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

Annual Report for the year ended 30 June 2001

1. Purpose

To report the results of the Council for the year ended 30 June 2001 and to seek Committee approval of the draft Annual Report (forwarded as a separate document).

2. Background

By 30 November each year the Council is legally required to formally adopt the Annual Report to enable the Audit Certificate to be released by Audit New Zealand.

The Council normally adopts the Annual Report by the end of October each year. (Last year the Annual Report was adopted on 26 October 2000) The date of this year's meeting has been brought forward so that the Annual Report can be adopted by the current Council.

Officers normally try to obtain audit clearance before the order paper is sent out but have been unable to achieve it this year due to the tighter timeframes. However, Erica Mason our audit Director from Audit New Zealand, will be in attendance at the meeting on 11 October 2001 to summarise the results of the annual audit and to answer any questions that the Committee may have.

Although Audit New Zealand have yet to provide formal clearance on the Annual Report we are confident that clearance will be provided before the Policy and Finance Committee meeting. The signed Audit Certificate should therefore be available at the meeting on 11 October 2001 once the accounts are adopted by the Council.

3. **Annual Report Document**

The 2001 Annual Report has been modelled on those prepared in previous years, which is not surprising given it is fundamentally a compliance report, with the majority of disclosures required by law.

This year the format has been updated to reflect the style used within the “Investing in the Future” planning document which was adopted by the Council in June 2000.

Key sections that have been either added or altered include:

- Inclusion of the Big Picture outcomes as specified within Towards a Greater Wellington “Investing in the Future”. The Annual Report provides readers with an update of what the Council actually did towards achieving these outcomes.
- The introduction section of each significant activity has been altered to link how each activity contributes to achieving the Council’s outcomes. A new section, which highlights the key issues in each activity, has also been added to update readers on current issues facing the Council.

4. **Financial Performance for the year ended 30 June 2001**

4.1 **Operating Surplus**

The Council’s operating surplus for the 2000/01 financial year was \$6.1 million compared with a budgeted surplus of \$3.9 million, resulting in an operating surplus ahead of budget by \$2.1 million.

The majority of the operating surplus above budget has been generated by the Water Group.

Detailed variances from the budget, by activity, are shown in the following table:

	2000/01 Actual \$000s	2000/01 Budget \$000s	Variance \$000s
OPERATING SURPLUS (DEFICIT)			
Water Group	3,473	1,751	1,722 F
Plantation Forestry	(304)	275	579 U
Utility Services	3,169	2,026	1,143 F
Transport	(2,121)	(1,029)	1,092 U
Landcare	1,142	1,010	132 F
Environment	109	100	9 F
Wairarapa	(92)	73	165 U
Corporate Advisory Services	(70)	(13)	57 U
Finance & Admin	(99)	(326)	227 F
General Manager	15	(9)	24 F
Investment in Democracy	473	114	359 F
Rates Collection	368	0	368 F
Net Divisional Surplus (Deficit)	2,894	1,946	948 F
Investment Management	8,757	7,579	1,178 F
Business Unit Rates Contribution	(5,584)	(5,584)	-
Total Operating Surplus (Deficit)	6,067	3,941	2,126 F

Significant components of the \$2.1 million favourable variance are as follows:

(1) Water Supply favourable variance of \$1.72 million, due to:

- Higher than budgeted external revenue of \$722,000, which includes an unbudgeted recovery of \$205,000 for Hutt City Council's contribution to restoring Petone's defluoridated water supply.
- Materials, supplies and services savings of \$342,000.
- Lower than anticipated debt levels, combined with a greater than anticipated cash surplus for the year, have generated financial cost savings of \$385,000.

(2) Plantation Forestry unfavourable variance of \$0.58 million, due to:

- The unavailability of harvesting contractors during the first six months of the financial year and the deterioration of market opportunities since March, are the key drivers for total revenue being \$2.34 million below budget. However, the revenue shortfall has been offset to an extent, by external contractor savings of \$1.66 million.

(3) ***Transport unfavourable variance of \$1.09 million, due to:***

- \$1,605,000 unfavourable variance resulting from inflation on bus contracts, following price rises on diesel during the year.
- \$1,276,000 unfavourable variance with station upgrades and car park developments being funded from Reserves.
- \$808,000 favourable variance as a result of unbudgeted funding received for refurbishment of electric Ganz Mavag units.
- \$647,000 favourable variance as a result of unbudgeted patronage funding received, following the Council's joining of the Patronage Scheme in November 2000.
- \$206,000 favourable variance with the postponement of a Wellington City Bus Priority system until decisions around the Wellington City Bypass are confirmed.

