

Report 99.130
16 March 1999
File: G/4/1/5

Report to the Policy and Finance Committee
from Paul Laplanche, Finance Manager

Financial Report for the eight months ended 28 February 1999

1. Purpose

To receive the February 1999 Financial Statements (forwarded separately).

2. Comment

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus (excluding the gain on sale of investments) ahead of budget by \$3.0 million, and capital expenditure below budget by \$2.0 million. The gain on sale of \$17.7 million was explained in report 99.1, which was considered by the Committee on 2 February 1999.

The forecast position to 30 June 1999 is as approved at the Policy and Finance Committee on 18 February 1999, including adjustments for all additional expenditure items approved at that meeting.

3. Financial Performance for the eight months to 28 February 1999

3.1 Operating Surplus

The year to date operating result after eight months reflects an operating surplus ahead of budget of \$3.0 million. Detailed variances from budget are shown in the following table:

	1998/99 YTD Actual \$000s	1998/99 YTD Budget \$000s	Actual vs Budget Variance \$000s	1998/99 Year Forecast \$000s	1998/99 Year Budget \$000s	Forecast vs Budget Variance \$000s
OPERATING SURPLUS (DEFICIT)						
Utility Services	2,638	1,368	1,270 F	3,323	2,064	1,259 F
Landcare	886	610	276 F	(133)	1,234	1,367 U
Environment	154	(101)	255 F	(105)	(183)	78 F
Transport	(599)	(605)	6 F	(683)	(902)	219 F
Wairarapa	(275)	(340)	65 F	(1,791)	(710)	1,081 U
Corporate Services	87	(24)	111 F	18	31	13 U
Finance & Admin	514	(219)	733 F	169	(279)	448 F
Investment Mgmt	2,607	2,123	484 F	4,378	3,822	556 F
Regional Stadium	489	302	187 F	647	478	169 F
Elected Members	(54)	(77)	23 F	(117)	(117)	-
Rates Collection	39	(2)	41 F	0	0	-
Business Units Rates Contribution	(2,419)	(2,419)	-	(3,629)	(3,629)	-
Management Savings Objective	0	414	414 U	0	621	621 U
Total Operating Surplus (Deficit)	4,067	1,030	3,037 F	2,077	2,430	353 U

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$1.27 million*

- The overall operating surplus above budget of \$1,423,000 in Water Supply (excluding Forestry) is partly due to savings in direct costs (primarily materials and personnel). The materials variance of \$347,000 is primarily due to less power, chemicals and other materials being used. The \$463,000 variance in personnel is due to a combination of the timing of replacing staff and less overtime being worked than had been anticipated.
- The higher than expected external revenue of \$338,000 corresponds directly to greater Operations Network activity and settlement of the 1998 Grenada incident debt with WCC. Additional investment revenue of \$79,000 has also contributed to the overall surplus, which relates to higher than budgeted interest on reserves.
- Savings in financial costs of \$265,000, can be attributed to the reduced debt level, mainly because of the greater than expected 1997/1998 year end surplus which was applied to debt reduction in accordance with Council policy.
- The operating deficit above budget of \$153,000 in Plantation Forestry is not inconsistent with management's expectations considering the current market conditions.

(2) *Landcare favourable variance of \$0.28 million*

- Personnel costs are under budget by \$163,000 due to vacancies in budgeted positions across the division, now mostly filled.

- External revenue is below budget by \$120,000 primarily due to delays in gravel extraction and other revenue associated with the Upper Rahui project. Internal revenue is below budget by \$110,000 mainly as a result of the late start of rechargeable projects in Natural Forestry; these projects are now underway and the variance is expected to be absorbed by year end.
- Flood protection operations show an overall unfavourable expenditure variance of \$85,000. The total costs of the October 1998 floods have reached \$393,000 but this has been offset by timing variances on normal maintenance works due to consent issues and diversion of resources to repair works.
- Natural Forests and Regional Parks together have an operating surplus above budget of \$492,000 due to delays in pest control operations, roading and general maintenance, and rural fire contingencies. A major pest control project is programmed to take place in May and this is expected to consume a portion of the timing variance.

(3) *Environment favourable variance of \$0.26 million*

- Personnel costs are under budget by \$143,000 due to unpaid staff absences in the Resource Policy Department (scholarship and parental leave) and time lags in replacing staff in the Division.
- Currently material costs are under budget by \$71,000 with most of the under expenditure in the Harbours Department. This is a timing variance with a number of repair and maintenance project costs expected in the coming months.
- Financial costs are over budget by \$28,000. The major item is the unpaid J Juno fine of \$18,000. A decision on how to recover legal costs is yet to be made by the Court. The balance of the variance represents unpaid annual resource charges that now fall into the “90 days and over” category. The bulk of these debts are expected to be recovered in full.

(4) *Transport favourable variance of \$0.01 million*

- The \$495,000 favourable expenditure variance in the Public Transport Department is mainly due to the expenditure on contracted services being \$446,000 below budget.
- The Transport Policy Department unfavourable expenditure variance of \$596,000 is due to two factors. An overspend of \$188,000 on external contractors, mainly because of the additional research required to develop a revised Regional Land Transport Strategy, and an overspend of \$436,000 in infrastructure grants largely due to the unbudgeted purchases of land for car parking purposes at Porirua \$180,000 and Paraparaumu \$315,000 railway stations.
- A favourable expenditure variance of \$139,000 in the Customer Service Department is caused mainly by underspending on timetable displays, special events advertising and personnel costs which are below budget by \$57,000. (An inspector’s position is vacant and use of Temporary staff at

the Ridewell call centre has been less than expected.)

