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Committee Policy, Finance and Strategy
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Third Quarter Review to 31 March 2005

1. Purpose

To inform the Committee of the financial performance to 31 March 2005, forecast to year end and variance analysis by division.

2. Significance of the Decision

The matters 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 Chief Executive and Chief Financial Officer conduct a review of the organisation's performance each quarter. The reviews for March have been made available to Councillors as background information.

4. Financial Performance for the Nine Months to 31 March 2005

4.1 Operating Surplus

The year to date operating result after six months reflects an operating surplus of \$4.5 million (budget, break even). The gain on sale from Mabey Road increases the surplus to \$7.6 million.

| | 2004/05 YTD Actual \$000s | 2004/05 YTD Budget \$000s | Actual vs Budget Variance \$000s | 2004/05 YTD Budget Operating Expenditure \$000s |
|--|------------------------------------|------------------------------------|---|---|
| OPERATING SURPLUS (DEFICIT) | | | | |
| Water Group | 551 | (318) | 869 F | (20,089) |
| Plantation Forestry | (268) | (29) | 239 U | (3,618) |
| Utility Services | 283 | (347) | 630 F | (23,707) |
| Transport | (707) | (845) | 138 F | (44,544) |
| Landcare | 2,085 | 1,740 | 345 F | (9,618) |
| Environment | 555 | 109 | 446 F | (7,625) |
| Wairarapa | (58) | (241) | 184 F | (18,015) |
| Corporate Advisory Services | 14 | (39) | 53 F | (135) |
| Finance & Admin | 669 | 110 | 559 F | (4,437) |
| Chief Executive | (53) | (101) | 48 F | (116) |
| Investment in Democracy | (126) | (176) | 50 F | (3,508) |
| Net Divisional Surplus(Deficit) | 2,662 | 210 | 2,453 F | (111,705) |
| Investment Mgmt | 7,317 | 5,498 | 1,819 F | 1,408 |
| Wellington Regional Strategy | 239 | 0 | 239 F | (436) |
| Business Unit Rates Contribution | (5,718) | (5,718) | - | 0 |
| Total Operating Surplus (Deficit) | 4,500 | (11) | 4,511 F | (110,733) |
| Landcare Sale of Mabey Road | 3,155 | 0 | 3,155 F | - |
| Total Council Surplus (Deficit) | 7,655 | (11) | 7,666 F | (110,733) |

Significant components of the \$4.5 million favourable year to date operating variance are as follows:

4.2 Water Group \$869,000 favourable variance, due to:

Primarily lower than budgeted variable expenditure by Operations on water treatment chemicals \$326,000, power \$190,000, and other materials and supplies \$160,000, combined with reduced finance costs \$207,000, arising from an ongoing lower than budgeted debt balance.

4.3 Plantation Forestry \$239,000 unfavourable variance, due to:

Sustained poor market conditions that have included a strong NZ dollar, high export freight rates and stop / start supply requirements from domestic mills, all of which have depressed year to date revenue opportunities.

4.4 Transport

Transport expenditure is below budget by \$1.36 million with a corresponding decrease in grants of \$1.22 million giving a favourable variance of \$0.14 million. The significant items contributing to the favourable variance are;

4.4.1 Delays in various projects.

- Integrated ticketing, \$95,000. This has been delayed primarily to ensure all operators are fully consulted. Scoping of work has

commenced in 2004/05 with the majority of the project being completed in 2005/06.

- Metlink signage and launch \$243,000 has been delayed until September 2005. The extra time is required to ensure operators are fully involved and supporting the regional brand of public transport.
- Timing delays on a variety of smaller projects, \$228,000 which are expected to be largely completed by year end.

4.4.2 Savings on various contracts, namely:

- Cityline gross revenue contracts \$300,000, higher fare revenues due to patronage growth.

4.4.3 Offsetting the savings above are increases in costs over budget, and unbudgeted expenditure, namely:

- Bus contract costs, \$395,000 as payments for diesel and adjustments for inflation are higher than budgeted.
- Rail contract inflation payments, \$194,000 resulting from higher inflation than budgeted.

