

Report 08.515
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Committee Finance, Evaluation and Risk
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Preliminary Review for the year ended 30 June 2008

1. Purpose

- To inform the Committee of the Council's and the WRC Holdings Group financial performance for the year ended 30 June 2008 and to provide an explanation of major variances.
- To summarise achievements for the year ended 30 June 2008.
- To update the Committee on the achievements against the published performance targets in the Council's 2007/08 Annual Plan.

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 and achievement of performance targets are undertaken by the Chief Executive and Chief Financial Officer with each of the Divisions.

In respect of the WRC Holdings Group, monthly financial statements are prepared and reviewed by management and the Boards of Directors of the individual companies within the Group. As such, only summary financial statements are presented for consideration by the Committee.

The financial results included in this report are unaudited at this stage. The auditors do not commence their audit until early August. The Committee will be considering the audited results as part of their review of the Annual Report at their meeting on the 16th September. The only major adjustment still to be made to the financial statements is the revaluation of the Parks & Forests assets.

The only known major disagreement with the auditors is likely to be over the valuation of the water supply assets. This matter has previously been discussed with the Committee (refer report number 07.788).

4. Achievements for the year ended 30 June 2008

In addition to the normal day to day activities of the Council there have been a number of notable achievements, some of which have been noted below. Comprehensive information will be provided in the divisional year end reviews, which will be circulated shortly to all Councillors.

4.1 Water supply, Parks and Forests

- New water source study completed, customer consultation started.
- Park visits increase by 25% over previous year and Queen Elizabeth Park remains the most popular with 375,000 estimated visits.
- 68,000 tonnes harvested from plantation forests but returns depressed by high exchange rate and increasing fuel costs.
- Improved efficiency in the use of chemicals and electricity for treating and distribution of water. Costs less than budget, major items being depreciation and financing costs.
- Drought situation in the latter part of summer meant water restrictions had to be imposed for the first time since the 1980s. Staff and the water system performed very well during this challenging period.

4.2 Environment Management

- Successful second review of our Resource Management Charging Policy in the last two years.
- Implementation of productivity improvements in the areas of rivers state of the environment sampling contracts; after hours buddy service; the provision of legal advice; and the sourcing of external funding.
- Completed transfer of certain functions under the Building Act to Environment Waikato. Greater Wellington has taken a general leadership role in this area for North Island councils.
- Completion of the NIWA wind map for the region, and subsequent commencement of work on the Sustainable Energy Strategy for the region.
- Completion of the Stormwater Plan of Action with formal approval from all of CEO's in the region.

- Adoption of the Draft Regional Policy Statement and completion of consultation on the Draft.
- Completion of Plan Change 3 to the Regional Freshwater Plan and Plan Change 1 to the Regional Coastal Plan.
- Completion of our five yearly efficiency and effectiveness reporting exercise on our Regional Plans.
- Submissions on national policy initiatives with regard ecological flows, the New Zealand Coastal Policy Statement, the South Coast Marine Reserve.
- Successful completion of the Waiwhetu Stream remediation trial.
- World Environment Day events – *Greentown* and GW’s internal *Green Day*.
- Presentation of the first ever Greater Wellington Environment Awards.
- Scuttling of three abandoned vessels, and the preparation of a fourth with hopeful resolution for it to be used as a dive site in the Bay of Plenty.
- Management of the methyl bromide issue, in early 2008.
- Maintaining a high level of successful enforcement action at the District Court. Significant successful prosecutions and enforcement orders have included Exide Technologies (twice), Capital Egg, Cardno TCB, Lance James, Goodman and Sons and Gabites Pig Farm.
- Successfully dealing with more notified consents applications than any other single year. Four hearings started in an 11 day period during April 2008.
- Management and coordination of the toxic blue-green algae outbreak in many major rivers over the summer months.
- Completion of the Wellington Harbour sediment sampling programme and associated analysis of test samples.
- Installation of sentinel well on the Petone foreshore.
- Commencement of surveillance monitoring for *Didymo* in eight rivers through out the region.

4.3 Public Transport

- Total passenger boardings across all public transport modes in 2007/08 totalled 34.694 million, up 1.7% on 2006/07.

