



Report 08.864
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Committee Finance, Evaluation and Risk
Author Chris Gray, Finance Manager

Financial report for the three months ended 30 September 2008

1. Purpose

- To inform the Council of Greater Wellington's (GWRC) financial performance for the three months ended 30 September 2008 and to provide an explanation of major variances by Division.
- To forecast the end of year position based on the management reviews completed with each Division.
- To inform the Council of the WRC Holdings Group's financial performance for the three months ended 30 September 2008 and to provide explanations of variances to budget.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2008/09 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 is undertaken by the Chief Executive and Chief Financial Officer with each of the Divisions.

As a result of those reviews, a summary of Council's performance for the three months ended 30 September 2008 is presented to the Committee.

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. Therefore, only summary financial statements are presented for consideration by Council.

4. Financial Performance

4.1 Year to date Operating Performance

The Council achieved an operating surplus of \$1,767,000 (budget \$514,000). This result excludes grants to fund public transport capital expenditure, debt revaluations and forestry cost of goods sold. Including these amounts the Council's deficit was \$4,774,000 (budget, a deficit \$5,756,000).

The WRC Holdings Group achieved a net surplus before tax of \$2,119,000 (budget \$2,041,000).

Further details on the year to date performance are discussed below.

5. Financial Summary - Council

Wellington Regional Council Summary Income Statement - Revenue For the three months ended 30 September 2008				
Total operating revenue \$(000)'s	Year to date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	701	817	847	(30)
Public Transport	17,624	19,573	19,926	(353)
Total Transport	18,325	20,390	20,773	(383)
Environment	3,007	3,253	3,249	4
Catchment Management	6,788	6,418	6,198	220
Forestry	1,613	1,305	1,704	(399)
Regional Parks	1,615	1,619	1,578	41
Corporate	661	586	529	57
WRS	1,000	1,126	1,126	-
Finance, IT & Support Services	1,740	1,842	1,859	(17)
Investment in Democracy	1,160	1,182	1,181	1
Rates funded divisional operating revenue	35,909	37,721	38,197	(476)
Investment Management	1,285	1,262	1,246	16
Business Unit Rates Contribution	(2,186)	(2,077)	(2,077)	-
Rates funded operating revenue	35,008	36,906	37,366	(460)
Water Group	6,796	6,838	6,818	20
Rates & levy funded operating revenue	41,804	43,744	44,184	(440)
Non-Operational movements				
Revaluation of debt and stadium advance	-	-	(88)	88
Revaluation of forestry	-	-	-	-
Public Transport - Capex / Investment	5,884	6,875	7,962	(1,087)
Total Council revenue	47,688	50,619	52,058	(1,439)

Wellington Regional Council
Summary Income Statement - Expenditure
For the three months ended 30 September 2008

Total operating expenditure \$(000)'s	Year to date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	656	780	909	129
Public Transport	16,674	18,626	19,908	1,282
Total Transport	17,330	19,406	20,817	1,411
Environment	2,938	3,260	3,081	(179)
Catchment Management	5,701	5,649	5,448	(201)
Forestry	1,907	1,909	2,046	137
Regional Parks	1,458	1,482	1,423	(59)
Corporate	464	333	522	189
WRS	1,392	1,262	1,261	(1)
Finance, IT & Support Services	1,561	1,596	1,714	118
Investment in Democracy	1,173	1,185	1,162	(23)
Rates funded divisional operating expenditure	33,924	36,082	37,474	1,392
Investment Management	(858)	(785)	(1,005)	(220)
Business Unit Rates Contribution	-	1	-	(1)
Rates funded operating expenditure	33,066	35,298	36,469	1,171
Water Group	6,420	6,679	7,201	522
Rates & levy funded operating expenditure	39,486	41,977	43,670	1,693
Non-Operational movements				
Revaluation of debt and stadium advance	-	-	-	-
Forestry cost of goods sold	347	230	433	203
EMU Investment - GW Rail	-	-	(545)	(545)
Public Transport - Capex / Investment	8,559	13,186	14,256	1,070
Total Council expenditure	48,392	55,393	57,814	2,421

