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Report 01.341

21 May 2001

File: CFO/4/1/5

Report to the Policy and Finance Committee
from Anne Quaintance, Financial Accountant

Financial Report for the nine months ended 31 March 2001

1. Purpose

To receive the March 2001 Financial Statements (forwarded under separate cover) and to inform the committee of the updated forecast year-end position.

2. Comment

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus ahead of budget by \$3.2 million and capital expenditure below budget by \$1.8 million.

As Councillors are aware the General Manager and the Chief Financial Officer conduct a comprehensive review of the organisation's performance each quarter. As part of this review, management has re-examined the forecast financial position to the end of this financial year. The forecast position to 30 June 2001 in respect of both operating surplus and capital expenditure is explained in section 4 of this report.

3. Financial Performance for the nine months to 31 March 2001

3.1 Operating Surplus

The year to date operating result after nine months reflects an operating surplus ahead of budget by \$3.2 million. Detailed variances from budget are shown in the following table:

	2000/01 YTD Actual \$000s	2000/01 YTD Budget \$000s	Actual vs Budget Variance \$000s	2000/01 Year Forecast \$000s	2000/01 Year Budget \$000s	Forecast vs Budget Variance \$000s
OPERATING SURPLUS (DEFICIT)						
Water Group	2,447	1,364	1,083 F	3,106	1,751	1,355 F
Plantation Forestry	(94)	208	302 U	(246)	275	521 U
Utility Services	2,353	1,572	781 F	2,860	2,026	834 F
Transport	(535)	(899)	364 F	(2,534)	(1,029)	1,505 U
Landcare	1,175	837	338 F	1,081	1,010	71 F
Environment	641	51	590 F	249	100	149 F
Wairarapa	241	81	160 F	(219)	73	292 U
Corporate Advisory Services	149	(16)	165 F	152	(13)	165 F
Finance & Admin	187	(67)	254 F	(101)	(326)	225 F
General Manager	41	(7)	48 F	(9)	(9)	-
Cost of Democracy	145	86	59 F	147	114	33 F
Rates Collection	281	0	281 F	350	0	350 F
Net Divisional Surplus (Deficit)	4,678	1,638	3,040 F	1,976	1,946	30 F
Investment Management	5,786	5,666	120 F	7,667	7,579	88 F
Business Unit Rates Contribution	(4,188)	(4,188)	-	(5,584)	(5,584)	-
Total Operating Surplus (Deficit)	6,276	3,116	3,160 F	4,059	3,941	118 F

Significant components of the \$3.2 million favourable year to date operating variance are as follows:

(1) ***Water Group \$1.08 million favourable variance, due to:***

- Higher than budgeted external revenue of \$405,000, which includes an unbudgeted recovery of \$195,000 for Hutt City Council's contribution to de-fluoridating Petone's water.
- Materials, supplies and services savings of \$238,000.
- Lower usage of external contractors and consultants has resulted in \$113,000 of savings.
- Lower than anticipated debt levels have generated financial cost savings of \$278,000.

(2) ***Plantation Forestry \$0.30 million unfavourable variance, due to:***

- The unavailability of harvesting contractors during the first six months is the key driver for total revenue being \$1,791,000 below budget, but this has been partially offset by external contractor savings of \$1,426,000.

(3) ***Transport \$0.36 million favourable variance, due to:***

- Favourable variance of \$606k from unbudgeted funding received for refurbishment of the electric Ganz Mavag units.
- Favourable variance of \$347k from delays in the financing arrangement for the Wellington interchange project.

- Favourable timing variance of \$233k with purchase of land for commuter car parks occurring in April. (i.e. next quarter)
- Unfavourable variance of \$1,174k resulting from inflation on bus contracts, following further price rises on diesel.
- Favourable variance of \$191k on transport studies with the household interview survey postponed until October 2001.
- Favourable variance of \$154k as a result of delays in the installation of the Wellington bus priority system.