- New Wairarapa bus services commenced operation.
- Review of procurement procedures for bus and ferry services significantly advanced.
- Delivery of the eleven remaining Wairarapa passenger cars and generator van completed and vehicles brought into service.
- Supply contract for new Matangi EMUs signed together with associated contracts for commissioning, technical support and consultancy. Option for 20 additional cars exercised.
- Contracts negotiated and signed for additional capacity trains.
- Regional Rail Plan commenced and significantly advanced.
- Kapiti rail stations work advanced and optimal station development plan approved.
- Upgrade of the Wairarapa stations completed.
- New subway roof installed at Waterloo Station.
- Plimmerton subway extension completed.
- Asset management plan significantly advanced.
- Regional Passenger Transport Plan adopted.
- Kapiti Plus ticket developed.
- Fare increase proposal developed, negotiated and approved.
- Phase Two of the Total Mobility Scheme adopted.
- Co-branding guidelines developed and agreed with operators.
- A number of promotion campaigns completed.

4.4 Transport Policy and Strategy

- Adoption and publication of the new Regional Land Transport Strategy 2007 - 2016.
- Completion of an updated regional transport model.
- Development and consultation on the draft Ngauranga to Wellington Airport Corridor Plan in partnership with Transit and Wellington City.

- Involved more than 5,500 regional school children, 13 schools and 6 territorial authorities in developing actions and initiatives that encourage active, sustainable and safe travel to school through Greater Wellington's School Travel Plan Programme.
- Involved close to 12,000 employees and 20,000 tertiary students within central, local and key institutional organisations in adopting and developing actions to facilitate sustainable travel modes for the journey to work and travel during the business day through Greater Wellington's Workplace Travel Plan Programme.
- Facilitated individualised community travel behaviour change projects with 830 households in partnership with Hutt City Council, Wellington City Council, Sustainability 7. Trust and Ministry for the Environment's Sustainable Management Fund.

4.5 Catchment Management

- \$5.7 million of new flood defences and \$4.6 million of river maintenance work was completed.
- Possum and ferret vector control operations were completed on 168,700 hectares and 177,600 hectares of feral animal surveys were also completed.
- Pest control completed in 74 key native ecosystem sites.
- 412 hectares of erosion prone land planted using sustainable land management practices.
- Riparian planting and fencing programmes completed along three kilometres of stream bank.
- Bioworks passed 93% of performance monitors on the first the first attempt (82% for 2006/07).
- Achievement of the primary level in the Workplace Safety Management Practices audit due to the substantial contributions of several staff.
- Completion of the Waiwhetu cleanup trial for the removal of contaminated sediments from the Waiwhetu Stream.
- Ava Rail bank edge works were completed within time and budget.
- Chrystalls Stopbank completed several months ahead of schedule and well under budget.
- Lower Wairarapa Valley Development scheme capital upgrade works were completed within budget.

- Whirinaki Stopbank works substantially completed within budget. Only minor tidy up works now remain to be completed.
- Alignment selection for the Boulcott stopbank. Alternative alignment for the new stopbank is expected that this alignment will be endorsed by Council at its meeting on 11 August.

4.6 Wellington Regional Strategy

- The WRS office within Greater Wellington was established, with the appointment of two permanent positions.
- The regional Genuine Progress Index development process began.
- A number of the Good Regional Form projects from the WRS were initiated.
- The broadband projects were initiated, including drafting an expression of interest from the region for accessing funding from Central Government to extend the broadband network in the region.
- Grow Wellington has completed its establishment year, including the implementation of a new organisational structure.
- Two of Grow Wellington's high profile initiatives included in the Wellington Regional Strategy that have been implemented are Angel HQ and Activate.
 - "Angel HQ" helps bridge the gap between business' ability to fund their early growth from money from their own resources, and the point where the company has a track record that qualifies it for institutional finance from more traditional sources.
 - "Activate" is an intensive four month programme that gives businesses the chance to activate the potential of bright business ideas. It required hard work and discipline, is limited to eight participants at a time, and comprises 16 modules. Activate courses are being rolled out in Lower Hutt, Porirua and Wellington City and are run by Grow Wellington's business incubator "Creative HQ".
- The 2007/08 year has seen Creative HQ operating with a full compliment of 12 businesses. Creative HQ alumni company, Silverstripe, was a finalist in the Wellington Gold Awards, while Gecko Press has recently won Publisher of the Year in the 2008 Montana Awards.
- The migrant and skills attraction programme has continued to support skilled migrants to the region and match them with employers in need. This programme is also investigating projects to address skills shortages which restrict company growth.

