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Financial report for the ten months ending 30 April 2010

1. Purpose

To inform the Council of Greater Wellington's (GWRC) financial performance for the ten months ended 30 April 2010 and to provide an explanation of major variances to budget by Group.

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

Financial statements are prepared and presented to management for review each month. A detailed report is given to the Council each quarter. In the intervening months, reports to the Council are done by exception.

The results of the WRC Holdings Group are reported to Council on a quarterly basis.

The Funding Impact Statement and Balance Sheet for GWRC are attached (refer **Attachments 1 and 2**).

4. Financial Performance

4.1 Year to date

GWRC achieved an operating surplus of $7,598,000 (budget $819,000) for the ten months. This result excludes grants to fund public transport capital expenditure and revaluations. Including these amounts, GWRC had a net surplus of $553,000 (budget deficit $886,000).

Further details on the performance for the ten months are discussed below.

4.2 Forecast to 30 June 2010

GWRC is forecasting an operating surplus of $7,496,000 (budget $2,236,000) for the year ending 30 June 2010. This result excludes grants to fund public transport capital expenditure and revaluations. Including these amounts, GWRC's forecast surplus is $1,236,000 (budget $1,105,000).

Further details on the forecast are discussed below.

4.3 Financial Summary - Council

Greater Wellington Regional Council	**For the 10 months ended 30 April 2010**			
Summary income statement	**Last Year**	**Actual**	**Budget**	**Variance**
	$(000)'s	**$(000)'s**	**$(000)'s**	**$(000)'s**
Operational Groups				
Catchment Management	2,600	2,548	2,594	(46)
Environmental Management	106	273	(532)	805
Forestry	(1,718)	(780)	(564)	(216)
Parks and Forests	(95)	185	220	(35)
Public Transport	2,711	1,772	(680)	2,452
Total rates funded operational surplus / (deficit)	**3,604**	**3,998**	**1,038**	**2,960**
Corporate				
Strategy & Community Engagement	198	762	51	711
Finance and Support	1,118	1,053	(136)	1,189
Other corporate activities	255	302	(5)	307
Investment Management	7,493	7,502	6,214	1,288
Business unit rates contribution	(6,925)	(5,817)	(5,817)	-
Total rates funded operating surplus / (deficit)	**5,743**	**7,800**	**1,345**	**6,455**
Water	(212)	(202)	(526)	324
Total rates & levy funded operating surplus / (deficit)	**5,531**	**7,598**	**819**	**6,779**
Non-operational movements				
Revaluation of debt and stadium advance	(265)	-	219	(219)
Revaluation of forestry	-	-	-	-
Forestry cost of goods sold	(854)	(928)	(546)	(382)
EMU investment - GW Rail	8	-	4,664	(4,664)
Public Transport - capex / investment	(13,840)	(6,117)	(6,042)	(75)
Total Council surplus / (deficit)	**(9,420)**	**553**	**(886)**	**1,439**

Greater Wellington Regional Council Capital expenditure by Group	For the 10 months ended 30 April 2010			
	Last Year $(000)'s	Actual $(000)'s	Budget $(000)'s	Variance $(000)'s
Operational Groups				
Catchment Management	4,410	8,536	8,119	(417)
Environmental Management	416	808	1,230	422
Forestry	275	165	262	97
Parks and Forests	264	468	639	171
Public Transport	332	1,001	7,735	6,734
Operational Groups capital expenditure	**5,697**	**10,978**	**17,985**	**7,007**
Corporate				
Strategy & Community Engagement	49	4	-	(4)
Finance and Support	1,741	740	1,740	1,000
Other corporate activities	26	-	19	19
Investment Management	23	3	-	(3)
Total rates funded capital expenditure	**7,536**	**11,725**	**19,744**	**8,019**
Water	3,243	3,967	6,662	2,695
Total rates & levy funded capital expenditure	**10,779**	**15,692**	**26,406**	**10,714**