Wellington Regional Council
Summary Income Statement - Operating Surplus \ (Deficit)
For the three months ended 30 September 2008

OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	45	37	(62)	99
Public Transport	950	947	18	929
Total Transport	995	984	(44)	1,028
Environment	69	(7)	168	(175)
Catchment Management	1,087	769	750	19
Forestry	(294)	(604)	(342)	(262)
Regional Parks	157	137	155	(18)
Corporate	197	253	7	246
WRS	(392)	(136)	(135)	(1)
Finance, IT & Support Services	179	246	145	101
Investment in Democracy	(13)	(3)	19	(22)
Rates funded divisional operating surplus / (deficit)	1,985	1,639	723	916
Investment Management	2,143	2,047	2,251	(204)
Business Unit Rates Contribution	(2,186)	(2,078)	(2,077)	(1)
Rates funded operating surplus / (deficit)	1,942	1,608	897	711
Water Group	376	159	(383)	542
Rates & levy funded operating surplus / (deficit)	2,318	1,767	514	1,253
Non-Operational movements				
Revaluation of Debt and Stadium Advance	-	-	(88)	88
Revaluation Forestry - Revaluation	-	-	-	-
Forestry cost of goods sold	(347)	(230)	(433)	203
EMU Investment - GW Rail	-	-	545	(545)
Public Transport - Capex / Investment	(2,675)	(6,311)	(6,294)	(17)
Total Council surplus / (deficit)	(704)	(4,774)	(5,756)	982

5.1 Public Transport - favourable variance of \$929,000 due primarily to:

- The fluctuating exchange rate and lower oil price have resulted in lower payments to diesel bus operators by \$693,000. This saving is forecast to continue.
- Lower maintenance of bus shelters by \$94,000 and car park and station maintenance by \$127,000, due to lower requirements than budgeted. These savings are forecast to continue.
- Total mobility expenditure is lower by \$144,000, due to lower than anticipated use of the scheme.
- Grants revenue from NZ Transport Agency (NZTA) is \$394,000 less to date, due to the lower expenditure detailed above.

5.2 Public Transport improvement projects - unfavourable variance of \$17,000 due primarily to:

- Rail infrastructure projects including station platforms; signalling; Johnsonville stations and McKay's to Waianae double tracking, are under budget by \$2,700,000. However, Ontrack has forecast that these multi-year work programs be accelerated resulting in expenditure ahead of budget by year end.
- Rail rolling stock heavy maintenance programme is \$600,000 below budget due to KiwiRail's operational requirements and workshop availability.
- New Matangi EMU related expenditure is \$2,000,000 ahead of budget. Finalising the designs caused delays in 2007/08 resulting in expenditure being deferred to 2008/09. The overall project remains on budget.
- Grants revenue from NZTA is \$1,100,000 less to date due to the changes detailed above.

5.3 Transport Policy - favourable variance of \$99,000 due primarily to:

- A number of projects are under budget including savings on the Ngauranga to Wellington Airport Corridor Plan of \$58,000.

5.4 Environment - unfavourable variance of \$175,000 due primarily to:

- Lower than anticipated notified consents in the first quarter resulted in a \$126,000 reduction in income.
- Education income was \$80,000 ahead of budget for the quarter.
- Personnel costs were \$166,000 ahead of budget, due to increases in staff costs.

5.5 Forestry - unfavourable variance of \$262,000 due primarily to:

- Reduced harvesting due to the weather, particularly on the Metro side, reduced net harvesting revenue to budget by \$399,000.

5.6 Corporate - favourable variance of \$246,000 due primarily to:

- Additional revenue of \$53,000 from the Honda Tree Fund.
- Contractors and consultants were under budget by \$150,000, including \$54,000 on the web redesign project and \$35,000 in the HR training programme. These are timing differences which are expected to reverse by year end.