- Education Wellington International attended the inaugural Australia New Zealand Agent workshop in Sydney helping to raise the profile of the Wellington region as a destination for international students.
- Film Wellington provides the infrastructure for filmmakers to access world-class film production crews, services and facilities. The 2007 year saw Film Wellington recruit two full time film co-ordinator positions with the major project being hosting Cineposium 2008 in November.
- The Centres of Excellence programme has begun work focusing on four areas in the Wellington region that are renowned for their innovation and excellence. They are areas that have moved beyond a 'single firm specialisation' to where, today, there is a nucleus of core companies working - sometimes individually, sometimes collaboratively - in specialist fields. The four areas that Grow Wellington is developing as world-leading Centres of Excellence are: screen and digital technologies; sustainable and renewable energy; biotechnology and life sciences; and natural hazards.

4.7 Corporate and Strategy

- Successfully transitioned Greater Wellington's quarterly magazine from Elements to Our Region.
- Coordinated a series of public transport forums around the region
- Significantly advanced a new corporate apparel system and an approved catalogue of garments.
- Led communications and public awareness activities around the Greentown month in Greytown.
- Successful conduct of the 2007 triennial local elections and the establishment of the new Council.
- Establishment of new committee arrangements and committee terms of reference.
- Development of a new elected Member Code of Conduct, Local Governance Statement, and Triennial Agreement.
- Councillors' training programme.
- Preparation of the Council's proposals to the Remuneration Authority on the remuneration of elected members for 2008/09 and review of the Council's policy on elected members' allowances and expenses.
- Development and implementation of new arrangements for reporting of committee business to Council.

- Support to the Hui Ara Tahī and the appointment of iwi representatives to committees.
- Approval of iwi projects - for the restoration of a wetland habitat and a GIS project.
- Inclusion of tikanga Māori in the Council's staff induction programme.
- Assistance to iwi in developing eligible project funding proposals for 2008/09.
- Established a Greater Wellington Disability Reference Group.
- Established the framework for the remuneration strategy.
- Reviewed existing Human Resources policies, including the review of the Code of Conduct.
- Initiated and rolled-out the Gallup Staff Engagement Survey.
- Managed the review of Job Descriptions.
- Developed the Management Leadership Programme.
- Reviewed Health and Safety Strategy and Policies.
- Upgraded SafeTsmart.
- Prepared a number of recovery plans.
- Natural Disaster Awareness Day (October 2007) – provided 10,000 emergency management information packs to commuters and shoppers.
- Hosted the National Emergency Management Conference on 4 and 5 October 2007.
- Took part in the production of a TVNZ documentary about comparisons between the China Earthquake and an earthquake in Wellington.
- Managed large number of tsunami and severe weather warnings.
- A number of emergency management exercises were conducted.

4.8 Finance, IT and Support Services

- Completed the 2007 Annual Report under the new International Financial Reporting Standards, obtaining a clean audit opinion.
- Refurbishments completed for ground floor and levels 2, 6 and 9.

- Commercial Paper programme increased to \$90 million, with borrowing margins at very competitive rates despite the continuing credit crisis.
- Set the rates for the 2008/09 Annual Plan.
- Sale of forward start swap for a gain of \$170,000.
- Order for new PCs placed at a cost significantly below the budget.
- Insurance programme completed.
- Significant progress on Consents database.
- Upgrade of SAP to the latest release.
- Reduced facility costs for some of the Council's borrowings.
- Maintained a credit rating of AA- from Standard and Poor's with a stable outlook.

5. Financial Performance

5.1 Results for the year ending 30 June 2008

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 and other revaluation adjustments.

The Council achieved an operating surplus of \$5,775,000 (budget \$776,000) comprising:

- Surplus from rate funded operations of \$4,560,000 (budget \$2,709,000).
- Surplus from Water of \$1,215,000 (budget deficit \$ 1,953,000).