(4) ***Landcare favourable variance of \$0.13 million, due to:***

- Savings in personnel costs of \$256,000, as a result of staff vacancies.
- Additional revenue of \$81,000 was generated during the year primarily due to the unbudgeted leaseback arrangement with Rentokil, and a new lease agreement for the Shandon Golf Course.
- Savings of \$136,000 in depreciation and \$21,000 in financial costs as a result of capital projects being behind schedule.
- Savings of \$28,000 as a result of projects being re-programmed because of the unavailability of contractors and staff vacancies.
- Savings are being offset by 1998 and 2000 flood damage work carried out (\$336,000 Flood Protection and \$56,000 Parks and Forests).

(5) ***Environment favourable variance of \$0.01 million, due to:***

- Personnel costs were under budget by \$84,000. The under-spend was caused by staff movements and has remained at this level for most of the year.
- External Contractors and Consultants were \$99,000 under budget. The level of expenditure on iwi projects expenditure increased slightly during the month of June, but despite this expenditure remains significantly behind budget.

The under-spend has been offset to some extent by additional work completed on the unsuccessful joint Valley Plaza appeal with UHCC (\$57,000). In addition, as work on the Waiwhetu stream investigation

progressed more quickly than anticipated, a further \$20,000 was assigned to this work. Also, because of staff shortages, consultants undertook the Porirua stream investigation (\$12,000). We also contributed to the Information to Motivation conference (\$18,000).

- Material costs were some \$165,000 over budget because of the following unbudgeted expenditure:
 - Structural alterations to Level 3 to accommodate additional staff (\$35,000)
 - The Take Charge database was developed (\$25,000) – this item was brought forward from 2001/2
 - The shallow groundwater investigation, Kapiti (\$16,000)
 - Revised Harbour Bylaws printed and advertised (\$11,000)
 - Telemetry site in the Orongorongo catchment (\$13,000)
 - Hydrology and telemetry upgrades (\$18,000)
 - Aerial photography and orthophoto imagery (\$35,000) – most of these costs were recovered from the Wairarapa Division
- Internal costs were \$34,000 over budget. Part of the increased expenditure relates to the joint purchase of the Agribase database with the Wairarapa (\$22,000). The database shows clearly the productive use of land in detail for the Region and provides a tool to model different environmental effects. This is especially important for riparian management, for which a Council strategy was completed this year.

(6) *Wairarapa unfavourable variance of \$0.17 million, due to:*

- A number of offsetting variances including reduced Bovine Tb expenditure of \$662,000 from the cancellation of South East Wairarapa operations, and additional flood damage expenditure of \$1,040,000 (that was partly offset by District Council contributions of \$200,000).

(7) *Corporate Advisory unfavourable variance of \$0.06 million, due to:*

- Increased Employment Services personnel costs of \$63,000 due to an upgrade of positions that occurred after setting the 2000/01 budgets.

(8) *Finance and Admin favourable variance of \$0.23 million, due to:*

- Savings of \$482,000 in Info Tech & Support due to increased internal revenue, reduced depreciation expenditure, reduced expenditure on communications, occupancy expenses, computer maintenance and contracts.
- Increased expenditure of \$259,000 in Finance, primarily in the FIS area on personnel, consultants and additional depreciation.

(9) Investment in Democracy favourable variance of \$0.36 million, due to:

- Savings of \$66,000 in the advocacy budget as there were less issues that required resources in the 2000/01 year.
- Savings of \$133,000 on Strategic Communications (Branding exercise) due to a delay while the communications review was undertaken. A reserve transfer is recommended for this amount into the 2001/02 year.
- Additional savings of \$47,000 and \$92,000 were made in the areas of legal costs and councillors' fees and allowances respectively.

(10) Rates Collection favourable variance of \$0.37 million, due to:

- Savings in valuation fees and rate collection costs compared with budget.

(11) Investment Management favourable variance of \$1.18 million, due to:

- Dividends from WRC Holdings Ltd were \$900,000, approximately \$700,000 higher than the budgeted dividend. This was due to returns from CentrePort Ltd higher than budgeted.
- A higher level of money market investments carried forward from 1999/00 as well as 2000/01 surpluses resulted in increased money market revenue and reduce external borrowing costs.

4.2 Capital Expenditure

Net capital expenditure for the year was \$0.6 million below budget.

