Beacon Hill facility,
- Under-spend for the groundwater water model.

**8.5 Catchment Management - unfavourable variance of \$518,000 due primarily to:**

- Land purchase costs for Connolly St were higher than anticipated. The excess land will be sold once the project is completed.
- Some projects are ahead of budget in terms of their phasing.

**8.6 Finance, IT and Support Services - favourable variance of \$1,056,000 due primarily to:**

The selection and installation of the Asset Management System has been delayed.

**9. Capital Expenditure - Full year forecast**

Forecast capital expenditure is \$17,734,000 compared with the budget of \$25,150,000 as detailed below.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the Year Ending 30 June 2008				
Capital Expenditure and Investments \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	4,162	3,947	4,996	1,049
Forestry	328	359	380	21
Regional Parks	514	259	336	77
<b>Water Supply, Parks &amp; Forests</b>	<b>5,004</b>	<b>4,565</b>	<b>5,712</b>	<b>1,147</b>
Transport Policy and Strategy	-	17	17	-
Public Transport	70	398	398	-
Public Transport Capital & Investment Additions	(101)	2,271	6,982	4,711
<b>Total Transport</b>	<b>(31)</b>	<b>2,686</b>	<b>7,397</b>	<b>4,711</b>
Environment	443	559	1,359	800
Catchment Management	4,226	6,836	7,689	853
Corporate	209	20	-	(20)
WRS	-	-	-	-
Finance, IT & Support Services	531	1,614	1,539	(75)
Investment in Democracy	5	49	49	-
<b>Divisional Capital and Investment expenditure</b>	<b>10,387</b>	<b>16,329</b>	<b>23,745</b>	<b>7,416</b>
Investment Management	38	1,405	1,405	-
<b>Council Capital and Investment expenditure</b>	<b>10,425</b>	<b>17,734</b>	<b>25,150</b>	<b>7,416</b>
<b>Flood Protection</b>				
Eastern	713	991	895	(96)
Western	3,257	5,594	6,545	951
<b>Total Flood Protection</b>	<b>3,970</b>	<b>6,585</b>	<b>7,440</b>	<b>855</b>

**9.1 Water - favourable variance of \$1,049,000 due primarily to:**

- A number of projects will be under budget through both savings and reduced scope.

**9.2 Public Transport - favourable variance of \$4,711,000 due primarily to:**

- A number of our upgrades such as stations and carpark are delayed awaiting completion of specification from third parties, \$3,282,000.
- Contractual payments for the EMUs are later than budgeted, \$957,000. The project remains on schedule.
- Redesign of CBD Metlink signage, \$450,000.

**9.3 Catchment Management - favourable variance of \$853,000 due primarily to:**

- Delays in the South Waitohu project and the extended Chrystalls stop bank have resulted in the capital under spend.

**9.4 Environment – favourable variance of \$800,000 due primarily to:**

- The Beacon Hill upgrade is behind schedule due to land ownership issues.

**10. Finance Costs**

Finance costs for the Council are forecast at \$5,025,000 compared with the budget of \$4,975,000. The unfavourable variance is due to forecast interest rates being higher than budget by approximately 0.50%, this has been partly offset by lower debt.

**11. Debt**

Council debt as at 31 December was \$68.0 million, an increase of \$1.7 million from 30 June 2007. The increase is due in the main to further draw downs on the Crown loans to fund the Wairarapa carriages, offset by a reduction in working capital and the Stadium and forestry loans.

The \$68.0 million includes the written down value of the Government loan, due to its interest free nature. If the write down is excluded, the Council's debt as at 31 December is \$70.0 million.

WRC Holdings Ltd debt as at 31 December was \$44.0 million, unchanged from 30 June 2007. This amount excludes debt borrowed by CentrePort Ltd.

It should be noted that the Council has a total of \$47.2 million on deposit. This comprises \$33.0 million in liquid financial deposits; the remainder consists of our self insurance funds for water supply and flood protection.

Debt as at 30 June 2008 is forecast at \$84.8 million in the Council and \$44.0 million in WRC Holdings Ltd, a total of \$128.8 million. This forecast excludes any write down of the Government loans.

This is lower than the budget due to reduced spending on capital items and lower levels of working capital than at 30 June 2007.

## 11.1 Stadium debt

In June of this year the Council approved the restructuring of the Stadium debt which now stands at \$18,201,000 compared to \$18,985,000 at 30 June 2007.

The debt was originally borrowed from the ANZ at a fixed interest rate of 8.55% until 2018. The Council requested regular updates on the cost of refinancing this debt.

The interest rate risk on this debt has been fixed to January 2009 at a cost of 8.33% compared with the previous interest rate of 8.55% and the 90 day bank bill rate of 8.79%.

## 12. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2008.

## 13. WRC Holdings

The following table summarises WRC Holdings group of companies and CentrePort's (76.9% owned) operating results, before any unrealised increase in the value of investment properties, for the period ended 31 December 2007.

**WRC HOLDINGS GROUP  
INCOME STATEMENT  
FOR THE PERIOD ENDED 31 DECEMBER 2007**

	YTD Last Year \$000	YTD Actual \$000	YTD Budget \$000	Full Year Budget \$000	Full Year Forecast \$000	Last Year Actual \$000
TOTAL REVENUE	26,059	29,462	28,375	56,749	58,655	57,116
OPERATING EXPENSES	18,961	20,327	21,469	42,938	42,624	39,151
EARNINGS BEFORE INTEREST & TAX	7,098	9,135	6,906	13,811	16,031	17,965
INTEREST EXPENSE	4,148	4,577	4,443	8,886	8,910	8,449
REVALUATIONS						14,519
NET SURPLUS (DEFICIT) BEFORE TAX	<b>2,950</b>	<b>4,558</b>	<b>2,463</b>	<b>4,925</b>	<b>7,121</b>	<b>24,035</b>

The actual and forecast results have been impacted by the accounting treatment for the purchase of rail rolling stock. The budget assumed that Greater Wellington Rail Ltd would be funded by share capital. It is now funded by capital grants from Council. The effect of this is to increase the surplus for the year by \$1.4 million. The Council, as a result shows an increased deficit.

In addition, CentrePort's forecast result has increased by \$728,000 over the budget due to higher property and container revenues.

## 14. Compliance with Treasury Management Policy

As at 31 December 2007, all Treasury Management Policy limits have been complied with apart from internal borrowing limit for Forestry and Parks. Refer to **Attachment 4**.

## 15. Communications

No communications are necessary at this time.

## 16. Recommendations

*That the Council:*

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

Report prepared by:

Report approved by:



**Barry Turfrey**  
Chief Financial Officer

**David Benham**  
Chief Executive

**Attachment 1:** Income Statement

**Attachment 2:** Funding Statement

**Attachment 3:** Balance Sheet

**Attachment 4:** Compliance with Treasury Management Policy