(4) ***Landcare \$0.34 million favourable variance, due to:***

- Savings in personnel costs of \$190,000 due to staff vacancies.
- Savings of \$366,000 as a result of projects being re-programmed for more favourable weather conditions and delays caused by the unavailability of materials (i.e. rock) and staff vacancies.
- Savings of \$106,000 in depreciation and \$33,000 in financial costs as a result of capital projects being behind schedule.
- Savings are being partially offset by flood damage work currently being carried out (to be funded by reserves) \$355,000.

(5) ***Environment \$0.59 million favourable variance, due to:***

- Savings in personnel (\$91,000), materials (\$86,000), and contractors and consultants costs (\$440,000). Some of the personnel under-spend is from staff movements during the period and a portion of which will be a permanent saving.
- The budget anticipated that the printing of educational resources would have been concluded by this stage. While that project is well advanced the printing of this resource information is not expected to be completed until June.
- The contractor and consultants shortfall is largely due to the reduced level of expenditure on iwi projects. A number of iwi projects have been proposed and these are in various stages of development. These include an initiative, presently before the Council, to utilise \$105,000 of the iwi budget before year end.

(6) ***Wairarapa \$0.16 million favourable variance, due to:***

- Reduced Bovine Tb expenditure of \$624,000 and reduced AHB income of \$274,000 because of operational savings and the cancellation of the South East Wairarapa programme.
- Reduced expenditure of \$140,000 for the Pest Animals and Pest Plants activities due to delays in commencing KNE operations.

- Additional flood damage repair expenditure of \$522,000 for River Management.
- Additional Soil Conservation revenue of \$203,000, offset by additional expenditure of \$258,000 and additional revenue of \$85,000 for the Akura Conservation Centre.
- Reduced Planning & Resources expenditure of \$95,000 due to savings in personnel, materials and contractors, and reduced consent revenue of \$25,000.
- Reduced Support Services expenditure of \$61,000 because of savings in personnel and material costs.

(7) ***Corporate Advisory \$0.16 million favourable variance, due to:***

- Savings of \$123,000 on Strategic Communications. This expenditure has been delayed due to the communications review currently being undertaken.
- Savings of \$50,000 against the Community Advocacy budget.

(8) ***Finance & Administration \$0.25 million favourable variance, due to:***

- Savings in Info Tech and Support of \$387,000. This is largely due to depreciation charges being lower than budget by \$150,000 (as a result of delays in IT capex acquisitions), savings in materials and additional internal revenue.
- Additional FIS expenditure of \$175,000 relating to additional depreciation, bedding down the FIS implementation and minor FIS developments.

(9) ***Rates Collection \$0.28 million favourable variance, due to:***

- Savings in valuation fees and rate collection costs.

(10) ***Investment Management \$0.12 million favourable variance, due to:***

- Additional money market interest revenue and reduced money market interest expense is due to lower than anticipated levels of both operating and capital expenditure throughout the Council.

3.2 **Capital Expenditure**

Year-to-date net capital expenditure for the nine months to 31 March 2001 is 1.8 million below budget.

	2000/01 YTD Actual \$000s	2000/01 YTD Budget \$000s	Actual vs Budget Variance \$000s	2000/01 Year Forecast \$000s	2000/01 Year Budget \$000s	Forecast vs Budget Variance \$000s
NET CAPITAL EXPENDITURE						
Utility Services	2,934	4,307	1,373 F	4,274	5,036	762 F
Landcare	1,698	1,796	98 F	2,958	2,504	454 U
Environment	315	371	56 F	386	375	11 U
Transport	24	17	7 U	59	49	10 U
Wairarapa	160	227	67 F	206	228	22 F
Corporate Advisory Services	36	0	36 U	36	0	36 U
Investments	(63)	0	63 F	(63)	0	63 F
Finance & Admin	223	302	79 F	245	336	91 F
Cost of Democracy	22	98	76 F	31	98	67 F
Total Net Capital Expenditure	5,349	7,118	1,769 F	8,132	8,626	494 F

Significant components of the \$1.8 million favourable year to date net capital expenditure are as follows:

(1) ***Utility Services \$1.37 million favourable variance, due to:***

- Delays in completing projects and project deferrals have generated year to date savings of \$1.12 million compared to budget.
- Deferrals of vehicle replacements and equipment purchases have generated savings of \$253,000.