The improved result is due mainly to lower operating costs in both the rates funded operations (\$4,857,000) and Water (\$3,143,000). While these variances may appear significant, total operating costs for the Council were budgeted at \$172,002,000, the variance in operating costs is less than 5%. Detailed explanations are given in Section 6.

The above results exclude the following items:

- Public Transport capital expenditure/grants, \$9,118,000

- Forestry cost of goods sold, a cost of \$1,268,000
- Annual Forestry valuation, a decrease of \$3,125,000
- Revaluation of the Council's debt, a gain of \$5,766,000.

Further details of these items are given in section 7.

Including these items the Council recorded a deficit of \$1,970,000 (budget deficit \$14,869,000).

The WRC Holdings Group achieved a net surplus before tax of \$9,549,000 (budget \$4,925,000). Further explanations are given in Section 14.

6. Financial Summary – Council

Wellington Regional Council Summary Income Statement - Revenue For the year ended 30 June 2008				
Total Operating Revenue \$(000)'s				
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	3,364	2,809	3,832	(1,023)
Public Transport	65,544	72,945	72,498	447
Total Transport	68,908	75,754	76,330	(576)
Environment	11,903	12,124	12,174	(50)
Catchment Management	28,314	26,985	28,894	(1,909)
Forestry	6,007	5,351	6,381	(1,030)
Regional Parks	6,550	6,407	6,548	(141)
Corporate	2,127	2,211	1,931	280
WRS	588	4,278	4,400	(122)
Finance, IT & Support Services	7,368	7,339	6,828	511
Investment in Democracy	4,489	4,640	4,626	14
Rates Funded Divisional Operating Revenue	136,254	145,089	148,112	(3,023)
Investment Management	4,260	6,399	6,175	224
Business Unit Rates Contribution	(7,698)	(8,742)	(8,742)	-
Rates Funded Operating Revenue	132,816	142,746	145,545	(2,799)
Water Group	27,396	27,238	27,233	5
Rates & Levy Funded Operating Revenue	160,212	169,984	172,778	(2,794)
Non-Operational Movements				
Revaluation of Debt and Stadium Advance	4,256	5,460	780	4,680
Revaluation Forestry	529	(3,125)	3,029	(6,154)
Public Transport - Capex / Investment	17,769	15,006	42,380	(27,374)
Total Council Revenue	182,766	187,325	218,967	(31,642)

Wellington Regional Council
 Summary Income Statement - Expenditure
 For the year ended 30 June 2008

Total Operating Expenditure \$(000)'s				
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	3,082	2,607	3,965	1,358
Public Transport	66,997	72,899	72,610	(289)
Total Transport	70,079	75,506	76,575	1,069
Environment	12,416	12,331	12,285	(46)
Catchment Management	26,729	23,403	25,833	2,430
Forestry	6,613	6,839	7,193	354
Regional Parks	6,363	6,465	6,869	404
Corporate	2,031	2,236	1,982	(254)
WRS	809	3,603	4,400	797
Finance, IT & Support Services	5,800	6,593	6,602	9
Investment in Democracy	4,405	4,704	4,798	94
Rates Funded Divisional Operating Expenditure	135,245	141,680	146,537	4,857
Investment Management	(1,939)	(3,494)	(3,701)	(207)
Business Unit Rates Contribution	-	-	-	-
Rates Funded Operating Expenditure	133,306	138,186	142,836	4,650
Water Group	27,759	26,023	29,166	3,143
Rates & Levy Funded Operating Expenditure	161,065	164,209	172,002	7,793
Non-Operational Movements				
Forestry Cost of Goods Sold	1,118	1,268	1,215	(53)
Public Transport - Capex / Investment	25,165	24,124	60,619	36,495
Total Council Expenditure	187,348	189,295	233,836	44,541

Wellington Regional Council
 Summary Income Statement - Operating Surplus \ (Deficit)
 For the year ended 30 June 2008