Variances from the budget, by activity, are shown in the following table:

	2000/01 Actual \$000s	2000/01 Budget \$000s	Variance \$000s
NET CAPITAL EXPENDITURE			
Utility Services	4,838	5,036	198 F
Landcare	2,554	2,504	50 U
Environment	355	375	20 F
Transport	44	49	5 F
Wairarapa	164	228	64 F
Corporate Advisory Services	69	0	69 U
Investments	(215)	0	215 F
Finance & Admin	228	336	108 F
Investment in Democracy	22	98	76 F
Total Net Capital Expenditure	8,059	8,626	567 F

Significant components of the \$0.6 million favourable variance are as follows:

(1) Utility Services favourable variance of \$0.20 million, due to:

- Deferrals of vehicle replacements and general equipment purchases throughout the division.

(2) Landcare unfavourable variance of \$0.05 million, due to:

- Delays in capital works for Flood Protection amounting to \$643,000. These delays are mainly a result of unfavourable weather conditions and staff vacancies.
- Savings were made on asset purchases and sales (net value of \$72,000 favourable).
- The above savings have been offset by the delay in the planned sale of the Findlay Street houses (\$445,000) and the unbudgeted October 2000 Flood damage work (\$326,000).

(3) Wairarapa favourable variance of \$0.06 million, due to:

- Deferring purchase of irrigation equipment for the Akura Nursery to 2001/02.
- The delay in replacing one vehicle for the Planning & Resources department.

(4) Corporate Advisory unfavourable variance of \$0.07 million due to:

- Unbudgeted expenditure \$77,000 on vehicles following one position upgrade, an accident and a deferred purchase from 1999/00.

(5) Investment Management favourable variance of \$0.22 million due to:

- Sale of two of the last remaining Investment Properties transferred from the Harbour Board. These properties included the Hungerford Road and the Evans Bay Parade properties.

(6) Finance and Admin favourable variance of \$0.11 million due to:

- Savings in the Capital expenditure budget of \$112,000 as a result of timing issues. A reserve transfer was made for this amount to carry forward this funding to the 2001/02 year.

(7) *Investment in Democracy favourable variance of \$0.08 million due to:*

- Expenditure of \$75,000 relating to office equipment for Councillors did not proceed. A reserve transfer was made for this amount to carry forward this funding to the 2001/02 year.

4.3 **Funding Position**

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

	2000/01 Actual \$000s	2000/01 Budget \$000s	Variance \$000s
Regional Water Supply	3,473	1,751	1,722
Regional Transport	(2,138)	(1,042)	(1,096)
Regional Stadium	596	596	-
Other Regional Responsibilities	4,136	2,636	1,500
Operating Surplus (Deficit)	6,067	3,941	2,126
Movement in Reserves	(3,058)	2,137	(5,195)
Add Back Non Cash Items	7,505	8,178	(673)
Funding Surplus from Operations	10,514	14,256	(3,742)
Less:			
Net Capital Expenditure	8,059	8,626	(567)
Investment Additions	1,706	1,549	157
New Loans	(6,452)	(6,562)	110
Investment Redemption	(5,000)	-	(5,000)
Net Capital Expenditure and Investment	(1,687)	3,613	(5,300)
Working Capital Movement	546	-	546
Debt Repayment	11,655	10,643	1,012
Net Funding Surplus (Deficit)	-	-	-

As has been Council practice in the past, any surplus above budget in the Regional Water Supply area has been applied to debt reduction and the deficit in Regional Transport has been transferred from the Transport Reserve. Any surplus or deficits relating to other separate areas of benefit (eg. River and Pest rates) have also been applied to their specific reserves, in proportion to their respective funding policy ratios. (refer to the section on reserves)

In accordance with Council policy, overall surplus funds, after reserve transfers and working capital requirements, have been used to repay debt. This has resulted in an additional \$1.0 million of debt repayment over that budgeted.

The figures presented provide that no forestry dividend is paid in respect of the 2000/01 year. It is recommended that dividends from both forestry areas, Plantation Forestry and Reserve Forests, be waived in the 2000/01 year.

4.4 **Financial Position**

The Council's financial position remains strong.

(1) Debt Position

Net Council debt has decreased by \$8.3 million during the year from \$90.6 million at 30 June 2000 to \$82.3 million at 30 June 2001. This reduction was \$6.2 million higher than the planned debt reduction, primarily due to redemption of Council's \$5 million short term investment and the 2000/01 additional funding surplus of \$1 million noted above.

At 30 June 2001 the Council had a net debt to equity ratio of 20:80, or put another way, Council's assets are supported by 20% of debt and 80% of ratepayers' equity. The consolidated position, incorporating the WRC Holdings Group (including CentrePort) also makes good reading with a consolidated debt to equity ratio of 24:76.

The two main components of the Council debt relate to Water Supply and the debt associated with the Stadium. In fact, Other Regional Responsibilities taken together are now nearly debt free.