4.5 Landcare \$345,000 favourable variance, due to:

- Finance cost savings relating to Mabey Road sale \$125,000 and the timing of capital expenditure programme, \$74,000.
- Central Government assistance for February 2004 floods (mostly returned to the reserve that paid for the flood damage) \$155,000.
- Transfer to capital expenditure for those jobs that have been completed out of the operating budget creating an asset of \$143,000.
- Depreciation expense higher than budgeted due to the revaluation of Parks and Forests assets \$128,000.

4.6 Environment \$446,000 favourable variance, due to:

- Consultants costs below budget of \$265,000 mainly due to the lower than anticipated take-up of iwi projects.
- Delays in costs being passed on by other agencies of \$101,000 in the Kaiwharawhara Stream Project.

4.7 Wairarapa \$184,000 favourable variance, due to:

- Savings of \$333,000 for Bovine Tb control work (area reductions) and Pest Plant contracts.

- Savings of \$150,000 for Planning and Resources due to the timing of contract expenditure for Resource Investigations and savings in personnel costs.
- Additional net expenditure of \$387,000 for River Schemes for flood damage repair work.

4.8 Wellington Regional Strategy \$239,000 favourable variance, due to:

- Timing differences on projects.

4.9 Finance & Administration \$559,000 favourable variance, due to:

- Under expenditure on \$98,000 for personnel costs, software licence fees and consultants in Finance mainly due to staff turnovers and recruitment delays.
- Lower expenditure in IT by \$335,000 caused in the main by less software purchases than anticipated, savings in leasing costs, and the funding of computer equipment purchases.
- Timing differences of \$111,000 in the phasing of the budget for payment of rate collection and valuation fees

4.10 Investment Management \$1,819,000 favourable variance, due to:

- Subvention payments received from CentrePort in respect of tax loss offsets, \$1.4 million.
- A favourable \$197,000 variance on the \$44 million cash deposit as interest rates have been higher than budget.
- A favourable \$145,000 variance in Treasury mainly due to a lower external debt balance.

5. Capital Expenditure

Excluding the sale of Mabey Road, capital expenditure was \$6.9 million, \$2.2 million below budget.

| | 2004/05 YTD Actual \$000s | 2004/05 YTD Budget \$000s | Actual vs Budget Variance \$000s |
|----------------------------------|--|--|---|
| NET CAPITAL EXPENDITURE | | | |
| Utility Services | 1,567 | 2,903 | 1,335 F |
| Landcare | 3,206 | 3,910 | 704 F |
| Environment | 371 | 459 | 89 F |
| Transport | 47 | 306 | 259 F |
| Wairarapa | 596 | 615 | 19 F |
| Corporate Advisory Services | 66 | 88 | 22 F |
| Chief Executive | 0 | 0 | - |
| Finance & Admin | 656 | 747 | 91 F |
| Investment Management | 334 | 0 | 334 U |
| Investment in Democracy | 24 | 30 | 6 F |
| Total Capital Expenditure | 6,868 | 9,058 | 2,190 F |
| Sale proceeds Mabey Rd land | (3,385) | 0 | 3,385 F |
| Net Capital Expenditure | 3,483 | 9,058 | 5,575 F |

Significant components of the \$2.2 million favourable year to date variance are as follows:

5.1 Utility Services \$1,335,000 favourable variance, due to:

- Delays in starting and/or progressing various Greater Wellington Water capital project works have generated a favourable timing difference against budget to date of \$1,088,000. In addition, significantly fewer than budgeted minor asset acquisitions have occurred to date, resulting in a net saving of \$247,000.

5.2 Landcare \$704,000 favourable variance, due to:

- Timing of capital expenditure projects mainly associated with resourcing and rock supply issues \$534,000.
- Net sales proceeds of \$99,000 from the Stebbings Rd land settlement with WCC.
- The planned purchase of replacement RT sets will no longer proceed this year \$58,000. We have requested this be rebudgeted to 2005/06.

5.3 Transport \$259,000 favourable variance, due to:

- Delay in purchasing contract management database \$100,000 and Asset Management System \$50,000.
- Replacement vehicles and sale of vehicles plus purchase of minor furniture and fittings \$12,000.

- Delay in the journey planner enhancement in Service Design of \$96,000.

5.4 Investment Management \$334,000 unfavourable variance, due to:

- A timing difference of \$334,000 related to the Wairarapa office building extensions.

6. Year End Forecast Position

6.1 Operating Surplus

The operating surplus for the year to 30 June 2005 excluding Mabey Road is forecast to be a surplus of \$6 million compared with the December forecast deficit of \$0.5 million.