OPERATING SURPLUS / (DEFICIT) \$(000)'s	Last Year	Actual	Budget	Variance
	Transport Policy and Strategy	282	202	(133)
Public Transport	(1,453)	46	(112)	158
Total Transport	(1,171)	248	(245)	493
Environment	(513)	(207)	(111)	(96)
Catchment Management	1,585	3,582	3,061	521
Forestry	(606)	(1,488)	(812)	(676)
Regional Parks	187	(58)	(321)	263
Corporate	96	(25)	(51)	26
WRS	(221)	675	-	675
Finance, IT & Support Services	1,568	746	226	520
Investment in Democracy	84	(64)	(172)	108
Rates Funded Divisional Operating Surplus / (Deficit)	1,009	3,409	1,575	1,834
Investment Management	6,199	9,893	9,876	17
Business Unit Rates Contribution	(7,698)	(8,742)	(8,742)	-
Rates Funded Operating Surplus / (Deficit)	(490)	4,560	2,709	1,851
Water Group	(363)	1,215	(1,933)	3,148
Rates & Levy Funded Operating Surplus / (Deficit)	(853)	5,775	776	4,999
Non-Operational Movements				
Revaluation of Debt and Stadium Advance	4,256	5,766	780	4,986
Revaluation Forestry - Revaluation	529	(3,125)	3,029	(6,154)
Forestry Cost of Goods Sold	(1,118)	(1,268)	(1,215)	(53)
Public Transport - Capex / Investment	(7,396)	(9,118)	(18,239)	9,121
Total Council Surplus / (Deficit)	(4,582)	(1,970)	(14,869)	12,899
Flood Protection				
Eastern	(220)	795	519	276
Western	2,637	2,731	2,444	287
Total Flood Protection	2,417	3,526	2,963	563

6.1 Transport Policy – under budget by \$335,000 due primarily to:

- Grants and subsidies revenue was \$1,057,000 below budget as a result of reduced expenditure as noted below.
- Access studies are \$665,000 below budget, the main contributor is the continued delay of the Wairarapa Log Freight project \$585,000, 100% of this is funded by Land Transport New Zealand.
- The Regional Land Transport Strategy was delayed until outcomes from the “Next Steps” process become known, expenditure is \$159,000 below budget.
- This was the first year that the travel plans were prepared and the initial budgets were too high. The budget was based on work undertaken in Auckland, travel plan expenditure was under budget by \$475,000. The budget for 2008/09 has been adjusted downwards accordingly. This expenditure is 75% funded by Land Transport New Zealand.

6.2 Public Transport – under budget by \$158,000 due primarily to:

- Diesel bus contract expenditure was \$319,000 ahead of budget due to increases in the price of oil.
- Increased maintenance and renewal expenditure on the trolley bus overhead wires, \$383,000.
- Rail operating contract expenditure was above budget by \$371,000, driven by significant increases in the cost of labour, fuel and contract services.
- Car park and station maintenance under budget by \$141,000, due to reduced maintenance requirements for Petone and Wairarapa stations.
- Procurement studies under budget by \$163,000, due to delays in the regional rail strategy project.
- Signage maintenance programme under budget by \$150,000, because of delays in getting the Territorial Authorities to sign the Heads of Agreement to allow Greater Wellington to take over maintenance.
- A number of other projects in respect of marketing and information systems are below budget, by \$377,000. There were savings on timetable costs, and delays in the development of the Metlink website.

6.3 Environment - over budget by \$96,000 due primarily to:

- Lower than anticipated notified consents resulted in an \$83,000 reduction in income.

6.4 Catchment Management – under budget by \$ 521,000 due primarily to:

- The downsizing of the Bio Works unit and changes to the Biosecurity programme has reduced net operations expenditure.

6.5 Forestry – over budget by \$676,000 due primarily to:

- Lower volumes, the high New Zealand dollar, increased domestic and export transport costs and depressed selling prices have reduced profitability.

6.6 Regional Parks – under budget by \$263,000 due primarily to:

- Personnel cost savings of \$100,000 due to staff vacancies.
- Whitireia Park service did not commence this year, a \$212,000 saving.

6.7 Corporate - under budget by \$26,000

- No items of note.

6.8 Wellington Regional Strategy – under budget by \$ 675,000 due primarily to:

- Contribution to Grow Wellington was less than budget by \$675,000. This amount is rebudgeted to 2008/09.

