

Report 99.344

23 June 1999

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

Financial Report for the Eleven Months Ended 31 May 1999

1. Purpose

To receive the May 1999 Financial Statements (forwarded under separate cover).

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 \$4.2 million, and capital expenditure below budget by \$0.5 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 figures contained in this report are those which were approved by the Council when the Financial Report for the 9 months ended 31 March 1998 (Report 98.211) was received.

3. Financial Performance for the Eleven Months to 31 May 1999

3.1 Operating Surplus

The year to date operating result after eleven months reflects an operating surplus ahead of budget of \$4.2 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	3,742	1,868	1,874 F	3,502	2,064	1,438 F
Landcare	822	966	144 U	382	1,234	852 U
Environment	(44)	(187)	143 F	(181)	(183)	2 F
Transport	(491)	(843)	352 F	(888)	(902)	14 F
Wairarapa	(419)	(616)	197 F	(1,613)	(710)	903 U
Corporate Services	2	(33)	35 F	8	31	23 U
Finance & Admin	586	(264)	850 F	327	(279)	606 F
Investment Mgmt	4,008	2,840	1,168 F	4,572	3,822	750 F
Regional Stadium	645	434	211 F	669	478	191 F
Elected Members	(102)	(107)	5 F	(139)	(117)	22 U
Rates Collection	52	(1)	53 F	0	0	-
Business Units Rates Contribution	(3,327)	(3,327)	-	(3,629)	(3,629)	-
Management Savings Objective	0	570	570 U	0	621	621 U
Total Operating Surplus (Deficit)	5,474	1,300	4,174 F	3,010	2,430	580 F

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

(1) *Utility Services Favourable Variance of \$1.87 million*

(a) *Water Supply Favourable Variance of \$2.04 million*

- The overall operating surplus above budget of \$2,040,000 in Water Supply is partly due to savings in direct costs (largely materials and personnel). The materials variance of \$620,000 is primarily due to less power, chemicals and other materials being used. The \$603,000 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 \$411,000 corresponds directly to greater Operations Network activity and settlement of the 1998 Grenada incident debt with WCC. Additional investment revenue of \$103,000 has also contributed to the overall surplus, which relates to higher than budgeted interest on reserves.
- Savings in financial costs of \$378,000, can be attributed to reduced debt servicing costs, mainly because the greater than expected 1997/1998 year end surplus was applied to debt reduction, in accordance with Council policy.

(b) *Forestry Unfavourable Variance of \$0.17 million*

- The operating deficit above budget of \$166,000 in Plantation Forestry is not inconsistent with management's expectations. However, an increase in logging volumes shipped during May has had a significant positive effect on the bottom line and it is hoped that a similar occurrence will also be reflected in the June results.

(2) ***Landcare Unfavourable Variance of \$0.14 million***

- External revenue is below budget by \$50,000 primarily due to reduced gravel extraction for the Upper Rahui project. Internal revenue is below budget by \$142,000, as a result of the late start of rechargeable projects in Natural Forestry and Regional Parks; these projects are now underway and the variance is expected to be absorbed by year end.
- Repair costs for the October 1998 floods have reached \$670,000 in Flood Protection Operations, but this has been offset by timing variances on normal maintenance works due to consent issues and diversion of resources to repair works. Flood repair costs of \$563,000 have been rebudgeted into 1999/00 financial year.
- Natural Forests and Regional Parks together have a favourable variance in operating expenditure of \$181,000. Regional Parks have made savings in negotiation of grounds and sanitary contracts of \$30,000. Roading and weed control projects have not progressed due to changed priorities in the Parks. The Possum control operation in the Wainuiomata Water Catchment went ahead in May, the final invoices are yet to be received for this project.

(3) ***Environment Favourable Variance of \$0.14 million***

- Revenue is \$111,000 above budget as a result of unbudgeted revenue for three sewage treatment resource consent applications.
- Personnel costs are under budget by \$51,000 due to unpaid staff absences in the Resource Policy Department (scholarship and parental leave) and time lags in replacing staff in the Division.
- Material costs are \$120,000 below budget due to \$28,000 in advertising costs on notified consents, and \$51,000 repairs and maintenance project costs in Harbours. Expenditure savings of \$30,000 represent budgeted printing and advertising costs for the Regional Coastal Plan and the Discharge to Land Plan. These plans will now be completed in the 99/00 year.
- External Contractors and Consultants are \$161,000 over budget mainly due to legal costs incurred relating to the Regional Coastal Plan,

\$119,000 and contractors covering for staff vacancies. Internal Contractors are \$101,000 below budget primarily due to decreased use of laboratory services and other timing variances.

- Indirect expenditure is \$75,000 over budget. The major item is the unpaid J Juno fine of \$18,000 and the recently awarded cost decision of \$41,000.