The significant movements between the December and March forecasts are noted below. The improvements in the forecast are due to two major items, rebudgets and the release of a transport accrual which is no longer required. Between them these two items total some \$4.3 million.

The proposed rebudgeted amounts along with any further adjustments to them will be presented to Council for approval at year end.

Reconciliation between the December and March forecasts.

| | | \$000's |
|--------------------------|--------------|---------|
| December Forecast | | (544) |
| Landcare | | |
| Rebudgets | 974 | |
| Expenditure capitalised | 143 | |
| Other | <u>(114)</u> | 1,003 |
| Environment | | |
| QE II project | 71 | |
| Iwi Project | <u>60</u> | 131 |
| Utilities | | |
| Lower Forestry Revenue | (218) | |
| Reduced finance costs | 164 | |
| Other | <u>64</u> | 10 |
| Transport | | |
| Rebudgets | 474 | |
| Accrual Reversal | 2,787 | |
| Other | <u>56</u> | 3,317 |

\$000's

Corporate

| | | |
|--------------------|------------|-------|
| Rebudgets | 70 | |
| Sale of Tax Losses | 1,414 | |
| General Savings | <u>186</u> | 1,670 |

Wairarapa

| | | |
|------------------|--|------------|
| Reduced Spending | | <u>451</u> |
|------------------|--|------------|

| | | |
|---------------------|--|---------------------|
| New Forecast | | <u>6,038</u> |
|---------------------|--|---------------------|

| | 2004/05 Year March Forecast \$000s | 2004/05 Year December Forecast \$000s | Forecast vs Forecast Variance \$000s | 2004/05 Year Budget \$000s |
|--|--|---|--|-------------------------------------|
| OPERATING SURPLUS (DEFICIT) | | | | |
| Water Group | 824 | 596 | 229 F | (392) |
| Plantation Forestry | (368) | (150) | 218 U | (38) |
| Utility Services | 456 | 446 | 10 F | (430) |
| Transport | 1,285 | (2,032) | 3,317 F | (1,133) |
| Landcare | 1,558 | 555 | 1,003 F | 1,985 |
| Environment | 189 | 58 | 131 F | (59) |
| Wairarapa | (317) | (769) | 451 F | (44) |
| Corporate Advisory Services | (20) | (38) | 18 F | (6) |
| Finance & Admin | 458 | 272 | 186 F | 39 |
| Chief Executive | (91) | (116) | 25 F | (135) |
| Investment in Democracy | (122) | (150) | 28 F | (148) |
| Net Divisional Surplus(Deficit) | 3,395 | (1,774) | 5,169 F | 68 |
| Investment Mgmt | 10,267 | 8,853 | 1,414 F | 8,509 |
| Wellington Regional Strategy | 0 | 0 | - | 0 |
| Business Unit Rates Contribution | (7,624) | (7,624) | - | (7,624) |
| Total Operating Surplus (Deficit) | 6,038 | (544) | 6,582 F | 954 |
| Landcare Sale of Mabey Road | 3,155 | 3,155 | - | 0 |
| Total Council Surplus (Deficit) | 9,193 | 2,611 | 6,583 F | 954 |

Significant components of the favourable \$6.0 million operating surplus are as follows:

6.2 Water Supply \$229,000 favourable variance, due to:

Primarily incremental financial cost savings of \$120,000 from lower debt servicing requirements, a \$75,000 reduction in the forecast full year depreciation charge and a variety of other minor direct cost savings.

6.3 Plantation Forestry \$218,000 unfavourable variance, due to:

The expectation that the ongoing poor market conditions will prevail for the remainder of the financial year.

6.4 Transport:

Transport is forecasting an operating surplus of \$1.28 million compared with the previous forecast deficit of \$2.03 million.

This improvement can be summarised as follows:

| | \$'000' |
|--------------------------|---------------------|
| December forecast | (2,032) |
| Accrual reversal | 2,787 |
| Rebudgets | 474 |
| Other | <u>56</u> |
| March forecast | <u>1,285</u> |

The rebudgets comprise the rail carriage refurbishment, \$245,000 (net of grants) which is running behind schedule, road pricing, \$98,000 and other projects totalling, \$131,000

The accrual of \$2.78 million relates to expenditure on rail programmes no longer required. The amounts were rated in prior years but no amounts were received from LTNZ in respect of those programmes. The need to continue to accrue for these amounts has now gone and therefore the accrual must be reversed.

