greater WELLINGTON
THE REGIONAL COUNCIL

Report:	**03.227**
Date:	6 May 2003
File:	G/4/1/5 CFO/13/2/1
Committee	Policy, Finance and Strategy
Author	Fiona Hatzilamprou, Financial Accountant

Financial Report for the Nine Months ended 31 March 2003

1. Purpose

To receive the March 2003 Financial Statements (forwarded under separate cover) and to inform the committee of the updated forecast year-end position.

2. Background

Councillors will be aware that the General Manager and 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 revised forecast position to 30 June 2003 in respect of both operating surplus and capital expenditure is explained in sections 4.1 and 4.2 of this report.

The year to date figures reflect favourable results, with the operating surplus ahead of budget ($3.0 million favourable variance) and capital expenditure below budget ($0.7 million favourable variance). The terms 'favourable' and 'unfavourable' are used in this report in a financial sense only. It is accepted that a case by case assessment is needed to assess whether or not a favourable financial variance is indeed favourable overall to the Council.

As part of the third quarter review, Managers have also been requested to identify those projects which need to be rebudgeted between years (generally projects are delayed from the current year to later years but in some cases projects can also be brought forward as a result of external influences).

These recommendations for rebudgeted expenditure and associated funding (generally through carrying forward matching funding from the current year surplus) will be considered by the Committee as part of finalisation of the figures for inclusion in the Council's LTCCP on 16 June 2003.

Last year appoximately $1 million of the operating surplus was carried forward to fund expenditure items that had been rebudgeted into 2002/03. Such a practice avoids the Council rating the community twice for the same projects.

3. Financial Performance for the Nine Months to 31 March 2003

3.1 Operating Surplus

As noted above, the year to date operating result after nine months reflects an operating surplus ahead of budget of $3.0 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Outlook $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Water Group	1,301	483	818 F	1,818	565	1,253 F
Plantation Forestry	(213)	(167)	46 U	(118)	(225)	107 F
Utility Services	**1,088**	**316**	**772 F**	**1,700**	**340**	**1,360 F**
Transport	1,243	92	1,151 F	183	(106)	289 F
Landcare	1,944	1,225	719 F	1,819	1,558	261 F
Environment	389	(83)	472 F	43	(134)	177 F
Wairarapa	246	173	73 F	(62)	(108)	46 F
Corporate Advisory Services	(194)	(49)	145 U	(198)	(15)	183 U
Finance & Administration	181	(1)	182 F	(182)	(170)	12 U
General Manager	(60)	(2)	58 U	(120)	(54)	66 U
Investment in Democracy	103	(2)	105 F	51	(3)	54 F
Rates Collection	4	0	4 F	(86)	0	86 U
Net Divisional Surplus(Deficit)	**4,944**	**1,669**	**3,275 F**	**3,148**	**1,308**	**1,840 F**
Investment Mgmt	5,250	5,491	241 U	7,945	8,163	218 U
Business Unit Rates Contribution	(4,370)	(4,370)	-	(5,827)	(5,827)	-
Total Operating Surplus (Deficit)	**5,824**	**2,790**	**3,034 F**	**5,266**	**3,644**	**1,622 F**

N.B: The outlook figures represent updated forecasts provided by managers as part of the third quarter review.

Significant components of the $3.0 million favourable year to date variance are as follows:

(1) Water Group $0.82 million favourable variance, due to:

- A favourable variance of $722,000 within the Strategy and Asset area primarily as a result of financial cost savings of $342,000 (due to lower than planned debt levels) and lower than budgeted expenditure on materials, supplies, services, contractors and consultants of $393,000.

- A combination of $100,000 in favourable variances generated by all other departments within the water group, as a result of either lower than budgeted direct operating expenditure or increased revenue opportunities being realised.

(2) Transport $1.15 million favourable variance, due to:

- A $462,000 favourable variance with new kick-start services to be finalised following the completion of the Hutt Valley Services Review.