(5) *Wairarapa favourable variance of \$0.06 million*

- There are a number of offsetting variances within the Operations department; including a \$140,000 favourable variance due to the timing of the Reserve Forests Silviculture program; a \$494,000 unfavourable variance on river management expenditure due to the costs of flood damage repair and a \$46,000 favourable variance in the soil conservation expenditure due to drought conditions.
- The Planning and Resources department has a favourable variance of \$111,000 largely due to the timing of contract expenditure for the consents activity and savings in personnel costs due to staff resignations.
- The Biosecurity department has a favourable variance of \$145,000. All activities in this department show minor variances due to a mixture of timing and permanent savings.
- The \$91,000 favourable variance in the Support Services department is mainly due to timing savings for materials expenditure and special rates revenue.

(6) *Finance & Administration favourable variance of \$0.73 million*

- Under expenditure of \$523,000 in IT and Support Services is primarily as a result of reduced expenditure on software licence fees, supplies, consultants, repairs and maintenance and personnel. Personnel cost savings of \$85,000 reflect current vacancies in the department.
- A \$220,000 favourable variance in Finance primarily relates to the FIS replacement costs budgeted as operating expenditure but now being capitalised as part of capital expenditure. This is therefore more to do with a change of accounting treatment than a real underspend.

(7) *Investment Management favourable variance of \$0.48 million*

- Savings in net financial costs of \$689,000 resulting from a combination of less Council-wide expenditure which consequently has led to debt levels being lower than expected, and lower than budgeted interest costs.
- Additional rental income of \$97,000 from Council's investment properties in Blair and Allen Streets.
- Interest revenue from the invested proceeds from the sale of Port Wellington Ltd shares of \$40,800,000 was lower than the combined interest and dividend revenue that was budgeted on the assumption that Port Wellington Ltd investment was held directly by the Council. This resulted in a \$268,000 unfavourable variance.

(8) *Regional Stadium favourable variance of \$0.19 million*

- Additional interest income of \$169,000 was earned on funds borrowed to advance to the Wellington Regional Stadium Trust as earlier reported.

(9) *Management Savings Objective unfavourable variance of \$0.41 million*

- The 1998/99 Annual Plan incorporated a “savings yet to be found” figure of \$622,000. This amount relates to the first eight months’ share. Actual savings are reflected within the favourable variances of each division.

3.2 Capital Expenditure

Year-to-date capital expenditure for the eight months to 28 February 1999 is \$2.0 million below budget.

CAPITAL EXPENDITURE	1998/99 YTD Actual \$000s	1998/99 YTD Budget \$000s	Actual vs Budget Variance \$000s	1998/99 Year Forecast \$000s	1998/99 Year Budget \$000s	Forecast vs Budget Variance \$000s
Utility Services	3,060	4,122	1,062 F	6,141	6,362	221 F
Landcare	719	1,452	733 F	2,190	1,829	361 U
Environment	66	73	7 F	110	83	27 U
Transport	0	64	64 F	15	64	49 F
Wairarapa	353	438	85 F	449	570	121 F
Corporate Services	0	23	23 F	23	23	-
Finance & Admin	350	305	45 U	2,830	305	2,525 U
Investment Mgmt	0	25	25 F	0	25	25 F
Elected Members	0	42	42 F	42	42	-
Total Capital Expenditure	4,548	6,544	1,996 F	11,800	9,303	2,497 U

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$1.06 million*

- Project work has fallen slightly behind schedule, but is expected to catch up during the final four months of the financial year. As a result, temporary favourable variances have arisen, primarily due to the timing of expenditure on the Wainuiomata Reaction Tank project, \$134,000, the Waterloo project to increase supply capacity, \$583,000, the Te Marua to Wellington pipeline value replacement project, \$140,000, and the installation of flow meters and telemetry controls across the water supply network, \$123,000.

(2) *Landcare favourable variance of \$0.73 million*

- Favourable timing variances in project work is mainly due to design modifications and project delays on the Pakuratahi Bridge Restoration project, \$56,000, Upper Rahu Construction project, \$188,000, and Rimutaka Incline Roding project, \$66,000.

- Savings of \$48,000 have been made in the costs of publishing and public consultation for the Otaki Floodplain Management Plan. Further costs are to be incurred for the launch of the plan and “Friends of the River” Programme.
- The Porirua Flood Management Plan is \$51,000 under budget as a result of the Findlay Street stream realignment being put on hold.
- The Wainuiomata Floodplain Management Plan (FMP) is \$63,000 behind schedule, due to staff vacancies and commitments to other projects, in particular the Hutt Floodplain Management Plan. The Hutt FMP is running under budget by \$95,000 due to delays in construction on the Nash St Investigations.

(3) *Regional Transport favourable variance of \$0.06 million*

- Relates to the deferral of a vehicle purchase, \$10,000, and the deferment of \$50,000 of expenditure on an Automatic Vehicle Identification System. The system is being tested by the Auckland Regional Council, and at this time is not of an acceptable standard to warrant this Council to incur expenditure.

(4) *Wairarapa favourable variance of \$0.08million*

- Relates to deferment of Biosecurity’s carrot cutter.

(5) *Finance and Administration unfavourable variance of \$0.05 million*

- An unfavourable variance of \$250,000 relating to the FIS project partly offsets the favourable operating surplus in Finance of \$220,000. This is more to do with a change in accounting treatment than a real overspend.
- A favourable variance of \$200,000 in IT and Support Services relates to the timing of expenditure on the new phone system for the Regional Council Centre.

4. **Compliance with Treasury Management Policy**

There were no instances of non compliance with the Treasury Management Policy during the month of February 1999.

5. Recommendation

That the report be received and the contents noted.

Report prepared by:

Approved for submission:

PAUL LAPLANCHE
Finance Manager

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Treasury Management Policy Compliance Report