

Report 08.393
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Committee Finance, Evaluation and Risk
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Financial review for the eleven months ended 31 May 2008

1. Purpose

- To inform the Committee of the Council's financial performance for the eleven months ended 31 May 2008 and to provide an explanation of major variances by Division.
- To forecast the year end position.

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 presented to the Committee and Council. In the intervening months, reports to the Committee and Council are done by exception.

4. Financial Performance

4.1 Year to date Operating Performance

The financial results detailed below have been split into a number of categories to improve the understanding of the financial results. In particular:

- Rates funded operations are separated from those operations funded by the water levy.
- Income and expenditure in respect of Public Transport capital expenditure.
- Forestry cost of goods sold.

The Council achieved an operating surplus of \$5,440,000 (budget \$512,000), comprising:

- Rate funded operations achieved a surplus of \$4,437,000 (budget \$2,325,000).
- The surplus from Water was \$1,003,000 (budget \$1,813,000).

These results exclude grants and expenditure in respect of Public Transport capital expenditure and Forestry cost of goods sold. Including these amounts the Council recorded a deficit of \$2,559,000 (budget \$17,417,000).

Detailed explanations are noted below.

5. Financial Summary – Council

Wellington Regional Council				
Summary Income Statement - Revenue				
For the 11 months ending 31 May 2008				
Total Operating Revenue \$(000)'s	Last Year	Actual	Budget	Variance
	Transport Policy and Strategy	3,068	2,578	3,492
Public Transport	65,974	66,940	66,462	478
Total Transport	69,042	69,518	69,954	(436)
Environment	10,795	10,938	11,160	(222)
Catchment Management	25,409	24,310	26,002	(1,692)
Forestry	5,376	4,963	5,849	(886)
Regional Parks	6,010	5,969	6,002	(33)
Corporate	1,947	2,052	1,771	281
WRS	512	3,862	4,033	(171)
Finance, IT & Support Services	6,124	6,496	6,259	237
Investment in Democracy	4,115	4,253	4,240	13
Rates Funded Divisional Operating Revenue	129,330	132,361	135,270	(2,909)
Investment Management	4,903	4,753	5,281	(528)
Business Unit Rates Contribution	(7,057)	(8,014)	(8,014)	-
Rates Funded Operating Revenue	127,176	129,100	132,537	(3,437)
Water Group	24,851	24,808	24,964	(156)
Rates & Levy Funded Operating Revenue	152,027	153,908	157,501	(3,593)
Non-Operational Movements				
Public Transport - Capex / Investment	3,336	12,214	37,852	(25,638)
Total Council Revenue	155,363	166,122	195,353	(29,231)

Wellington Regional Council
Summary Income Statement - Expenditure
For the 11 months ending 31 May 2008

Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	2,693	2,338	3,608	1,270
Public Transport	72,603	66,586	66,547	(39)
Total Transport	75,296	68,924	70,155	1,231
Environment	10,875	11,083	11,140	57
Catchment Management	24,356	21,380	23,486	2,106
Forestry	5,980	6,268	6,592	324
Regional Parks	5,384	5,591	5,973	382
Corporate	1,681	1,842	1,817	(25)
WRS	749	3,253	4,033	780
Finance, IT & Support Services	5,214	5,362	6,028	666
Investment in Democracy	4,046	4,325	4,398	73
Rates Funded Divisional Operating Expenditure	133,581	128,028	133,622	5,594
Investment Management	(2,178)	(3,365)	(3,410)	(45)
Business Unit Rates Contribution	-	-	-	-
Rates Funded Operating Expenditure	131,403	124,663	130,212	5,549
Water Group	24,915	23,805	26,777	2,972
Rates & Levy Funded Operating Expenditure	156,318	148,468	156,989	8,521
Non-Operational Movements				
Forestry Cost of Goods Sold	1,000	1,224	1,114	(110)
Public Transport - Capex / Investment	8	18,989	54,667	35,678
Total Council Expenditure	157,326	168,681	212,770	44,089

Wellington Regional Council
Summary Income Statement - Operating Surplus \ (Deficit)
For the 11 months ending 31 May 2008

OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	375	240	(116)	356
Public Transport	(6,629)	354	(85)	439
Total Transport	(6,254)	594	(201)	795
Environment	(80)	(145)	20	(165)
Catchment Management	1,053	2,930	2,516	414
Forestry	(604)	(1,305)	(743)	(562)
Regional Parks	626	378	29	349
Corporate	266	210	(46)	256
WRS	(237)	609	-	609
Finance, IT & Support Services	910	1,134	231	903
Investment in Democracy	69	(72)	(158)	86
Rates Funded Divisional Operating Surplus / (Deficit)	(4,251)	4,333	1,648	2,685
Investment Management	7,081	8,118	8,691	(573)
Business Unit Rates Contribution	(7,057)	(8,014)	(8,014)	-
Rates Funded Operating Surplus / (Deficit)	(4,227)	4,437	2,325	2,112
Water Group	(64)	1,003	(1,813)	2,816
Rates & Levy Funded Operating Surplus / (Deficit)	(4,291)	5,440	512	4,928
Non-Operational Movements				
Forestry Cost of Goods Sold	(1,000)	(1,224)	(1,114)	(110)
Public Transport - Capex / Investment	3,328	(6,775)	(16,815)	10,040
Total Council Surplus / (Deficit)	(1,963)	(2,559)	(17,417)	14,858
Flood Protection				
Eastern	(593)	355	448	(93)
Western	2,458	2,405	2,171	234
Total Flood Protection	1,865	2,760	2,619	141

5.1 Transport Policy – under budget by \$356,000 due primarily to:

- The Regional Land Transport Strategy is delayed until outcomes from the “Next Steps” process become known; expenditure is \$137,000 below budget.
- Expenditure on School, Community and Workplace travel plans is under budget by \$427,000. Funding for these projects has been deferred until 2008/09.

5.2 Public Transport – under budget by \$439,000 due primarily to:

- Increased expenditure on trolley bus overhead wires maintenance and renewals \$94,000.
- Increased expenditure of \$1,466,000 due to higher charges for renewals in respect of the rail network.
- Car park and station maintenance under budget by \$228,000, procurement studies under budget by \$217,000.
- Delays in the signage maintenance programme \$155,000.
- A number of other projects in respect of marketing, information systems and administration are below budget.

5.3 Public Transport – Improvement projects – under budget by \$10,040,000 due primarily to:

- A number of upgrade projects such as platforms, signalling and power supply have been delayed due to the timing of the specifications of the new passenger trains and capacity issues of third parties, in particular:
 - ONTRACK Infrastructure upgrade projects; the Johnsonville line, upgrading the signals and electrical system and the Waikanae double tracking, \$17,934,000.
 - Heavy maintenance due to Toll’s operational requirements and workshop availability, \$928,000.
 - Extra capacity rolling stock, \$10,484,000.
 - EMU related expenditure, \$4,589,000.
- The expenditure noted above is prior to any reductions in grant income received from Land Transport New Zealand (LTNZ) and the Crown. Due to the lower expenditure, revenue is under budget by \$25,638,000.

These projects have been rebudgeted to 2008/09.

5.4 Environment - over budget by \$165,000 due primarily to:

- Lower than anticipated notified consents resulted in a \$255,000 reduction in income.
- Personnel costs under budget due to staff vacancies, \$116,000.

5.5 Catchment Management – under budget by \$414,000 due primarily to:

- The down-sizing of the Bio Works unit has reduced staff numbers, materials and revenue from the Animal Health Board.
- The timing of expenditure on river maintenance across the region has resulted in savings, \$61,000.
- Reduced expenditure in Biosecurity \$250,000.

5.6 Forestry – over budget by \$562,000 due primarily to:

- Lower harvesting volumes coupled with increased domestic transport and export shipping costs have reduced forestry revenue.

5.7 Regional Parks – under budget by \$349,000 due primarily to:

- Permanent savings of \$61,000, in respect of the Akatarawa and Hutt 1080 operations.
- Personnel savings of \$102,000, due to staff vacancies.
- Expenditure on Lake Wairarapa below budget by \$37,000.

5.8 Corporate - under budget by \$256,000 due primarily to:

- Additional revenue of \$199,000 including \$109,000 for the Emergency Management conference and \$61,000 from the Honda Tree planting program.