6.9 Finance, IT and Support – under budget by \$520,000 due primarily to:

- Higher internal revenue in respect of PC charges, \$147,000.
- Finance costs lower by \$74,000 due to decreased capital expenditure.
- Rate revenue higher than budget by \$300,000, due to penalties and additional properties not budgeted for.

6.10 Investment Management – ahead of budget by \$17,000 due primarily to:

- External interest rates were higher than budgeted, however, the impact was reduced due to lower borrowings, resulting from lower capital expenditure. In addition, the Council's exposure to higher interest rates is minimised due to interest rate hedges and monies on deposit.

6.11 Water – under budget by \$3,148,000 due primarily to:

- Decreased depreciation of \$1,016,000, 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 \$998,000, due mainly to savings in chemicals \$535,000 and power costs \$474,000. These savings result from a 15% reduction in network charges and a lower take than budgeted from Te Marua lakes.
- Finance costs are \$552,000 below budget, due to the opening debt position being lower than budget.
- Personnel costs are \$ 361,000 below budget due to continuing staff vacancies.
- Higher interest rates on the self insurance funds had increased investment income by \$210,000.

7. Revaluations and other accounting adjustments

The International Financial Reporting Standards (IFRS) requires a number of the Council's assets to be valued to fair or market value. These adjustments have been excluded from the operating results of the Council to enable comparison of actual results to the budget.

7.1 Revaluation of Debt, a gain of \$5,766,000

Under IFRS the Council's debt has been reduced by \$5,766,000 reflecting fair value. The reduction is treated as a gain in the financial statements. The main contributor to the gain is the reduction in value of the Crown debt (which funds some of the purchase of rail rolling stock), which has a zero interest rate. In general terms any debt which has an interest rate below the market rate will decrease in value. Alternatively debt with an interest rate higher than the market rate will increase in value. The large movement in the Crown debt is a result of the additional borrowings in 2007/08.

The advance by the Council to Westpac Stadium is also included in the above amount, however the majority of the reduction in the value of this asset was allowed for in the transition to IFRS included in the 2006/07 financial statements. The Council took significant gains on its interest rate hedges in 2006/07, the "loss" for 2008/09 reflects the fact that these hedges have one less year until maturity. The Council took out foreign exchange cover for some Australian dollar contracts. The detail of the revaluation adjustments are:

	\$'000"
	<u>Actual</u>
Fair Value Movements	
Stadium Advance	272
Bank Bonds	31
External Debt - Govt. Loans	5,521
Derivatives	-703
Foreign Exchange	340
Other	<u>305</u>
Unrealised Revaluation Gains	<u>5,766</u>

7.2 Revaluation of Forestry, a loss of \$3,125,000

Each year the Council's forests are valued at fair value using the market value as at 30 June 2008. The current low selling prices and high shipping costs have reduced the fair value between 2006/07 and 2007/08 by \$3,125,000. The current value of the forests (excluding the related infrastructure) is now \$9,910,000.

7.3 Forestry cost of goods sold \$1,268,000

Costs of goods sold, represents the reduction in the value of the forests for the trees that were harvested during the year.

7.4 Public Transport – Improvement projects – under budget by \$9,123,000 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 McKay's to Waikanae double tracking and electrification, \$18,705,000.
 - Heavy maintenance due to Toll's operational requirements and workshop availability, \$946,000.
 - Extra capacity rolling stock, \$9,868,000. This is funded from the interest free Crown loan.
 - EMU related expenditure, \$5,205,000.
 - Station and carpark upgrades \$521,000.
- The expenditure noted above is prior to any reductions in grant income received from Land Transport New Zealand and the Crown. Due to the lower expenditure, revenue is under budget by \$27,374,000.

8. Forecast to 30 June 2008

The Council had forecast an operating surplus (prior to revaluations) of \$4,251,000, this compares with the actual surplus of \$5,775,000. The reasons for variance between actual and forecast results are:

- Public Transport, an improvement of \$672,000 due largely to a changed final position from TranzMetro.
- Catchment Management, an improvement of \$403,000 due mainly to a higher capitalisation (reducing operating expenditure) of river scheme works than expected.
- Water, an improvement of \$353,000 due to a number of operating costs being below forecast.