This continuing decline in debt levels and surpluses above budget should provide Standard and Poor's with increased comfort in Council's ability to service its financial obligations. (Remembering S&P upgraded our credit rating to AA/A1+ in February this year.) The latest rating factors in the expectation that our debt levels will continue to decline as projected in the Council's long term financial strategy.

(2) Investments

The Council manages a significant portfolio of investments comprising equity investments, forestry, sinking funds, special funds and, from time to time, short-term money market deposits. The Treasury Management Policy (last updated 2 November 1999) includes the Council philosophy and approach to management of its investments.

These investments are explained in more detail within the Annual Report. (Refer to Note 6 on Page 37 and the Investments section on page 128).

(3) Reserves

A detailed analysis of reserve movements during the 2000/01 year is provided as **Attachment 1** of this report, along with explanations of variances between budgeted and actual reserve movements. All variances from budgeted reserve movements need to be approved by the Council as part of its adoption of the 2001 Annual Report. (The budgeted reserve movements were implicitly approved as part of the 2000/01 Annual Plan.)

The Council has four types of reserves. They can be categorised as follows:

- ***Reserves for each Different Area of Benefit.***

These reserves are used where there is a discrete set of rate or levy payers as distinct from the general rate including Regional Water Supply, Transport, Bovine Tb, Regional Park Land Purchase, River Rates, Water Operations Network, Workshop, Nursery and Wairarapa Schemes.

Any surplus or deficit relating to these separate areas of benefit is applied to the specific reserves, in proportion to the respective funding policy ratios.

If the Council establishes other separate rates in the future the same will apply. Such reserves are often long-term in nature in that the use of the available funding spans many years.

It is interesting to note that the balances of two of Council's most significant reserves (Transport and Water Supply), have decreased substantially this year.

- ***Contingency Reserves***

The Council has traditionally set aside reserves which can be made available when a specific unforeseen event occurs. Such reserves include Water Supply quality, Environment Legal, Flood and Rural Fire contingency reserves.

The release of these funds can generally only be approved by Council, with some delegation to Divisional Managers. Again, these reserves are long-term in nature.

Councillors should note that the Flood contingency reserve is approximately zero as a result of the effects of the 1998 and 2000 floods. The contribution to this reserve needs to be reviewed as part of next year's planning process.

- ***Reserves where there has been Rebudgeting of Expenditure***

As part of each planning process Department Managers indicate the funds needed to achieve specific outputs during the year. Any surpluses generated as a result are available for Council use (unless there is an area of benefit issue) and unless determined otherwise by the Council those surpluses are used to reduce Council debt. This benefits the Council as a whole.

One exception to this rule is where a specific project has been planned to be completed during the financial year, but has not been. If this project is still a priority for the Council, then it is appropriate to rebudget this expenditure in the following year. This process is undertaken as part of the finalising the Annual Plan in June each year.

Funds naturally need to be made available in the following year to fund these projects. By doing this the Council does not rate the community twice for the same project. The main mechanism to achieve this is through the use of a reserve (except for loan funded projects where the raising of the loan is merely delayed). The actual transfer to reserve occurs now as part of finalising the Annual Report.

Councillors should note that the amount of funds carried forward this year is significant compared to previous years and represents a large portion of this year's operating surplus above budget.

- *Special Reserves*

The only special reserve of the Council is the election reserve. The reserve is necessary to smooth the costs of the local body elections across the three years of the triennium.

(4) Asset Management

Asset management plans remain an important building block in Council's financial management framework. The majority of the Council's asset base consists of Regional Water Supply and Flood Protection assets. These important community assets are required to be maintained and, where possible enhanced, to enable the Council to continue to provide the agreed service levels.

During the year the Council made further progress in refining its asset management plans. The Council plans to review the valuation of its flood protection assets within the next financial year.

5. Non Financial Results

The Council is required by law to report in its Annual Report its achievements against the performance indicators published in the 2000/01 Annual Plan.

Reporting is therefore grouped into Council's significant activities as follows:

- Environment Management
- Regional Transport
- Regional Water Supply
- Land Management
- Flood Protection
- Parks & Forests

In addition there is separate reporting on the Investment in Democracy and the Council's involvement with the Stadium and other Investments.

Overall, it is pleasing to see that the majority of performance targets have been met. Where shortfalls have occurred, the reasons are clearly stated.

6. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the year ended 30 June 2001.

7. Communications

The Council's Annual Report is essentially a compliance report, which is required by law. However, Council's continued good financial performance and prudent debt management should be communicated publicly.