(2) ***Landcare \$0.10 million favourable variance, due to:***

- Delays in capital works for Regional Parks \$110,000, and Flood Protection \$332,000. These delays are mainly a result of unfavourable weather conditions, staff vacancies and material shortages.
- Boulcott land purchase agreement was completed with a \$60,000 saving against budget.
- The above savings have been offset by the delay of the planned asset sales, including Findlay Street houses (net value of \$386,000).

(3) ***Environment \$0.06 million favourable variance, due to:***

- The purchase of a replacement motor vehicle was slightly delayed, and that transaction was completed in April instead of March as budgeted.

(4) ***Wairarapa \$0.07 million favourable variance, due to:***

- The timing of vehicle and equipment replacements including the Akura irrigation equipment which has been deferred to 2001/02.

(5) ***Investments \$0.06 million favourable variance, due to:***

- Unbudgeted proceeds from the sale of Hungerford Road.

(6) ***Finance & Administration \$0.08 million favourable variance, due to:***

- Saving on capital expenditure budget (year end projected balance \$112,000 to be transferred to reserve).

(7) ***Cost of Democracy \$0.08 million favourable variance, due to:***

- Budgeted capital expenditure will not proceed prior to 1 November 2001.

4. Year End Outlook Position

4.1 Revised year end Operating Surplus

The projected year end operating surplus has been adjusted following the March quarterly management reviews. The projected year end operating surplus is now \$4.1 million, a decrease of \$0.4 million over the December forecast of \$4.5 million.

Detailed movements from the December forecast to the current forecast (outlook) are shown in the following table:

	2000/01 Year March Outlook \$000s	2000/01 Year December Forecast \$000s	Variance \$000s
OPERATING SURPLUS (DEFICIT)			
Water Group	3,106	2,684	422 F
Plantation Forestry	(246)	2	248 U
Utility Services	2,860	2,686	174 F
Transport	(2,534)	(1,807)	727 U
Landcare	1,081	927	154 F
Environment	249	598	349 U
Wairarapa	(219)	(411)	192 F
Corporate Advisory Services	152	41	111 F
Finance & Admin	(101)	(138)	37 F
General Manager	(9)	(9)	-
Cost of Democracy	147	157	10 U
Rates Collection	350	350	-
Net Divisional Surplus (Deficit)	1,976	2,394	418 U
Investment Management	7,667	7,687	20 U
Business Unit Rates Contribution	(5,584)	(5,584)	-
Total Operating Surplus (Deficit)	4,059	4,497	438 U

Significant components of the decrease in projected surplus are:

(1) ***Water Group increase in forecast surplus of \$0.42 million, due to:***

- Further treatment plant efficiencies, although partially offset by increased maintenance activity within the Distribution section are anticipated to generate \$355,000 of additional savings.

- Greater than anticipated Water Group project cost recoveries and lower financial costs should further enhance the surplus by \$239,000.
- Increased usage of external contractors, plus higher personnel costs since relocating from Tory Street to Mabey Road have led to a \$197,000 reduction in the projected full year Operations Network surplus.

(2) ***Plantation Forestry increase in forecast deficit of \$0.25 million, due to:***

- Generated by a significant deterioration in market conditions, with excess supply and “softening” prices.

(3) ***Transport increase in forecast deficit of \$0.73 million, due to:***

- Increase in forecast of \$1.07m for inflation on bus contracts, following further price rises on diesel.
- Decrease in forecast of \$0.15m with hold-ups in the Transfund approval process delaying commencement of some kickstart contracts.
- Decrease in forecast of \$0.17m for a reduction in the cost of car park land, following the unavailability of the Council’s preferred site.

