



Report 05.697
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Committee Policy Finance and Strategy
Author Chris Gray, Finance Manager

Financial Report for the three months ending 30 September 2005

1. Purpose

To review the financial performance of the Council for the three months ended 30 September 2005.

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

Quarterly reviews between the Chief Executive/Chief Financial Officer and the Divisions were recently completed. It is timely, as a result of those reviews, to present to Council a summary of the first quarter's performance.

4. Financial Performance

4.1 Year to date Operating Performance

Divisional performance against budget has varied, with the largest variance being caused by delays in the heavy rail maintenance and reclassification of this work to operational expenditure from capital expenditure. The changes are detailed in the next table with variances explained later in the report.

On a consolidated Council basis actual surplus is \$1,190,000 compared with budget of \$1,688,000, a decrease of \$498,000. The major change for this is the transfer of rail heavy maintenance from capital to operating expenditure (\$1.0 million) and delays in Transport capital expenditure projects due to delays in signing the rail contract. This has reduced revenue in Transport by a further \$2.6 million.

These changes have reduced Transport surplus by \$1.8 million, offsetting that are timing savings totalling \$1.3 million, reducing the unfavourable variance to \$0.5 million. Further details are given below.

A detailed Council Statement of Financial Performance is attached as **Attachment 1**.

4.1.1 Funding Statement

This report highlights that at this stage we have a funding surplus relative to budget which is driven by the lack of traction on the transport infrastructure expenditure programme. However as discussed below we expect the programs to progress and thus funding movements to be close to budget by year end at this stage.

The Council Funding Statement is attached as **Attachment 2**.

4.1.2 Statement of Financial Position

Attachment 3 is The Council Statement of Financial Position shows the current position, the budget position and last year-ends financial position.

The Council Statement of Financial Position is attached as **Attachment 3**.

Wellington Regional Council
 Summary Statement of Financial Performance - Year to Date
 For the Period Ending - September 2005

Total Operating Revenue \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	6,639	6,790	6,688	102
Plantation Forestry	996	1,080	1,021	59
Utility Services	7,635	7,870	7,709	161
Transport	14,090	16,462	20,114	(3,652)
Landcare	3,707	3,795	3,739	56
Environment	2,496	2,479	2,550	(71)
Wairarapa	5,272	5,509	5,955	(446)
Corporate Advisory Services	18	16	169	(153)
Finance & Admin	1,499	1,599	1,604	(5)
Chief Executive	5	5	5	0
Investment in Democracy	1,111	1,349	1,349	0
Net Divisional Revenue	35,833	39,084	43,194	(4,110)
Landcare: Sale of Mabey Road	0	0	0	0
Investment Management	1,463	1,444	1,451	(7)
Business Unit Rates Contribution	(1,914)	(1,939)	(1,940)	1
Council Operating Revenue	35,382	38,589	42,705	(4,116)
Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	6,599	6,514	6,978	(464)
Plantation Forestry	1,073	1,107	1,110	(3)
Utility Services	7,672	7,621	8,088	(467)
Transport	13,560	16,477	18,336	(1,859)
Landcare	2,885	3,112	3,280	(168)
Environment	2,344	2,296	2,472	(176)
Wairarapa	5,106	5,533	6,270	(737)
Corporate Advisory Services	51	43	217	(174)
Finance & Admin	1,349	1,445	1,481	(36)
Chief Executive	16	(17)	7	(24)
Investment in Democracy	1,046	1,334	1,340	(6)
Net Divisional Expenditure	34,029	37,844	41,491	(3,647)
Landcare: Sale of Mabey Road	0	0	0	0
Investment Management	(446)	(445)	(477)	32
Business Unit Rates Contribution	0	0	0	0
Council Operating Expenditure	33,583	37,399	41,014	(3,615)
OPERATING SURPLUS (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	40	276	(290)	566
Plantation Forestry	(77)	(27)	(90)	63
Utility Services	(37)	249	(380)	629
Transport	529	(15)	1,778	(1,793)
Landcare	822	682	459	223
Environment	152	183	78	105
Wairarapa	167	(24)	(316)	292
Corporate Advisory Services	(33)	(27)	(49)	22
Finance & Admin	151	154	123	31
Chief Executive	(11)	22	(2)	24
Investment in Democracy	65	16	9	7
Net Divisional Surplus (Deficit)	1,805	1,240	1,700	(460)
Landcare: Sale of Mabey Road	0	0	0	0
Investment Management	1,909	1,889	1,928	(39)
Business Unit Rates Contribution	(1,914)	(1,939)	(1,940)	1
Council Operating Surplus (Deficit)	1,800	1,190	1,688	(498)

* Regional Strategy Actuals removed

4.1.3 Utility Services, Favourable variance of \$566,000 due to;

Savings in power, chemicals, materials and contractor's of \$370,000 are the main contributors to the favourable variance. It is expected that these amounts will be caught up by year end.