It is proposed that this amount will be transferred to the Transport Reserve at year end.

The changes between the previous forecast at December and the budget were detailed in the half year report to Council

6.5 Landcare \$1,003,000 favourable variance, due to:

- Requested rebudgets to 2005/06 for those programmes that will not be completed this financial year \$974,000. Most of this \$715,000 relates to the January 2005 flood damage repairs.

- Additional financial cost savings related to timing delays in the capital expenditure programme \$80,000.

6.6 Environment \$131,000 favourable variance, due to:

- Reduced QE11 National Trust private land protection work, \$72,000. Invariably, with this type of work, where private landowners are involved, there is a significant time-lag from the stage funds are committed to the completion of projects. As a consequence we forecast that the spend will be some \$72,000 behind budget
- Iwi projects are now forecast to be a further \$60,000 under spent. The iwi budget is now held by the council's secretariat group. Following a review, it is apparent that the funds set aside will not be used fully.

6.7 Wairarapa \$451,000 favourable variance, due to:

- Reduced flood damage repair expenditure for the Lower Wairarapa Valley Development Scheme. Repair work has been delayed by further flooding and a shortage of machinery and rock supply.
- Additional savings in personnel costs and contract costs for Pest Plants.

6.8 Finance & Administration \$186,000 favourable variance, due to:

- Reduced expenditure on personnel costs to the end of the year. Some consultants and website costs have been re-budgeted to 2005/06 year.

6.9 Investment Management \$1,414,000 favourable variance, due to:

- The sale of \$1.4 million of tax losses to CentrePort was not anticipated when the December forecasts were completed. The sale of these losses arose as part of the finalisation of the 2004 year taxable profit for CentrePort in March.

7. Net Capital Expenditure

The forecast net capital expenditure for the year ending 30 June 2005, excluding Mabey Road, is \$12.4 million, \$1.3 million below the December forecast of \$13.7 million.

Detailed variances from the budget are shown in the following table:

| | 2004/05 Year March Forecast \$000s | 2004/05 Year December Forecast \$000s | Forecast vs Forecast Variance \$000s |
|----------------------------------|---|--|---|
| NET CAPITAL EXPENDITURE | | | |
| Utility Services | 4,403 | 4,711 | 308 F |
| Landcare | 4,998 | 5,465 | 466 F |
| Environment | 422 | 554 | 132 F |
| Transport | 339 | 376 | 37 F |
| Wairarapa | 916 | 916 | - |
| Corporate Advisory Services | 136 | 107 | 29 U |
| Chief Executive | 0 | 0 | - |
| Finance & Admin | 796 | 1,017 | 221 F |
| Investment Management | 334 | 535 | 200 F |
| Investment in Democracy | 52 | 52 | - |
| Total Capital Expenditure | 12,396 | 13,732 | 1,336 F |
| Sale Proceeds Mabey Road | (3,385) | (3,385) | - |
| Net Capital Expenditure | 9,011 | 10,347 | 1,336 F |

Significant components of the variance are:

7.1 Utility Services \$308,000 favourable variance, due to:

Additional forecast under spends against this year's Greater Wellington Water capital works programme budget due to various project delays, with the intention being to incorporate this deferred 2004/05 expenditure within the finalised 2005/06 Operating Plan budgets.

7.2 Landcare \$466,000 favourable variance is due to:

- Requested rebudgets to 2005/06 for those jobs that can't be completed this financial year \$766,000.
- Capital expenditure brought forward from 2005/06 for flood damage \$82,000.
- New unplanned implement shed at Otaki Depot \$40,000. Several items of equipment have been stolen lately and a secure facility is required.
- Transfer from operating expenditure of those projects that have created an asset \$143,000

7.3 Environment \$132,000 favourable variance is due to:

- The upgrade of emergency management's communication equipment (\$95,000) has been held over until 2005/06. The IPStar 400 satellite is intended to be used and provide voice and data communication. Unfortunately, because the satellite is earth-bound the project is at a standstill.

- Harbours' capital expenditure programme has been reduced by \$25,000. With a full risk assessment of Wellington Harbour underway it has been decided to defer replacing the Voice logger \$15,000. Further, the upgrade to the Pencarrow navigation aid \$10,000 has been postponed as this will depend on whether the main shipping channel at the harbour entrance is dredged or not.