(4) ***Landcare increase in forecast surplus of \$0.15 million, due to:***

- Staff positions have remained vacant longer than originally anticipated adding \$50,000 to the favourable forecast.
- Further project delays added \$85,000 to the favourable forecast.
- Increased gravel income added \$15,000 to the favourable forecast.

(5) ***Environment decrease in forecast surplus of \$0.35 million, due to:***

- The most significant change to the forecast is an increase to the contractors and consultants expenditure line. The revised full year forecast provides for an additional \$242,000 to be spent and this includes the iwi expenditure proposal (\$105,000). In addition, a further \$20,000 has been allocated towards the Waiwhetu stream investigation. Other projects presently underway include an environmental survey (\$25,000), website development (\$33,000) and the Ecobus design (\$25,000).
- Apart from iwi and personnel costs the budget will be fully utilised.

(6) ***Wairarapa decrease in forecast deficit of \$0.19 million, due to:***

- Reduced contract expenditure for Reserve Forests (\$74,000) and River Management (\$44,000) and proceeds from the Stoney Creek house sale.

(7) *Corporate Advisory Services increase in forecast surplus of \$0.11 million*

- Delayed signoff of communications strategy.

4.2 **Analysis of Operating Surplus - Areas of Benefit**

It is important that Water Supply and Transport surpluses/(deficits) are identified separately from other regional responsibilities given the different communities of benefit and funding issues involved. The table below analyses the overall operating surplus into these areas:

	2000/01 Year End Outlook	2000/01 Year End Budget	Outlook Vs Budget Variance
	(\$000)	(\$000)	(\$000)
Water supply	3,106	1,751	1,355 F
Transport	(2,534)	(1,029)	1,505 U
Other Regional responsibilities	3,487	3,219	268 F
Total Council Position	4,059	3,941	118 F

As can be seen from the above table the main variances from budget relate to water supply and transport. On a net basis there is little expected surplus in other Regional responsibilities over and above what was budgeted.

4.3 **Revised Year End Capital Expenditure**

Overall capital expenditure is now projected to be \$8.1 million at year end compared to the December forecast of \$9.0 million.

Detailed movements from the December forecast to the current forecast (outlook) are shown in the following table:

CAPITAL EXPENDITURE	2000/01 Year March Outlook \$000s	2000/01 Year December Forecast \$000s	Variance \$000s
	Utility Services	4,274	4,563
Landcare	2,958	3,355	397 F
Environment	386	373	13 U
Transport	59	94	35 F
Wairarapa	206	208	2 F
Corporate Advisory Services	36	36	-
Investments	(63)	0	63 F
Finance & Admin	245	261	16 F
Cost of Democracy	31	81	50 F
Total Capital Expenditure	8,132	8,971	839 F

Significant components of the decrease in forecast capital expenditure are:

- (1) ***Utility Services decrease in forecast capital expenditure of \$0.30 million, due to:***
 - Generated by a combination of additional 2000/01 budget project savings and project deferrals.
- (2) ***Landcare decrease in forecast capital expenditure of \$0.40 million, due to:***
 - The unbudgeted sale of property at Otaki has contributed \$83,000 to the favourable variance.
 - Porirua channel works have been put on hold until weather conditions improve and riparian planting issues can be resolved, contributing \$334,000 to the favourable variance.

5. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the nine months to 31 March 2001.

6. Communications

It is expected that Council's favourable financial results will be fully reported at the conclusion of the financial year.

7. Recommendations

- (1) *That this report be received and the contents noted.*
- (2) *That the revised forecast figures to 30 June 2001 (termed 'outlook' within this report) replace the forecast figures prepared as part of the half year review.*

Report prepared by:

Approved for submission:

ANNE QUAINANCE
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