9. Capital Expenditure for the year ending 30 June 2008

Capital expenditure for the year was \$13,157,000 compared with the budget of \$25,150,000. The significant variances are noted below.

Wellington Regional Council				
Capital Expenditure and Transport Improvement Projects				
For the year ended 30 June 2008				
Capital Expenditure and Transport Improvement Projects				
\$(000)'s				
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	-	24	17	(7)
Public Transport	70	7	398	391
Public Transport Improvement Projects	(101)	1,007	6,982	5,975
Total Transport	(31)	1,038	7,397	6,359
Environment	443	487	1,359	872
Catchment Management	4,226	6,573	7,689	1,116
Forestry	328	278	380	102
Regional Parks	514	296	336	40
Corporate	209	(17)	-	17
WRS	-	-	-	-
Finance, IT & Support Services	531	546	1,539	993
Investment in Democracy	5	74	49	(25)
Rates Funded Divisional Capital and Improvement expenditure	6,225	9,275	18,749	9,474
Investment Management	38	39	1,405	1,366
Rates Funded Capital and Improvement expenditure	6,263	9,314	20,154	10,840
Water Group	4,162	3,843	4,996	1,153
Rates & Levy Funded Capital and Improvement expenditure	10,425	13,157	25,150	11,993
Flood Protection				
Eastern	713	1,218	895	(323)
Western	3,257	5,191	6,545	1,354
Total Flood Protection	3,970	6,409	7,440	1,031

9.1 Public Transport – under budget by \$5,975,000 due primarily to:

- A number of upgrades to the stations and platforms were delayed due to the finalisation of the specifications of the new Matangi EMUs, \$4,994,000.
- Contractual payments for the EMUs are later than budgeted, \$957,000.
- CBD Metlink signage rollout is delayed due to a review of the design of the new signs. Expenditure is under budget by \$450,000.

9.2 Environment – under budget by \$872,000 due primarily to:

- Property issues which have now been resolved have delayed the Beacon Hill facility upgrade, expenditure was \$900,000 under budget.

9.3 Catchment Management – under budget by \$1,116,000 due primarily to:

- Delays in the South Waitohu stopbank project resulting from land and flood mitigation issues, \$444,000.
- Chrystalls extended stopbank was \$580,000 below budget, due to the reduced cost of land purchases.

9.4 Finance, IT and Support Services – under budget by \$993,000 due primarily to:

- The selection and implementation of the Asset Management System was delayed with only limited expenditure this year.

9.5 Water – under budget by \$1,153,000 due primarily to:

- The construction of an emergency water supply pumping station in Whitehead Road for the Karori zone has been postponed because Capacity prefers an alternative approach, \$209,000.
- The proposed new Central Business District (CBD) reservoir has been delayed because of funding issues principally with Capital and Coast District Health Board, \$100,000.
- Deferral of detailed investigation into a new water source pending completion of the consultation process, \$101,000.
- Replacement of equipment for the water treatment plants. These items are a contingency provision to fund the replacement of equipment should it fail, or to purchase equipment that requires urgent replacement before it fails. The failure rate has been less than anticipated, saving \$138,000.
- Delays and cost reductions on the Stage 2 Optimiser project, \$339,000

10. Debt

Council's long term debt as at 30 June 2008 was \$73,200,000, an increase of \$5,500,000 from 30 June 2007. Government loans to fund the Wairarapa Carriages and additional capacity rail rolling stock increased by \$11,300,000 to \$15,200,000. There were reductions in the Stadium and Forestry loans of \$1,000,000. Short term bank borrowings reduced by \$3,700,000 reflecting a decrease in the Council's working capital.

The \$73,200,000 of debt excludes the written down value of the Government loans, due to their interest free nature. If the write down is included, the Council's debt as at 30 June 2008 was \$66,259,000.

WRC Holdings Ltd debt as at 30 June 2008 was \$44,000,000 unchanged from 30 June 2007.

These amounts exclude CentrePort's debt.

It should be noted that the Council has a total of \$ 48,200,000 on deposit. This comprises \$33,000,000 in liquid financial deposits; the remainder consists of self insurance funds for water supply and flood protection.