4.1.4 Transport, Unfavourable variance of \$1,793,000 due to:

The rail contract remains unsigned, this has caused delays in heavy rail maintenance, station maintenance and station improvements. The effect on the year to date numbers is to reduce revenue by \$3.6 million as expenditure has not been incurred.

The budget assumed that heavy rail maintenance expenditure would be capitalised. GWRC will not own the assets involved, therefore they must be treated as operating expenditure and expensed in the year. The effect of this is to move expenditure from capital expenditure to operating expenditure, reducing the surplus accordingly. The funding from rates and Land Transport of this expenditure will still be treated as revenue. As approximately \$1.0 million of heavy maintenance was budgeted to be spent in the first quarter, this has reduced the surplus by \$1.0 million when compared with budget.

The increasing diesel price has also impacted on the quarter by \$158,000.

Offsetting the matters noted above, there have been savings due to delays in the following projects;

- Rail Carriage Refurbishment \$382,000
- Bus / Rail Service improvements \$281,000
- Rail Projects \$389,000

At this stage it is anticipated that these projects will get back on track within the financial year.

Overall the Transport variance is \$1.8 million behind budget.

4.1.5 Landcare, Favourable variance of \$223,000 due to:

Savings in operating costs of \$223,000 due primarily to materials and contractors costs. These are largely timing differences.

4.1.6 Environment, Favourable variance of \$105,000 due to:

Timing of delays in materials, and contractors have resulted in the operating surplus being \$105,000 ahead of budget.

4.1.7 Wairarapa, Favourable variance of \$292,000 due to:

Reduction in revenue of \$446,000 due mainly to the timing of Bovine Tb work (\$264,000). This in turn has reduced expenditure by a similar amount.

These amounts are expected to correct by year end.

4.1.8 Corporate Advisory – Favourable variance of \$22,000 due to:
Delays in contractor and consultant costs.

4.1.9 Finance and Admin, Favourable variance of \$31,000 due to:
Lower personnel costs due to staffing changes.

4.2 Forecast to 30 June 2006

The forecast surplus has been reduced from \$8.1 million to \$4.6 million, primarily due to the reclassification capital expenditure in the budget to operating expenditure in the forecast of the heavy maintenance rail expenditure.

There have been minor changes in the other divisions.

Wellington Regional Council
Summary Statement of Financial Performance - Full Year Forecasts
For the Period Ending - 30 June 2006

Total Operating Revenue				
\$(000)'s	Last Year	Full Year Forecast		Variance
		Budget	Forecast	
Water Group	26,969	26,827	26,827	0
Plantation Forestry	3,893	4,082	4,082	0
Utility Services	30,862	30,909	30,909	0
Transport	58,248	81,842	81,494	(348)
Landcare	15,592	15,272	15,324	52
Environment	10,305	10,244	10,244	0
Wairarapa	22,550	25,066	24,697	(369)
Corporate Advisory Services	202	673	50	(623)
Finance & Admin	6,473	6,414	6,414	0
Chief Executive	37	20	20	0
Investment in Democracy	4,444	5,396	5,396	0
Net Divisional Revenue	148,713	175,836	174,548	(1,288)
Landcare: Sale of Mabey Road	0	0	0	0
Investment Management	8,544	6,736	6,736	0
Business Unit Rates Contribution	(7,624)	(7,759)	(7,759)	0
Council Operating Revenue	149,633	174,813	173,525	(1,288)
Total Operating Expenditure				
\$(000)'s	Last Year	Full Year Forecast		Variance
		Budget	Forecast	
Water Group	26,096	27,644	27,644	0
Plantation Forestry	4,195	4,448	4,448	0
Utility Services	30,291	32,092	32,092	0
Transport	57,143	73,807	77,230	3,423
Landcare	13,894	14,624	14,567	(57)
Environment	10,025	10,430	10,430	0
Wairarapa	22,574	25,473	25,044	(429)
Corporate Advisory Services	259	788	78	(710)
Finance & Admin	5,523	6,072	6,072	0
Chief Executive	107	29	29	0
Investment in Democracy	4,573	5,329	5,329	0
Net Divisional Expenditure	144,389	168,644	170,871	2,227
Landcare: Sale of Mabey Road	(3,155)	0	0	0
Investment Management	(2,397)	(1,939)	(1,939)	0
Business Unit Rates Contribution	0	0	0	0
Council Operating Expenditure	138,837	166,705	168,932	2,227
OPERATING SURPLUS (DEFICIT)				
\$(000)'s	Last Year	Full Year Forecast		Variance
		Budget	Forecast	
Water Group	873	(817)	(817)	0
Plantation Forestry	(302)	(365)	(365)	0
Utility Services	571	(1,182)	(1,182)	0
Transport	1,104	8,035	4,263	(3,772)
Landcare	1,697	648	757	109
Environment	280	(186)	(186)	0
Wairarapa	(24)	(406)	(347)	59
Corporate Advisory Services	(57)	(115)	(28)	87
Finance & Admin	950	342	342	0
Chief Executive	(70)	(9)	(9)	0
Investment in Democracy	(129)	68	68	0
Net Divisional Surplus (Deficit)	4,322	7,195	3,678	(3,517)
Landcare: Sale of Mabey Road	3,155	0	0	0
Investment Management	10,940	8,674	8,674	0
Business Unit Rates Contribution	(7,624)	(7,759)	(7,759)	0
Council Operating Surplus (Deficit)	10,793	8,110	4,593	(3,517)