4.4 Financial Forecast - Council

Greater Wellington Regional Council Summary income statement	For the year ended 30 June 2010			
	Last Year $(000)'s	Forecast $(000)'s	Budget $(000)'s	Variance $(000)'s
Operational Groups				
Catchment Management	3,179	3,316	3,200	116
Environmental Management	(273)	(300)	(412)	112
Forestry	(2,035)	(1,033)	(678)	(355)
Parks and Forests	(509)	137	191	(54)
Public Transport	7,493	1,149	(896)	2,045
Total rates funded operational surplus / (deficit)	**7,855**	**3,269**	**1,405**	**1,864**
Corporate				
Strategy & Community Engagement	190	502	(53)	555
Finance and Support	1,406	838	(163)	1,001
Other corporate activities	103	(33)	(38)	5
Investment Management	11,602	10,564	8,710	1,854
Business unit rates contribution	(8,310)	(6,980)	(6,980)	-
Total rates funded operating surplus / (deficit)	**12,846**	**8,160**	**2,881**	**5,279**
Water	(116)	(664)	(645)	(19)
Total rates & levy funded operating surplus / (deficit)	**12,730**	**7,496**	**2,236**	**5,260**
Non-operational movements				
Revaluation of debt and stadium advance	7,260	(570)	(570)	-
Revaluation of forestry	182	1,903	1,903	-
Forestry cost of goods sold	(1,106)	(1,072)	(655)	(417)
EMU investment - GW Rail	1,225	2,045	6,218	(4,173)
Public Transport - capex / investment	(20,606)	(8,566)	(8,027)	(539)
Total Council surplus / (deficit)	**(315)**	**1,236**	**1,105**	**131**

Greater Wellington Regional Council Capital expenditure by Group	For the year ended 30 June 2010 Last Year $(000)'s	Forecast $(000)'s	Budget $(000)'s	Variance $(000)'s
Operational Groups				
Catchment Management	6,086	10,703	9,863	(840)
Environmental Management	572	1,285	1,285	-
Forestry	363	255	310	55
Parks and Forests	323	597	723	126
Public Transport	617	2,170	9,414	7,244
Operational Groups capital expenditure	**7,961**	**15,010**	**21,595**	**6,585**
Corporate				
Strategy & Community Engagement	53	4	-	(4)
Finance and Support	2,215	1,155	1,815	660
Other corporate activities	26	-	19	19
Investment Management	(68)	-	400	400
Total rates funded capital expenditure	**10,187**	**16,169**	**23,829**	**7,660**
Water	5,438	6,342	7,951	1,609
Total rates & levy funded capital expenditure	**15,625**	**22,511**	**31,780**	**9,269**

4.5 Catchment management

4.5.1 Year to date

An unfavourable operating variance of $46,000, comprising higher revenue of $887,000 offset by increased operating costs of $933,000.

- Operating revenue was higher than budget due mainly to:
  - Land Afforestation grants scheme, $793,000
  - Internal revenue for the completion of the Hutt Catchment aerial operation, $96,000.
- Operating expenditure was $887,000 higher than budget due to the Land Afforestation grants scheme expenditure of $733,000 and additional Waiwhetu stream clean up costs.
- Capital expenditure is $417,000 ahead of budget mainly due to the Mills Street purchase $495,000, not budgeted in 2009/10.

4.5.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.6 Environmental management

4.6.1 Year to date

Overall, a favourable operating variance of $805,000 comprising higher revenue of $499,000 and lower expenditure of $306,000.

- Operating revenue is ahead of budget due to additional revenue from Environsmart, EECA and Emissions carried forward from 2008/09 and the timing of other revenue compared to budget.

- Operating expenditure is below budget mainly due to the timing of environmental monitoring expenditure.

- Capital expenditure was $422,000 below budget due to delays in the start of Beacon Hill building and fit-out. This project is now in the fit-out stage and expected to be complete by year end.

4.6.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.7 Forestry

4.7.1 Year to date

An unfavourable operating variance, before non cash adjustments, of $216,000, comprising lower revenue of $900,000 and lower expenditure of $684,000. Including the cost of goods sold, the unfavourable variance is $598,000.

