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**Committee:** Policy, Finance and Strategy  
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## **Financial Report for the three months ended 30 September 2004**

### **1. Purpose**

To inform the Committee of the financial performance of the Council for the three months ended 30 September 2004.

### **2. Background**

In accordance with previous practice the financial results are reported for each quarter with updates by exceptions in the intervening months.

### **3. Summary**

The financial results for the three months ended 30 September show a surplus of \$1.9 million compared to the budget of \$0.4 million. The main contribution to the favourable variance is in the Transport Division which is \$1.0 million ahead of budget. Further details are given below.

Capital expenditure was \$1.1 million compared with the budget of \$1.9 million.

The budgeted year-end surplus of \$0.9 million remains the current forecast. It is our normal practice for the year end forecast figures to be prepared as part of the half year review in February. This enables the Council to consider any unforeseen changes in expenditure priorities at the half year within the context of the likely year end financial result.

## 4. Financial Performance for the three months to 30 September 2004

### 4.1 Operating Surplus

The year-to-date operating result after three months reflects an operating surplus of \$1.9 million (budget \$0.4 million).

Detailed variances from budget are shown in the following table:

	2004/05 YTD Actual \$000s	2004/05 YTD Budget \$000s	Actual vs Budget Variance \$000s	2004/05 Year Forecast \$000s	2004/05 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>OPERATING SURPLUS (DEFICIT)</b>						
Water Group	40	(170)	210 F	(392)	(392)	-
Plantation Forestry	(77)	(10)	67 U	(38)	(38)	-
<b>Utility Services</b>	<b>(37)</b>	<b>(180)</b>	<b>143 F</b>	<b>(430)</b>	<b>(430)</b>	<b>-</b>
Transport	529	(432)	961 F	(1,133)	(1,133)	-
Landcare	822	777	45 F	1,985	1,985	-
Environment	152	116	36 F	(59)	(59)	-
Wairarapa	167	78	89 F	(44)	(44)	-
Corporate Advisory Services	(33)	(30)	3 U	(6)	(6)	-
Finance & Admin	185	132	53 F	39	39	-
Chief Executive	(11)	(34)	23 F	(135)	(135)	-
Investment in Democracy	65	18	47 F	(148)	(148)	-
Rates Collection	(33)	(12)	21 U	0	0	-
<b>Net Divisional Surplus (Deficit)</b>	<b>1,806</b>	<b>433</b>	<b>1,373 F</b>	<b>69</b>	<b>69</b>	<b>-</b>
Investment Management	1,909	1,849	60 F	8,509	8,509	-
Business Unit Rates Contribution	(1,914)	(1,906)	8 U	(7,624)	(7,624)	-
Wellington Regional Strategy	120	0	120 F	0	0	-
<b>Total Operating Surplus (Deficit)</b>	<b>1,921</b>	<b>376</b>	<b>1,545 F</b>	<b>954</b>	<b>954</b>	<b>-</b>

Significant elements of the \$1.5 million favourable year to date operating variance are outlined below:

- (1) Water Group \$0.21 million favourable variance, due to:
  - Lower than budgeted expenditure on water treatment chemicals of \$114,000 primarily due to seasonal water demand requirements. A mixture of permanent and timing variances across the total Water Group on other materials, supplies & services, \$104,000.
- (2) Plantation Forestry \$0.07 million unfavourable variance, due to:
  - Very difficult prevailing market conditions consisting of a strong NZ dollar, high export freight rates and the stop/start supply requirements from domestic saw mills.

- (3) Transport \$0.96 million favourable variance, due to:
- A \$650,000 favourable variance in the Procurement Department is due to :
    - Revenues from Cityline gross contracts are higher than budgeted, \$160,000 favourable.
    - Delays in the following projects: Rail Carriage Refurbishment, Waikanae Electrification, and Integrated Ticketing, \$540,000 favourable.
    - Stagecoach diesel inflation payments higher than the budget, \$100,000 unfavourable.
    - Delays in infrastructure projects in respect of new shelters maintenance and bus lane development produced a temporary favourable variance, \$80,000.
  - Delays in commissioning consultants for the Western Corridor review and slower than expected progress with various other smaller studies result in a \$520,000 favourable expenditure variance. This is offset by a \$320,000 unfavourable variance in revenue from Transfund.
  - A \$100,000 favourable variance in the Service Design Department due to delay in the Service Design and the Fare/Ticketing projects.
- (4) Wairarapa \$0.09 million favourable variance, due to:
- Savings in personnel costs of \$47,500 for the Planning & Resources Department because of staff turnover and recruitment delays.
  - Timing savings in consultants costs of \$40,000 for Resource Investigations.
- (5) Investment Management \$0.06 million favourable variance, due to:
- Higher than anticipated interest rates on cash deposit.
- (6) Wellington Regional Strategy \$0.12 million favourable variance, due to:
- Delays in timing of expenditure.