* Regional Strategy Actuals removed

4.2.1 Utility Services

The Utilities division expect the full year result to be close to budget.

4.2.2 Transport, Unfavourable variance of \$3,772,000 due to:

	\$'000'
Budget Surplus	8,035
Transfer of Heavy Maintenance from capital to operating expenditure	(4,270)
Delays in Heavy Maintenance programme	2,270
Decreased revenue Heavy Maintenance	(1,362)
Increases in diesel inflation	(483)
Western Corridor	(101)
Other sundry projects – savings	174
Forecast Surplus	4,263
Reduction	3,772

The major change as outlined above is the reclassification of the rail heavy maintenance capital to operating expenditure. As GWRC does not own the equipment this expenditure must be expensed in the year it is spent. The overall effect of this is to move \$4.3 million of expenses from the capital budget to the operating budget.

As the rail contract remains unsigned, it is not expected that the budgeted programmes of heavy rail maintenance will be completed this year giving a saving of \$2,270,000.

The rise in the diesel price has increased the expected inflation on bus contracts by \$483,000.

The Western Corridor expenditure is net of the contributions from Land Transport and Transit.

4.2.3 Landcare, Favourable variance of \$109,000 due to:

Small decreases in operating expenditure, (\$69,000) and small increases in external revenue.

4.2.4 Environment

At this stage the Environment division is forecast to complete the years programme in line with budget.

4.2.5 Wairarapa, Favourable variance of \$59,000 due to:

Savings in personnel costs due to non replacement of one manager.

4.2.6 Corporate Advisory Services, Favourable variance of \$87,000 due to:

Savings in contractors/consultants costs.

4.2.7 Finance and Admin

No change in the forecast from budget.

4.2.8 Investments

Currently forecast investment income remains unchanged from budget. While interest rates are rising the impact on the GWRC's borrowing costs are not expected to affect at this stage the forecast result.

5. Capital Expenditure

Net Capital Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	343	1,098	1,499	(401)
Plantation Forestry	80	48	55	(7)
Utility Services	423	1,146	1,554	(408)
Transport	5	(6)	2,743	(2,749)
Landcare	442	296	361	(65)
Environment	131	46	34	12
Wairarapa	70	48	15	33
Corporate Advisory Services	0	0	0	0
Finance & Admin	1	96	100	(4)
Chief Executive	0	(25)	0	(25)
Investment in Democracy	0	(13)	0	(13)
Net Capital Expenditure	1,072	1,588	4,807	(3,219)
Landcare: Sale of Mabey Road				
Investment Management	0	(2)	0	(2)
Business Unit Rates Contribution	0	0	0	0
Net Capital Expenditure	1,072	1,586	4,807	(3,221)

Net Capital Expenditure \$(000)'s	Full Year Forecast			
	Last Year	Budget	Forecast	Variance
Water Group	4,226	6,349	6,349	0
Plantation Forestry	277	238	238	0
Utility Services	4,503	6,587	6,587	0
Transport	204	11,995	7,725	(4,270)
Landcare	4,591	5,325	5,860	535
Environment	430	589	589	0
Wairarapa	1,370	634	592	(42)
Corporate Advisory Services	99	24	24	0
Finance & Admin	716	1,283	1,283	0
Chief Executive	0	0	0	0
Investment in Democracy	49	5	5	0
Net Capital Expenditure	11,962	26,442	22,665	(3,777)
Landcare: Sale of Mabey Road	(3,385)	0	0	0
Investment Management	336	620	620	0
Business Unit Rates Contribution	0	0	0	0
Net Capital Expenditure	8,913	27,062	23,285	(3,777)

5.1 Forecast Capital Expenditure, Favourable variance of \$3.8 million due to:

The change in rail heavy maintenance from capital to operating expenditure has reduced capital expenditure by \$4,270,000.

This has been partly offset by acceleration within the Flood Management program of \$494,000.

A separate paper to approve this increase (from 2006/07) is included in the Council reports.

6. Communication

No communications are necessary.

7. 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: Council Statement of Financial Performance

Attachment 2: The Council Funding Statement

Attachment 3: The Council Statement of Financial Position