- Operating revenue was $900,000 lower due to:
  - The budget included $849,000 of revenue from the emissions trading scheme, which is yet to come into effect
  - Lower harvested volumes in the first six months resulted in net logging revenue being $50,000 below budget. Recent higher log prices and improved volumes are now providing a positive cash return.
- Operating expenditure was lower than budget due to lower expenditure on contractors. This was as a result of low volumes harvested in the first six months of the year.

- Capital expenditure is $97,000 below budget due to less expenditure than expected on access roads.

4.7.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.8 Parks & forests

4.8.1 Year to date

- An unfavourable operating variance of $35,000, due mainly to:
  - Staff costs $186,000 under budget due to vacancies
  - Contractors and consultants $282,000 under budget due to the timing of work and utilising internal Biosecurity resources for the Hutt Catchment aerial operations
  - Internal expenditure ahead of budget due to the timing of the completion of the Hutt Catchment aerial operation noted above, $133,000
  - Depreciation $400,000 unfavourable due to a low budget estimate.
- Capital expenditure was $171,000 below budget due to the timing of capital projects.

4.8.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.9 Public transport

4.9.1 Year to date

A favourable operating variance of $2,452,000, comprising lower expenditure of $3,838,000, which has reduced revenue by $1,386,000.

- Operating expenditure was lower than budget due to:
  - Rail operations $826,000 over budget due to a decline in patronage
  - The higher exchange rate and lower oil prices have resulted in decreased payments to the diesel bus operators of $3,443,000
  - Operational expenditure on the real time project is not expected until later in the year, a saving of $494,000
  - SuperGold card utilisation continues to be higher than anticipated; expenditure which is fully funded by New Zealand Transport Agency (NZTA) is $737,000 more than budget.
- Capital expenditure was $6,734,000 below budget due to:
  - A number of projects have been reclassified as improvement projects from capital expenditure, as the underlying assets will not be owned by Greater Wellington, $3,167,000.
  - The real time information project commenced later than anticipated, $3,229,000.

4.9.2 Forecast to 30 June 2010

The favourable operating variance has increased to $2,045,000, from the March forecast of $1,866,000. The change is mainly due to continued savings forecast in the diesel bus contracts and an improvement in the rail contract forecast.

Forecast capital expenditure is $7,244,000 below budget due to:

- A number of projects have been reclassified as improvement projects from capital expenditure, as the underlying assets will not be owned by Greater Wellington, $3,867,000
- The real time information project commenced later than anticipated and the contract was less than originally budgeted. Expenditure for the year is forecast at $1,594,000, which is $3,256,000 lower than budget.

4.10 Public transport improvement projects

4.10.1 Year to date

Overall an unfavourable operating variance of $75,000, comprising lower expenditure of $50,562,000 and lower revenue of $50,637,000.

- Operating expenditure was lower than budget due to:
  - Expenditure on the Matangi EMU project is $30,582,000 below budget due to the revision of the expected payment dates. The project remains on budget with the new trains still scheduled to be delivered from 2010.
  - Rail infrastructure projects including station platforms, signalling, Johnsonville stations and McKay’s to Waikanae double tracking, are under budget by $18,021,000 due to the timing on the Waikanae double tracking and electrification project.
  - Rail rolling stock heavy maintenance programme is $973,000 under budget, as KiwiRail is behind their planned programme.
  - The Ganz Mavag pilot refurbishment is $944,000 below budget due to the delayed start of the project.

4.10.2 Forecast to 30 June 2010

The forecast shows an unfavourable variance of $539,000 when compared to the budget, reflecting the expected changes in the timing of expenditure.

- Forecast operating expenditure is $56,618,000 lower than budget (with a corresponding drop in revenue) due to:
  - Expenditure on the Matangi EMU project is forecast to be $41,365,000 below budget due the expected timing of payments. The project remains on budget with the new trains still scheduled to be delivered from 2010.
  - Rail infrastructure projects including station platforms, signalling, Johnsonville station and McKay’s to Waikanae double tracking are forecast

to be under budget by $14,486,000. The difference is mainly timing differences on the Waikanae double tracking and electrification projects.