- A $422,000 favourable variance with the English Electric refurbishment project deferred.

- A $375,000 unfavourable variance with patronage revenue claimed to date below budget.

- A $187,000 favourable variance as a result of delays in the upgrade of Petone station.

(3) Landcare $0.72 million favourable variance, due to:

- Savings in personnel costs of $269,000 resulting from changes to the structure and associated staff vacancies. These savings are being used within the Division to fund unplanned expenditure items including signage reviews following the re-branding, and additional costs associated with Environmental Education Infrastructure projects.

- Depreciation across the division is $177,000 under budget due to lower than planned levels of capital spend.

- The operational work programme in Parks and Forests is approximately $300,000 behind budget. The majority of this variance is timing related. In future more emphasis will be placed on getting the budget phasing correct to recognise that around 33% of the department's spend is in the last quarter.

- Flood protection operations are approximately $120,000 behind budget, the majority of which relates to problems in sourcing rock. There are currently orders outstanding for 2,400 tonnes of rock that the suppliers are having difficulty meeting.

(4) Environment $0.47 million favourable variance, due to:

- Savings in personnel costs of $36,000 resulting from staff movements during the period.

- Material costs are presently under budget by $117,000 as expenditure on Regional Policy Statement and Care group projects (e.g. Pauatahanui inlet, riparian work, etc) is below budget. In addition, the repair and painting of the Front Lead Light ($28,000) is slightly behind schedule. We anticipate that the situation will be redressed before year-end.

- External contractors and consultants are $320,000 under budget:

  - The underspend is mainly associated with the collection of unwanted agricultural chemicals ($73,000), the stormwater investigation work ($40,000) and contaminated sites work ($64,000).

  - With the completion of the unwanted agricultural chemical collection, we anticipate that a saving of approximately $50,000 will be realised.

  - Progress with the stormwater investigation has been held up because of difficulties in obtaining reliable samples.

  - The contaminated sites project, which covers the analysis of soil types and levels of contamination, is behind schedule.

(5) Corporate Advisory Services $0.15 million unfavourable variance, due to:

- Increased personnel costs of $81,000 primarily due to an unbudgeted staff member in the communications department, as well as increased management training costs and unbudgeted recruitment costs across the division.

- Increased expenditure on consultants and materials primarily related to the values study of residents within the GWRC area as part of the LTCCP process.

(6) Finance & Administration $0.18 million favourable variance, due to:

- Savings in personnel costs of $177,000 primarily from staff vacancies during the year.

(7) Investment in Democracy $0.11 million favourable variance, due to:

- Savings in personnel costs of $30,000 resulting from staff vacancies in the Secretariat during the year.

- Savings in Elected Members including Councillors' fees $25,000, advertising $16,000 and photocopying $8,000 and other material costs $20,000.

(8) Investment Management $0.24 million unfavourable variance, due to:

- The average year to date interest rates have been lower than the budgeted interest rate which has resulted in an unfavourable variance of $193,000 on Council's liquid financial deposits.

3.2 Net Capital Expenditure (capital expenditure net of disposals)

As noted above, the year-to-date net capital expenditure for the nine months to 31 March 2003 is $0.7 million below budget. Detailed variances from budget are shown in the following table:

NET CAPITAL EXPENDITURE	2002/03 YTD Actual $000s	2002/03 YTD Budget $000s	Actual vs Budget Variance $000s	2002/03 Year Forecast $000s	2002/03 Year Budget $000s	Forecast vs Budget Variance $000s
Utility Services	1,757	2,001	244 F	3,088	3,093	5 F
Landcare	1,022	1,380	358 F	1,397	3,282	1,885 F
Environment	230	246	16 F	264	299	35 F
Transport	40	27	13 U	105	27	78 U
Wairarapa	238	270	32 F	231	290	59 F
Corporate Advisory Services	0	0	-	0	0	-
General Manager	0	0	-	0	0	-
Finance & Administration	173	219	46 F	191	484	293 F
Investment in Democracy	58	30	28 U	62	30	32 U
Net Capital Expenditure	**3,518**	**4,173**	**655 F**	**5,338**	**7,505**	**2,167 F**

Significant components of the $0.7 million favourable year to date variance are as follows:

(1) Utility Services $0.24 million favourable variance, due to:

- A variety of capital works programme start dates being delayed, although it is anticipated that this position will not be permanently reflected in the year end accounts.