10.1 Finance Costs

Finance costs for the year were \$4,416,000 compared to the budget of \$4,975,000 a favourable variance of \$559,000 as detailed below.

	\$'000''		
	Actual	Budget	Variance
Finance Costs			
External Interest Costs	3,053	3,641	588
External Interest Stadium	1,621	1,554	-68
External Interest Forestry Loans	346	272	-73
Bank Fees & Committed Line Charges	68	68	0
	5,088	5,535	448
Less benefit of interest rate hedges	672	560	-112
Total Finance Costs	4,416	4,975	559

Interest costs are below budget due to lower capital expenditure and a reduction in the Council's working capital since June 2007. The working capital reduction is a result of improved management of the Council's cash flow.

10.2 Stadium debt

In June 2007 the Council approved the restructuring of the stadium debt totalling some \$18,985,000. It was previously borrowed from the ANZ Bank, fixed at an interest rate of 8.55% until 2018.

The debt was repaid to the ANZ Bank in late June 2007 including a break cost of \$419,000. It has now been refinanced using the Council's commercial paper programme.

During the year this loan has been paid down by \$1,086,500 as per the original loan schedule.

The interest rate on this debt has been fixed to January 2009 at a cost of 8.33% and compares to current 90 day rate of 8.35%, and the previous fixed rate of 8.55%

It is anticipated interest rates will decline going forward at which point we will be in a position to fix the interest rate again, recover the break cost, and produce a lower overall cost of funds compared to the fixed rate of 8.55%.

11. Income Statement, Funding Statement and Balance Sheet

The above financial statements are attached (refer **Attachments 1, 2 and 3**). A number of points should be noted:

- Actual personnel costs for 2007/08 are below both budget and last year's actual costs.
- All direct operating costs are below budget.
- The improved better than budgeted result and lower capital expenditure resulted in lower borrowings for the Council.

12. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets have been achieved.

13. WRC Holdings

The WRC Holdings Group achieved a surplus before tax of \$8,730,000 compared to the budget of \$4,925,000. The improved result is due to:

- Improved operating result in CentrePort due to higher volumes and improved margins, \$2,870,000.
- Pringle House, higher rents of \$126,000 (due to market movements). Depreciation on the building has been replaced by the requirement to undertake annual valuations, thus saving \$171,000 in depreciation. However, there is a reduction in the value of the building of \$299,000. There is also savings in operating expenditure of \$51,000
- Port Investments was below budget, due to higher interest rates on its \$44,000,000, borrowings reducing its surplus by \$491,000, resulting in a loss of \$95,000.
- WRC Holdings had improved result of \$1,482,000 compared to budget as there was no reduction in the value of Greater Wellington Rail Ltd due to a change in its funding.
- Greater Wellington Rail Ltd's result is below budget by \$105,000 due to pre-acquisition costs of the EMU's being expensed.

The following table summarises WRC Holdings group of companies and CentrePort's (76.9% owned) operating results before any unrealised increase or decrease in the value of CentrePort's investment properties, for the year ended 30 June 2008.

**WRC HOLDINGS GROUP
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008**

	Last Year \$000	Actual \$000	Budget \$000	Variance \$000
TOTAL REVENUE	55,002	57,012	56,749	263
	-	-	-	-
OPERATING EXPENSES	39,151	39,240	42,938	3,698
	-	-	-	-
EARNINGS BEFORE INTEREST & TAX	<u>15,851</u>	<u>17,772</u>	<u>13,811</u>	<u>3,961</u>
INTEREST EXPENSE	8,449	9,042	8,886	(156)
REVALUATION - Increase	16,633			
NET SURPLUS (DEFICIT) BEFORE TAX	<u><u>24,035</u></u>	<u><u>8,730</u></u>	<u><u>4,925</u></u>	<u><u>3,805</u></u>

14. Compliance with Treasury Management Policy

As at 30 June 2008, all Treasury Management Policy limits have been complied with apart from the internal borrowing limits for Forestry and Parks. (Refer to **Attachment 4**)

15. Communications

No communications are necessary at this time.

16. 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

- Attachment 1:** Income Statement
Attachment 2: Funding Statement
Attachment 3: Balance Sheet
Attachment 4: Compliance with Treasury Management Policy