## 4.2 Net Capital Expenditure

Year-to-date net capital expenditure for the three months is \$0.8 million below budget.

	2004/05 YTD Actual \$000s	2004/05 YTD Budget \$000s	Actual vs Budget Variance \$000s	2004/05 Year Forecast \$000s	2004/05 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>NET CAPITAL EXPENDITURE</b>						
Utility Services	424	582	158 F	5,883	5,883	-
Landcare	442	706	264 F	4,897	4,897	-
Environment	131	129	2 U	554	554	-
Transport	5	25	20 F	306	306	-
Wairarapa	70	319	249 F	1,014	1,014	-
Finance & Admin	1	83	82 F	1,228	1,228	-
Corporate Advisory Services	0	20	20 F	88	88	-
Investment in Democracy	0	0	-	52	52	-
Investment Management	0	-	-	531	531	-
<b>Total Net Capital Expenditure</b>	<b>1,073</b>	<b>1,864</b>	<b>791 F</b>	<b>14,553</b>	<b>14,553</b>	<b>-</b>

Significant elements of the \$0.79 million year to date favourable variance are outlined below:

- (1) Utility Services \$0.16 million favourable variance, due to:
  - Delays in starting and / or progressing various capital work projects have generated a favourable timing difference of \$113,000, combined with fewer than budgeted minor asset acquisitions occurring to date, producing a further favourable variance of \$45,000.
- (2) Landcare \$0.26 million favourable variance, due to:
  - Timing delays in the construction of the Strand Park channel realignment. The contract is progressing and the job is expected to be completed to the planned extent by year end.
  - The Jim Cooke Park river realignment is behind schedule. The contract to design the works has been let, but construction is unlikely to start before the third quarter. The availability of good quality rock will be a crucial factor in this project.
- (3) Wairarapa \$0.25 million favourable variance, due to:
  - The timing of vehicle replacements for the Biosecurity Department and the BioWorks Business Unit, which are expected to be completed during November.
- (4) Finance and Admin \$0.08 million favourable variance, due to:
  - Delay in the replacement of FIS hardware (SAP) due until the new year and the rollout of PC replacements are complete.

### 4.3 Funding Position

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

	2004/05 YTD Actual \$000s	2004/05 YTD Budget \$000s	2004 Variance \$000s
Regional Water Supply	40	(170)	210
Regional Transport	529	(432)	961
Regional Stadium	67	67	-
Other Regional Responsibilities	1,285	911	374
<b>Operating Surplus (Deficit)</b>	<b>1,921</b>	<b>376</b>	<b>1,545</b>
Movement in Reserves	423	1,453	(1,030)
Add Back Non Cash Items	2,461	2,213	248
Other Loan Funding	656	736	(80)
<b>Funding Surplus from Operations</b>	<b>5,461</b>	<b>4,778</b>	<b>683</b>
<b>Less:</b>			
Net Capital Expenditure	1,072	1,864	(792)
Investment Additions	485	498	(13)
Loan funding of Capital Expenditure	(797)	(1,276)	479
<b>Net Capital Expenditure and Investment</b>	<b>760</b>	<b>1,086</b>	<b>(326)</b>
Working Capital Movement	5,553	-	5,553
Debt Repayment	(852)	3,692	(4,544)
<b>Net Funding Surplus (Deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>

As has been past Council practice, the funding surplus above budget in the Regional Water Supply area has been applied to debt reduction and the funding surplus in Regional Transport has been transferred into the Transport reserve.

Other funding surpluses or deficits relating to other separate areas of benefit (eg. River and Pest rates) have also been applied to their specific reserves.

The Council has a longstanding policy of using all surplus funds after reserve transfers and working capital requirements to repay debt. Due to the movement of working capital there has been no debt repayment for the quarter.

### 5. Treasury Management Policy Limits

All Treasury limits have been complied with during the three months to 30 September with one minor exception.

Due to a revaluation of Greater Wellington's forests at 30 June 2004, forestry debt to forestry market value is 71.34%, which exceeds the Treasury Management Policy limit of 70%.

### 6. Communications

No communications are necessary.

## 7. Recommendations

*That the Committee recommend that the Council receive the report and note its contents.*

Report prepared by:

Report approved by:

**Marie Kitchener**  
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**Barry Turfrey**  
Chief Financial Officer

**Attachment 1:** Treasury Management Compliance Report as at 30 September 2004