(2) Landcare $0.36 million favourable variance, due to:

- Delays in purchasing the Logan Whanau and Strand Park lands (YTD budget of $183,000).

- Delays in letting the tender for the Strand Park channel alignment due to the land purchase hold up.

4. Year End Outlook Position

4.1 Revised year end Operating Surplus

The projected year-end operating surplus has been revised as part of the March quarterly management reviews. The projected year-end operating surplus is now $5.27 million, an increase of $0.6 million over the December forecast of $4.67 million.

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

OPERATING SURPLUS (DEFICIT)	2002/03 Year March Outlook $000s	2002/03 Year December Forecast $000s	Variance $000s
Water Group	1,818	1,513	305 F
Plantation Forestry	(118)	57	175 U
Utility Services	**1,700**	**1,570**	**130 F**
Transport	183	(57)	240 F
Landcare	1,819	1,632	187 F
Environment	43	(41)	84 F
Wairarapa	(62)	(148)	86 F
Corporate Advisory Services	(198)	(207)	9 F
Finance & Administration	(182)	(234)	52 F
General Manager	(120)	(54)	66 U
Investment in Democracy	51	(24)	75 F
Rates Collection	(86)	(91)	5 F
Net Divisional Surplus (Deficit)	**3,148**	**2,346**	**802 F**
Investment Management	7,945	8,149	204 U
Business Unit Rates Contribution	(5,827)	(5,827)	-
Total Operating Surplus (Deficit)	**5,266**	**4,668**	**598 F**

Significant components of the increase in forecast operating surplus are:

(1) Water Group increase in forecast surplus of $0.31 million, due to:

- A continuation of higher than budgeted cash surpluses for the rest of the financial year, reducing annual financial costs by an incremental $175,000.

- The YTD trend of reduced direct operating costs being sustained, with a further $135,000 being generated by a combination of savings on personnel, materials, supplies, services, contractors and consultants.

(2) Plantation Forestry decrease in forecast surplus of $0.18 million, due to:

- The two key factors of reduced harvest crew availability for the final quarter, combined with an ongoing adverse $ US / NZ exchange rate.

(3) Transport increase in forecast surplus of $0.24 million, due to:

- An increase in the expected level of Patronage funding of $0.2 million, from $2.8 million to $3.0 million. This is a result of steadily increasing passenger numbers over the last 2 quarters.

(4) Landcare increase in forecast surplus of $0.19 million, due to:

- Further operational savings in Parks and Forests of $80,000.
- Hutt City land swap no longer going to be completed in 2002/03, $45,000.
- Savings in financial costs in Flood Protection of $40,000.

(5) Environment increase in forecast surplus of $0.08 million, due to:

- A saving of approximately $50,000 from the unwanted agricultural chemical collection. The Environment Committee has recently approved the partial use of this saving with the funding of a mobile hazardous waste facility ($20,000).

(6) Wairarapa increase in forecast surplus of $0.09 million, due to:

- Additional savings in Pest Animals KNE and Bovine Tb control operations.

(7) Finance & Administration increase in forecast surplus of $0.05 million, due to:

- Further savings as a result of ongoing staff vacancies.

(8) General Manager decrease in forecast surplus of $0.07 million, due to:

- Increased costs related to the recruitment of the new General Manager.
- Costs associated with investigating the feasibility of renewable energy on Council lands.