5.7 Finance, IT and Support - favourable variance of \$101,000 due primarily to:

- Materials and supplies are under budget by \$120,000, due to the timing of IT expenditure. This is expected to reverse by year end.

5.8 Investment Management - unfavourable variance of \$204,000 due primarily to:

- Lower capital expenditure by the Divisions has reduced borrowings and the margin earned by Investment Management.

5.9 Grants to GW Rail Limited (GWRL) - favourable variance of \$545,000 due primarily to:

- The Council funds GWRL by way of grants to purchase the new Matangi units. The favourable variance is due to timing and is expected to reverse by year end.

5.10 Water - favourable variance of \$542,000 due primarily to:

- Personnel costs are \$135,000 below budget, due to staff vacancies.
- Decreased depreciation of \$84,000, due to the water supply assets not being revalued as budgeted. This revaluation will occur this year as at 1 July 2008.
- Savings in materials and supplies \$66,000, due mainly to savings in chemicals \$69,000, however, energy costs have increased by \$46,000.
- Savings in contractors and consultants of \$157,000, due mainly to timing of completion of some projects.
- Finance costs are \$74,000 below budget, due to the opening debt position being lower than budget.

6. Finance costs

Finance costs for the three months to 30 September are \$1,280,000 compared to the budget of \$1,312,000, a favourable variance of \$32,000. The favourable

variance is due to slightly higher interest rates than budgeted offset by the lower external debt position.

7. Forecast to 30 June 2009

The forecast to 30 June 2009 is an operating deficit of \$1,449,000, compared with the budget deficit of \$1,911,000. These amounts exclude grants and expenditure of Public Transport capital expenditure, revaluations and the calculation of forestry cost of goods sold. Including these amounts the forecast deficit is \$14,749,000 compared to a budget deficit of \$11,717,000. The changes to the forecast are detailed below.

Wellington Regional Council Summary Income Statement - Operating Surplus \ (Deficit) For the year ending 30 June 2009				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Transport Policy and Strategy	202	(74)	(74)	-
Public Transport	46	646	40	606
Total Transport	248	572	(34)	606
Environment	(207)	(423)	(223)	(200)
Catchment Management	3,566	2,975	3,007	(32)
Forestry	(1,488)	(1,798)	(1,358)	(440)
Regional Parks	(208)	(653)	(653)	-
Corporate	(25)	(66)	(66)	-
WRS	250	(500)	(500)	-
Finance, IT & Support Services	691	298	298	-
Investment in Democracy	(75)	77	77	-
Rates funded divisional operating surplus / (deficit)	2,752	482	548	(66)
Investment Management	9,593	7,760	7,312	448
Business Unit Rates Contribution	(8,742)	(8,308)	(8,308)	-
Rates funded operating surplus / (deficit)	3,603	(66)	(448)	382
Water Group	1,223	(1,383)	(1,463)	80
Rates & levy funded operating surplus / (deficit)	4,826	(1,449)	(1,911)	462
Non-Operational movements				
Revaluation of Debt and Stadium Advance	5,460	2,283	2,103	180
Revaluation Forestry	(3,125)	2,643	2,643	-
Forestry cost of goods sold	(1,268)	(1,394)	(1,734)	340
EMU Investment - GW Rail	683	2,183	2,183	-
Public Transport - Capex / Investment	(9,118)	(19,015)	(15,001)	(4,014)
Total Council surplus / (deficit)	(2,542)	(14,749)	(11,717)	(3,032)

7.1 Public Transport - favourable variance of \$606,000 due primarily to:

- Reduced expenditure on the diesel bus contracts \$1,247,000, due to lower forecast oil prices.
- Increases in the rail contract due to forecast track and infrastructure renewal charges, \$972,000.
- Reduction in overall maintenance projects of \$190,000, due to an updated estimate of the costs for 2008/09.
- Reduction in forecast total mobility expenditure \$100,000, due to lower usage of the scheme than budgeted.