7.4 Finance & Administration \$221,000 million favourable variance, due to:

- Savings of \$100,000 for the SAP replacement servers due to competitive pricing.
- IT savings of \$121,000 are made up of \$183,000 savings in the Records Management Project and the Server Replacement Project and overspending of \$69,000 in the PC replacement project.

7.5 Investment Management \$200,000 million favourable variance, due to:

- Further capital expenditure of \$200,000 on extending the Wairarapa building had been anticipated to start this financial year, but the cost of the expected work and further consideration of Greater Wellington's requirements, means that this work is now unlikely to start before December 2005.

8. Funding Position

The table below summaries the overall funding movements of the Council compared with budget:

| | 2004/05 YTD Actual \$000s | 2004/05 YTD Budget \$000s | Actual vs Budget Variances \$000s | 2004/05 Year Forecast \$000s | 2004/05 Year Budget \$000s | Forecast vs Budget Variances \$000s |
|--|------------------------------------|------------------------------------|--|---------------------------------------|-------------------------------------|--|
| Operating Surplus (Deficit) | 7,655 | (11) | 7,666 | 9,193 | 953 | 8,240 |
| Add Back Non Cash Items | 3,765 | 6,582 | (2,817) | 6,365 | 8,968 | (2,604) |
| Reserve Movements | - | - | - | - | - | - |
| Funding Surplus (Deficit) from Operations | 11,420 | 6,571 | 4,848 | 15,558 | 9,921 | 5,637 |
| Total Asset Acquisition | (1,979) | (2,495) | 516 | (2,968) | (3,233) | 266 |
| Capital Expenditure | (5,285) | (6,988) | 1,703 | (9,916) | (11,744) | 1,828 |
| Asset Disposal Cash Proceeds excl Mabe Rd | 396 | 425 | (29) | 488 | 426 | 62 |
| Mabe Rd Cash Proceeds | 3,385 | - | 3,385 | 3,385 | - | 3,385 |
| Net Capital Expenditure | (3,483) | (9,058) | 5,575 | (9,011) | (14,551) | 5,541 |
| Sinking Fund Investment Movements | 3,924 | 3,904 | 20 | 3,915 | 3,896 | 19 |
| Other Investment Movements | (1,330) | (1,333) | 3 | (1,799) | (1,751) | (48) |
| Debt Drawdown (Repayment) | (8,721) | 406 | (9,127) | (8,664) | 2,485 | (11,149) |
| Working Capital Movement | (1,810) | - | (1,810) | - | - | - |
| Net Funding Surplus (Deficit) | 0 | 491 | (491) | (0) | 0 | (0) |

The Council's forecast funding position has improved when compared with the budget by \$11.1 million. The proceeds from the sale of Mabe Road, \$3.4 million, lower capital expenditure of \$2.1 million, and operational savings of \$5.6 million offset by the lower forecast result when compared with budget. The additional cash will be utilised to reduce debt.

9. Reserves

9.1 Flood Scheme and River Rate Reserves:

Following the major flood events in the region in August and October 2004, and lately January 2005, reconstruction works of around \$1 million are to be funded partly from Government assistance and the balance from the Flood Relief Contingency, River Rate and Wairarapa Scheme reserves. Whilst the reserves will not be depleted, the level of annual contributions to rebuild the reserves may need to be reviewed. This will be discussed with Council in June.

9.2 Transport Rate Reserves

The Transport reserves are proposed to be increased by the reversal of the accrual noted. This will bring the Transport Reserve up to \$3.6 million.

10. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2005.

11. Compliance with Treasury Management Policy

As at 31 March 2005, all Treasury Management Policy limits have been complied with, with one exception, refer to **Attachment 1**.

Greater Wellington's forestry management activity has an actual debt to forestry market value ratio of 73.4% compared to the Policy limit set in June 2003 of 70%. This is mainly due to the downwards revaluation of forests at 30 June 2004.

12. Communications

No communications are necessary at this time.

13. Recommendations

That the Committee recommend to Council that it:

- (1) Receive the report and note its contents.*
- (2) Note the budget variances compared with the forecast outcomes.*

Report prepared by:

Barry Turfrey
Chief Financial Officer

Attachment 1: Treasury Management Compliance Report