- The Ganz Mavag pilot refurbishment is forecast to be $689,000 below budget due to the delayed start of the project.

4.11 Strategy & Community Engagement

4.11.1 Year to date

Overall a favourable operating variance of $711,000, with lower operating revenue $73,000 and lower operating costs of $784,000.

- Operating revenue was below budget due to lower NZTA funding because of the lower expenditure on transport projects detailed below. This is partially offset by additional revenue from the Honda Tree Fund of $51,000.

- Operating expenditure was lower than budget due to:

  - Timing of expenditure on the internet and intranet upgrades, $249,000.

  - Savings in Wellington Regional Strategy expenditure $117,000, comprising lower committee costs $50,000 and timing of external consultants costs $52,000.

  - Savings of $467,000 in Transport Strategy development projects including $44,000 on the Wairarapa corridor study; $54,000 Hutt Corridor Study; $108,000 on the planned update of the Regional Land Transport Programme and $130,000 saving on the transport model development.

  - Staff costs under budget by $35,000 due to staff vacancies.

4.11.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.12 Finance and Support

4.12.1 Year to date

A favourable operating variance of $1,189,000 due to lower operating expenditure of $794,000 and increased revenue of $248,000.

- Operating expenditure was lower than budget due to:

  - Staff vacancies resulting in lower personnel costs of $155,000
  - Materials and supplies were $162,000 below budget due to the timing of expenditure
  - Contractors and consultants were $140,000 below budget due to the timing of expenditure

- Lower depreciation due to reduced PC renewal costs in 2008/09 and the asset management project not yet completed, $374,000
- Finance costs $53,000 below budget as a result of the lower capital expenditure in 2008/09.

- Operating revenue was higher than budget due to additional rates from new properties and rates penalties.

- Capital expenditure was $1,000,000 below budget due to the timing of the telecommunications upgrade project, the GIS aerial flyover and lower costs to date on the asset management project.

4.12.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.13 Investment management

4.13.1 Year to date

The favourable variance of $1,288,000 is due to higher revenue from money market investments and interest rate swaps of $975,000 with lower than budgeted interest on borrowings, $314,000.

4.13.2 Forecast to 30 June 2010

The forecast is unchanged from March.

4.14 Water

4.14.1 Year to date

Overall a favourable operating variance of $324,000 compared to budget, due to:

- Operating revenue was $702,000 below budget primarily as a result of lower internal revenue due to less time charged to capital projects.

- Operating expenditure was $1,026,000 lower than budget due to:

  - Personnel costs are $465,000 below budget, due to staff vacancies.
  - Materials and Supplies $588,000 due to savings and better pricing
  - Finance costs are $153,000 below budget, due to the actual opening debt position being lower than budgeted
  - Depreciation is $445,000 over budget due to a low budget estimate.

- Capital expenditure was $2,695,000 below budget due to timing and deferral of some projects.

4.14.2 Forecast to 30 June 2010

The full year operating forecast is mostly unchanged from March.

Capital expenditure is forecast to be $1,609,000 below budget due to a further review of the work programme

5. Finance costs

For the 10 months ended 30 April 2010				Full year forecast 30 June 2010			
Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
4,108	4,140	4,897	757	4,908	5,417	5,999	582

Year to date

Finance costs were $4,140,000, compared to the budget of $4,897,000, a favourable variance of $757,000. The favourable variance is due to lower borrowings resulting from lower capital expenditure, actual opening being debt below budget and lower interest rates than budgeted.

Forecast to 30 June 2010

Finance costs are forecast to be $582,000 below budget resulting from lower debt due to the capital spend being below budget, a lower actual opening debt position and lower interest rates than budgeted.

6. Communication

No communications are necessary at this time.

7. Recommendations

That the 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: Funding Impact Statement

Attachment 2: Balance Sheet