7.2 Public Transport improvement projects - unfavourable variance of \$4,000,000 due primarily to:

- Ontrack rail infrastructure projects are forecast to be \$27,700,000 ahead of budget as they accelerate the work program by bringing project work forward from 2009/10. These projects are 90% funded by the Crown.
- New Matangi EMU related expenditure is forecast to be \$1,600,000 ahead of budget by year end, due to the catch up of deferred 2007/08 expenditure.
- Offsetting this is additional grants revenue from NZTA of \$24,600,000.

7.3 Forestry - unfavourable variance of \$440,000 due primarily to:

- Reduced harvesting will result in lower revenue of \$700,000, this is offset with lower associated operational costs of \$260,000.

7.4 Investment Management - favourable variance \$448,000 due primarily to:

- Significantly lower interest rates than budget due to the impacts of the credit crisis.

8. Capital Expenditure

8.1 Year to date

Actual capital expenditure is \$2,255,000 compared with the budget of \$3,008,000.

The main contributors to this variance are detailed below:

Wellington Regional Council Capital Expenditure For the three months ended 30 September 2008				
Capital expenditure \$(000)'s	Year to date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	-	-	-	-
Public Transport	7	(9)	-	9
Public Transport Improvement Projects	90	40	64	24
Total Transport	97	31	64	33
Environment	-	108	186	78
Catchment Management	1,343	562	440	(122)
Forestry	56	59	85	26
Regional Parks	18	23	51	28
Corporate	-	32	-	(32)
WRS	-	-	-	-
Finance, IT & Support Services	36	634	1,256	622
Investment in Democracy	-	-	-	-
Rates funded divisional capital expenditure	1,550	1,449	2,082	633
Investment Management	4	13	40	27
Rates funded capital expenditure	1,554	1,462	2,122	660
Water Group	389	793	886	93
Rates & levy funded capital expenditure	1,943	2,255	3,008	753

8.2 Environment - favourable variance of \$78,000 due primarily to:

- The upgrade to air monitoring equipment is not likely to go ahead until 2009/10, \$120,000.

8.3 Catchment Management - unfavourable variance of \$122,000 due primarily to:

- Expenditure on the Waiohine and Wairarapa river investigations is ahead of budget. These projects are expected to be on budget by year end.

8.4 Finance and IT - favourable variance \$622,000 due primarily to:

- The Asset management project has experienced some delays due to availability of external resources provided by SAP. It is expected that the project will be back on track by the year end.

9. Capital Expenditure - Full year forecast

Forecast capital expenditure is \$17,477,000 compared with the budget of \$19,942,000.

Wellington Regional Council Capital Expenditure For the year ending 30 June 2009				
Capital expenditure \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Transport Policy and Strategy	24	-	-	-
Public Transport	7	121	121	-
Public Transport Improvement Projects	1,007	472	2,059	1,587
Total Transport	1,038	593	2,180	1,587
Environment	487	1,437	1,557	120
Catchment Management	6,573	6,183	6,941	758
Forestry	278	364	364	-
Regional Parks	296	469	469	-
Corporate	(17)	55	55	-
WRS	-	-	-	-
Finance, IT & Support Services	546	2,788	2,788	-
Investment in Democracy	74	5	5	-
Rates funded divisional capital expenditure	9,275	11,894	14,359	2,465
Investment Management	39	400	400	-
Rates funded capital expenditure	9,314	12,294	14,759	2,465
Water Group	3,843	5,183	5,183	-
Rates & levy funded capital expenditure	13,157	17,477	19,942	2,465

9.1 Public Transport capital projects - favourable variance of \$1,587,000 due primarily to:

- Real time project \$650,000. Tenders for this project have been released, however, some costs have been reclassified as operational expenditure for 2008/09 with capital expenditure likely to occur in 2009/10.
- Upgrade to Johnsonville transport interchange \$900,000. This project is progressing slower than anticipated as the Johnsonville Mall redevelopment resource consent is not yet finalised.