5.9 Wellington Regional Strategy – under budget by \$609,000 due primarily to:

- Grow Wellington's expenditure is below budget, \$687,000.

5.10 Finance, IT and Support – under budget by \$903,000 due primarily to:

- Higher internal revenue in respect of PC charges, \$134,000.
- Personnel costs are lower by \$152,000, due to staff vacancies.

- Materials and supplies below budget by \$239,000, due to the delay of the asset management project.
- Contractors and consultants below budget by \$199,000, due to the delay in the asset management project and lower rates collection costs than budgeted.
- Finance costs lower by \$70,000, due to decreased capital expenditure.

5.11 Investment Management – under budget by \$573,000 due primarily to:

- Lower capital expenditure by the Divisions has reduced borrowings and the budgeted margin earned by Investment Management.
- External interest rates are higher than budget. Currently, the 90 day bank bill rate is 8.67% compared to the budget of 8.25%.
- Subvention revenue from Pringle House of \$495,000 will be received in June, the budget assumed an earlier date.

5.12 Water – under budget by \$2,816,000 due primarily to:

- Decreased depreciation of \$969,000, 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 \$954,000, due to savings in chemicals \$486,000 and power costs \$460,000. These savings result from a 15% reduction in network charges and a lower take than budgeted from Te Marua lakes.
- Finance costs are \$504,000 below budget, due to the opening debt position being lower.
- Personnel costs are \$370,000 below budget.

6. Finance costs

Finance costs for the eleven months were \$4,068,000 compared to the budget of \$4,559,000, a favourable variance of \$491,000. This is due to decreased borrowings resulting from lower capital expenditure. This has been partly offset by interest rates being higher than budget.

7. Forecast to 30 June 2008

The Council's forecast to 30 June 2008 is a surplus of \$4,251,000 (budget deficit \$679,000).

These amounts exclude grants and expenditure in respect of Public Transport capital expenditure and revaluations. Including these amounts the Council's forecast surplus is \$2,433,000 (budget \$14,869,000).

The current rates and levy funded forecast surplus has improved by \$558,000 compared with the previous forecast surplus of \$3,693,000.

There have been small improvements in the forecast results of Catchment Management, WRS, Parks, Corporate, and Finance/IT. These have been partly offset by increases in operating expenditure in Public Transport.

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
Transport Policy and Strategy	282	161	(133)	294
Public Transport	2,687	(626)	(112)	(514)
Total Transport	2,969	(465)	(245)	(220)
Environment	(513)	(135)	(111)	(24)
Catchment Management	1,585	3,179	3,061	118
Forestry	21	(1,430)	(909)	(521)
Regional Parks	187	(81)	(321)	240
Corporate	96	25	(51)	76
WRS	(221)	672	-	672
Finance, IT & Support Services	1,568	802	226	576
Investment in Democracy	84	(143)	(172)	29
Rates Funded Divisional Operating Surplus / (Deficit)	5,776	2,424	1,478	946
Investment Management	6,199	9,707	9,876	(169)
Business Unit Rates Contribution	(9,768)	(8,742)	(8,742)	-
Rates Funded Operating Surplus / (Deficit)	2,207	3,389	2,612	777
Water Group	(363)	862	(1,933)	2,795
Rates & Levy Funded Operating Surplus / (Deficit)	1,844	4,251	679	3,572
Non-Operational Movements				
Revaluation of Debt and Stadium Advance	4,256	5,480	780	4,700
Revaluation Forestry - Revaluation	529	3,029	3,029	-
Forestry Cost of Goods Sold	(1,745)	(1,182)	(1,118)	(64)
Public Transport - Capex / Investment	(9,466)	(9,145)	(18,239)	9,094
Total Council Surplus / (Deficit)	(4,582)	2,433	(14,869)	17,302
Flood Protection				
Eastern	(220)	513	519	(6)
Western	2,637	2,663	2,444	219
Total Flood Protection	2,417	3,176	2,963	213

8. Capital Expenditure

8.1 Year to date

Actual capital expenditure is \$10,286,000, compared with the budget of \$22,692,000. The significant variances are noted below.