(4) ***Transport Favourable Variance of \$0.35 million***

- The \$712,000 favourable expenditure variance in the Public Transport Department is mainly due to the expenditure on contracted services being \$592,000 below budget.
- The Transport Policy Department unfavourable expenditure variance of \$538,000 is due to two factors. An overspend of \$243,000 on external contractors, mainly because of the additional research required to develop a revised Regional Land Transport Strategy, and an overspend of \$341,000 in infrastructure grants. This is largely due to the unbudgeted purchases of land for car parking purposes at Porirua \$180,000 and Paraparaumu \$315,000 railway stations, reduced by \$60,000 as the Waterloo security system has been managed by WRC rather than Tranz Rail.
- A favourable expenditure variance of \$181,000 in the Customer Service Department is mainly due to underspending on timetable displays, special events advertising and personnel costs which are below budget by \$64,000. (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 \$0.20 million***

- There are offsetting variances within the Operations department; including an unfavourable variance of \$750,000 on river management expenditure due to the costs of flood damage repair; \$150,000 favourable variance due to the timing of the Reserve Forests Silviculture program and a \$72,000 favourable variance in soil conservation expenditure due to drought conditions.
- The Planning and Resources department has a favourable variance of \$148,000 largely due to savings of contract expenditure for the consents activity and savings in personnel costs due to staff resignations.
- The Biosecurity department has a favourable variance of \$409,000. Half of this variance relates to permanent savings in the Bovine Tb and Pest

Animal activities. The remaining variance is due to the timing of expenditure of aerial, ground Bovine Tb operations and additional internal revenue in Pest Animals for the Wainui-Orongoronga operation.

- The \$75,000 favourable variance in the Support Services department is due to savings for materials expenditure and special rates revenue.

(6) ***Finance & Administration Favourable Variance of \$0.85 million***

- The favourable operating surplus above budget of \$540,000 in IT and Support Services is primarily as a result of reduced expenditure on software licence fees, supplies, consultants, repairs & maintenance and personnel. Personnel cost savings of \$121,000 reflect vacancies in the department over the year to date.
- A \$222,000 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 \$1.17 million***

- Savings in net financial costs of \$1,016,000 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 \$98,000 from Council's investment properties in Blair and Allen Streets.

(8) ***Regional Stadium Favourable Variance of \$0.21 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 \$0.57 million***

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

3.2 **Capital Expenditure**

Year-to-date capital expenditure for the eleven months to 31 May 1999 is \$0.5 million

below budget.

	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
CAPITAL EXPENDITURE						
Utility Services	4,879	6,160	1,281 F	6,023	6,362	339 F
Landcare	1,752	2,065	313 F	2,544	1,829	715 U
Environment	116	73	43 U	107	83	24 U
Transport	20	64	44 F	15	64	49 F
Wairarapa	476	561	85 F	495	570	75 F
Corporate Services	20	23	3 F	23	23	-
Finance & Admin	1,490	305	1,185 U	2,770	305	2,465 U
Investment Mgmt	0	25	25 F	0	25	25 F
Elected Members	42	42	-	24	42	18 F
Total Capital Expenditure	8,795	9,318	523 F	12,001	9,303	2,698 U

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

(1) *Utility Services Favourable Variance of \$1.28 million*

- Project work has fallen slightly behind schedule, but is expected to catch up during the final month of the financial year, other than where permanent savings have already been identified. As a result, favourable variances have arisen, primarily due to the Wainuiomata Reaction Tank project, \$69,000; the Waterloo project to increase supply capacity, \$598,000; the Te Marua to Wellington pipeline value replacement project, \$119,000; Orongorongo intakes to tunnel pipeline project, 364,000; and the Te Marua site development project, \$90,000.

(2) *Landcare Favourable Variance of \$0.31 million*

- Favourable variances in project work are mainly due to project modifications and timing variances. The Pakuratahi Bridge Restoration project is underspent by \$49,000, Rimutaka Incline Roding project by \$18,000, Queen Elizabeth Park water reticulation system by \$43,000 and the Upper Rahui Construction project by \$42,000.
- Savings of \$33,000 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 \$64,000 under budget as a result of the Findlay Street stream realignment being put aside by the flood repair priorities. This project will be rebudgeted to the 2000/01 financial year.

- The Wainuiomata Floodplain Management Plan is \$56,000 behind schedule, due to staff vacancies and commitments the Hutt Floodplain Management Plan.

(3) ***Regional Transport Favourable Variance of \$0.04 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 \$0.09million***

- This variance is a permanent saving as the purchase of a carrot cutter for Biosecurity has been cancelled.

(5) ***Finance and Administration Unfavourable Variance of \$1.19 million***

- An unfavourable variance of \$1,222,000 is primarily the result of expenditure on the Council's new Financial Information System. Although Council has approved expenditure on the new financial system it was not budgeted in the 1998/99 financial year. Actual funding for the finance system is from a combination of loans and reserves set aside for that purpose.
- A favourable variance of \$61,000 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 May 1999.

5. Recommendations

That the report be received and the contents noted.

Report prepared by:

Approved for submission:

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Finance Manager

GREG SCHOLLUM
Chief Financial Officer

Attachment 1 : Treasury Management Policy Compliance Report