9.2 Catchment Management - favourable variance of \$758,000 due primarily to:

- Permanent savings on the Strand Park upgrade, \$1,000,000.
- Additional expenditure on the Boulcott/Hutt stopbank, \$158,000, due to phasing. The project remains on budget.

9.3 Environment - favourable variance of \$120,000 due primarily to:

- Upgrade of Air Monitoring equipment not expected to go ahead this year.

10. Finance Costs

Finance costs for the Council are forecast at \$5,509,000 compared with the budget of \$5,929,000. The favourable variance is due to forecast interest rates being lower than budget.

11. Debt

Council debt as at 30 September was \$81.6 million, an increase of \$7.7 million from 30 June 2007. This net increase in debt comprised \$2.9 million of Crown loan, with the balance of \$4.8 million to cover new capital investment and variations in working capital.

The \$81.6 million excludes the \$7.6 million written down value of the Government loans. The write down is due to the interest free nature of the loans. When the write down is included the Council's debt as at 30 September is \$74.0 million.

WRC Holdings Ltd debt as at 30 September was \$44.0 million. This is unchanged from 30 June 2008 and excludes debt borrowed by CentrePort Ltd.

On a consolidated basis total gross debt (excluding CentrePort Ltd) as at 30 September was \$125.6 million.

It should be noted that the Council has a total of \$48.7 million on deposit. This comprises \$33 million in liquid financial deposits, the remainder consists of our self insurance funds for water supply and flood protection.

11.1 Stadium debt

In June 2007 the Council approved the restructuring of the Stadium debt of \$18,985,000 from the ANZ at a fixed interest rate of 8.55% until 2018. At the same time the Council requested regular updates on the cost of refinancing.

The Stadium debt was repaid to the ANZ in late June 2007, including a break cost of \$419,000 and was refinanced using our commercial paper programme.

The interest rate risk on this debt has been fixed to January 2009 at a cost of 8.33% compared with the previous interest rate of 8.55%. Post January 2009 the debt will be funded at interest rates around 6.2%.

12. Annual Plan Performance Targets

Divisional managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2009.

13. WRC Holdings

The following table summarises WRC Holdings group of companies operating results for the period ended 30 September 2008.

WRC HOLDINGS GROUP

INCOME STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 2008

			GROUP			
YTD Last Year \$000	YTD Actual \$000	YTD Budget \$000		Full Year Budget \$000	Full Year Forecast \$000	Last Year Actual \$000
22,924	14,443	15,803	Total Revenue	63,210	61,850	56,550
18,141	10,012	11,078	Operating Expenses	44,313	44,243	39,333
4,783	4,431	4,724	Earnings Before Interest & Tax	18,897	17,607	17,217
			Less:			
2,285	2,312	2,684	Interest expense	10,735	9,819	8,951
	-		Revaluations (down)			(830)
2,498	2,119	2,041	Net Surplus Before (Deficit) Tax	8,162	7,788	7,436
918	805	816	Taxation expense	4,093	3,972	4,231
1,580	1,314	1,225	NET SURPLUS (DEFICIT) AFTER TAX	4,069	3,816	3,205

Notes:

(1) Includes a summary consolidation of CentrePort Ltd's results before providing for minority interests.

The group achieved a net surplus for the period of \$1,314,000, compared with the budget of \$1,225,000.

The full year forecast is showing an adverse position to budget after tax of \$253,000. This is due to lower revenues from CentrePort, based on slowing economic conditions.

14. Compliance with Treasury Management Policy

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

15. Communications

No communications are necessary at this time.

16. Recommendations

That the Committee recommend to Council that it:

- 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