Wellington Regional Council Capital Expenditure and Transport Improvement Projects For the 11 months ending 31 May 2008				
Capital Expenditure and Transport Improvement Projects \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	-	24	17	(7)
Public Transport	70	9	385	376
Public Transport Improvement Projects	3,339	939	6,411	5,472
Total Transport	3,409	972	6,813	5,841
Environment	283	229	1,253	1,024
Catchment Management	2,766	5,743	6,749	1,006
Forestry	320	246	355	109
Regional Parks	486	263	323	60
Corporate	166	55	-	(55)
WRS	-	-	-	-
Finance, IT & Support Services	532	94	1,513	1,419
Investment in Democracy	5	74	49	(25)
Rates Funded Divisional Capital and Improvement expenditure	7,967	7,676	17,055	9,379
Investment Management	28	17	1,253	1,236
Rates Funded Capital and Improvement expenditure	7,995	7,693	18,308	10,615
Water Group	3,315	2,593	4,384	1,791
Rates & Levy Funded Capital and Improvement expenditure	11,310	10,286	22,692	12,406
Flood Protection				
Eastern	150	759	823	64
Western	2,361	4,822	5,677	855
Total Flood Protection	2,511	5,581	6,500	919

8.2 Public Transport Improvement Projects – under budget by \$5,472,000 due primarily to:

- A number of upgrades to the stations and platforms are delayed due to the finalisation of the specifications of the new Matangi EMUs, \$4,700,000.
- Contractual payments for the EMUs are later than budgeted, \$852,000. The project remains on schedule.
- CBD Metlink signage rollout is delayed due to a review of the design of the new signs. Expenditure is under budget by \$409,000.

These projects have been rebudgeted.

8.3 Environment – under budget by \$1,024,000 due primarily to:

- Property issues which have now been resolved have delayed the Beacon Hill facility upgrade. Expenditure is currently \$850,000 under budget; this project is rebudgeted to 2008/09.
- Later than expected spend on the groundwater model, \$96,000.

8.4 Catchment Management – under budget by \$1,006,000 due primarily to:

- Land purchase costs for Connolly St were higher than anticipated, \$240,000. The excess land will be sold once the project is completed.
- Expenditure on LWVDS stopbank upgrade behind budget.
- A number of flood projects are running behind schedule and will be rebudgeted to 2008/09.

8.5 Finance, IT and Support Services – under budget by \$1,419,000 due primarily to:

- The selection and implementation of the Asset Management System has been delayed with only limited expenditure on this project expected this year. The purchase of replacement PCs has been delayed until July 2008.

8.6 Water – under budget by 1,791,000 due primarily to:

As noted previously, a number of capital projects are running behind schedule.

9. Capital Expenditure - forecast to 30 June 2008

Forecast capital expenditure is \$14,488,000 (budget \$25,150,000).

The previous forecast was \$16,203,000; the major change is due to the purchase of the new PCs being delayed until July.

Wellington Regional Council
 Capital Expenditure and Transport Improvement Projects
 For the Year Ending 30 June 2008

Capital Expenditure and Transport Improvement Projects \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Transport Policy and Strategy	-	17	17	-
Public Transport	70	549	398	(151)
Public Transport Capital & Improvement Projects	(101)	1,856	6,982	5,126
Total Transport	(31)	2,422	7,397	4,975
Environment	443	473	1,359	886
Catchment Management	4,226	6,238	7,689	1,451
Forestry	328	359	380	21
Regional Parks	514	297	336	39
Corporate	209	20	-	(20)
WRS	-	-	-	-
Finance, IT & Support Services	531	175	1,539	1,364
Investment in Democracy	5	49	49	-
Rates Funded Divisional Capital and Improvement expenditure	6,225	10,033	18,749	8,716
Investment Management	38	50	1,405	1,355
Rates Funded Capital and Improvement expenditure	6,263	10,083	20,154	10,071
Water Group	4,162	4,405	4,996	591
Rates & Levy Funded Capital and Improvement expenditure	10,425	14,488	25,150	10,662
Flood Protection				
Eastern	713	971	895	(76)
Western	3,257	5,024	6,545	1,521
Total Flood Protection	3,970	5,995	7,440	1,445

10. Communications

No communications are necessary at this time.

11. Recommendations

That the Committee:

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