(9) Investment in Democracy increase in forecast surplus of $0.08 million, due to:

- Continued savings in Councillors’ fees, advertising and photocopying.

- Staff vacancies during the year have resulted in permanent savings in personnel costs.

(10) Investment Management decrease in forecast surplus of $0.20 million, due to:

- Further falls in interest rates particularly related to the Council's $44 million liquid financial deposit. It is possible that this could be offset by returns from the WRC Holdings Group activity (particularly reduced interest on the Group's $44 million loan). However, uncertainty over returns from CentrePort Ltd has meant that this has not been factored into the end of year forecast.

4.1.1 Analysis of Operating Surplus – Area of Benefit

It is important to identify which areas of the Council are forecasting surpluses and deficits as there are different communities of interest involved.

	2002/03 year end outlook ($000)	**2002/03 year end budget ($000)**	**Forecast vs Budget variance ($000)**
Water supply	1,818	565	1,253F
Transport	183	(106)	289F
Other regional responsibilities	3,265	3,185	80F
	5,266	3,644	1,622F

As can be seen from the above table the majority of the forecast surplus above budget relates to the water supply activity.

4.2 Revised year end Net Capital Expenditure

Overall capital expenditure is now projected to be $5.3 million at year-end compared to the December forecast of $6.7 million. Detailed movements from the December forecast to the current forecast (labelled outlook) are shown in the following table:

CAPITAL EXPENDITURE	2002/03 Year March Outlook $000s	2002/03 Year December Forecast $000s	Variance $000s
Utility Services	3,088	3,052	36 U
Landcare	1,377	2,444	1,067 F
Environment	264	299	35 F
Transport	58	35	23 U
Wairarapa	231	290	59 F
General Manager	0	0	-
Finance & Administration	191	470	279 F
Investment in Democracy	62	62	-
Total Capital Expenditure	**5,271**	**6,652**	**1,381 F**

Significant components of the increase in forecast capital expenditure are:

(1) Landcare decrease in forecast capital expenditure of $1.07million, due to:

- Strand Park Channel realignment – more accurate data available now suggests the contract will not proceed this financial year, creating additional savings in 2002/03 of $1,063,000 to that forecast in December.
- Otaihanga road raising will not be completed this financial year as earlier planned, $125,000.
- Logan Whanau land purchase transaction will now not occur this financial year, $42,000.
- Additional capital project to build a new bridge in Kaitoke Regional Park (funded from operational savings) $80,000 as part of the Environmental Education Infrastructure.

(2) Finance and Administration decrease in forecast capital expenditure of $0.28m, due to:

- Delays in the timing of IT replacement and the rollout of the document management system.

5. Compliance with Treasury Management Policy

The Council adopted a new Treasury Management Policy on 4 March 2003 as part of the Council's Long Term Council Community Plan. All measures and borrowing limits under the new policy have been complied with (Refer **Attachment 1)**.

Under the previous policy, all measures would have been complied with, with the exception of a breach in the Forestry internal borrowing limit.

6. Costs Associated with Joint Venture Proposal (Rail)

The updated schedule of the external costs associated with the joint venture proposal is attached as **Attachment 2**. Although the costs have increased since those recorded at half year they relate to costs incurred during the first half year but which were not properly accrued in the accounts at 31/12/02.

7. Communications

The financial results continue to be favourable. However, it is expected that the year end position will provide the key communications opportunity.

8. Recommendations

That the Committee recommend to Council that it:

(1) Receive the report and note its contents.

(2) Approve the revised forecast figures to 30 June 2003 (termed 'outlook' within this report) and note that they will replace the forecast figures prepared as part of the half year review.

Report prepared by:	Approved for submission:
Fiona Hatzilamprou Financial Accountant	**Greg Schollum** Chief Financial Officer

Attachment 1: Treasury Management Compliance Report

Attachment 2: Joint Venture External Consultancy Costs to 31 March 2003