8. Recommendations

That the Committee recommend to Council that it:

- (1) *Receive the report and note its contents.*
- (2) *Approve the following net amounts, in addition to those budgeted, being added to or deducted from, the respective reserves:*

(a)	<i>Hutt Ground Water</i>	<i>\$45,000</i>
(b)	<i>Transport Rate</i>	<i>(\$1,440,000)</i>
(c)	<i>Bovine Tb Rate</i>	<i>\$159,000</i>
(d)	<i>Wairarapa Schemes – Catchment Whareama</i>	<i>\$1,000</i>
(e)	<i>Wairarapa Schemes – Catchment Homewood</i>	<i>\$2,000</i>
(f)	<i>Wairarapa Schemes – Catchment Mataikona</i>	<i>(\$1,000)</i>
(g)	<i>Wairarapa Schemes – Catchment Maungaraki</i>	<i>\$1,000</i>
(h)	<i>Wairarapa Schemes – Drainage</i>	<i>\$18,000</i>
(i)	<i>Wairarapa Shingle Royalty</i>	<i>\$60,000</i>
(j)	<i>Water Operations Network</i>	<i>\$283,000</i>
(k)	<i>Wairarapa workshop</i>	<i>\$3,000</i>
(l)	<i>Akura Nursery</i>	<i>\$14,000</i>
(m)	<i>Wairarapa Schemes – River LWVD</i>	<i>(\$45,000)</i>
(n)	<i>Wairarapa Schemes – River Waiohine</i>	<i>(\$92,000)</i>
(o)	<i>Wairarapa Schemes – River Upper Ruamahanga</i>	<i>(\$59,000)</i>
(p)	<i>Wairarapa Schemes – River Waipoua</i>	<i>(\$62,000)</i>
(q)	<i>Wairarapa Schemes – River Waingawa</i>	<i>(\$24,000)</i>
(r)	<i>Wairarapa Schemes – River Lower Tauera</i>	<i>\$5,000</i>
(s)	<i>Wairarapa Schemes – River Lower Whangaehu</i>	<i>\$1,000</i>
(t)	<i>River Rate – Hutt City</i>	<i>(\$228,000)</i>
(u)	<i>River Rate – Kapiti Coast</i>	<i>(\$213,000)</i>
(v)	<i>River Rate – Porirua City</i>	<i>(\$37,000)</i>
(w)	<i>River Rate – Upper Hutt City</i>	<i>(\$21,000)</i>
(x)	<i>River Rate – Wellington City</i>	<i>\$26,000</i>
(y)	<i>Flood Contingency</i>	<i>(\$604,000)</i>
(z)	<i>Rural Fire Contingency – Plantation Forestry</i>	<i>(\$4,000)</i>
(aa)	<i>Expense Rebudget – Avalon Berms</i>	<i>\$36,000</i>
(ab)	<i>Expense Carry Forward - IT Operations Capex</i>	<i>(\$14,000)</i>
(ac)	<i>Expense Carry Forward – Lab System</i>	<i>(\$8,000)</i>
(ad)	<i>Expense Carry Forward – Communications Vehicle</i>	<i>(\$14,000)</i>
(ae)	<i>Expense Carry Forward – Landcare Vehicle</i>	<i>(\$14,000)</i>
(af)	<i>Expense Carry Forward – FIS Purchasing</i>	<i>(\$60,000)</i>
(ag)	<i>Expense Rebudget – Landcare EMS</i>	<i>\$20,000</i>
(ah)	<i>Expense Rebudget – Waikanae Gravel Consent</i>	<i>\$23,000</i>
(ai)	<i>Expense Rebudget – HCC Land Swap (Flood)</i>	<i>\$100,000</i>

(aj)	Expense Rebudget – HCC Land Swap (Parks)	\$13,000
(ak)	Expense Rebudget – Otaki River Photos	\$30,000
(al)	Expense Rebudget – SH2 Bus Lanes	\$40,000
(am)	Expense Rebudget – Trans Model Recalibration	\$200,000
(an)	Expense Rebudget – EM Plant & Equipment	\$75,000
(ao)	Expense Rebudget – Microsoft Licences	\$80,000
(ap)	Expense Rebudget – Purchasing Review	\$30,000
(aq)	Expense Rebudget – Stormwater Investigation	\$20,000
(ar)	Expense Rebudget – East Harb KNE Possums	\$30,000
(as)	Expense Rebudget – Owhiro Bay Enhancement	\$20,000
(at)	Expense Rebudget – SAP 4.6 Upgrade	\$145,000
(au)	Expense Rebudget – QE2 National Trust	\$30,000
(av)	Expense Rebudget – FIS Managers Vehicle	\$14,000
(aw)	Expense Rebudget – Plant Forestry Vehicle	\$21,000
(ax)	Expense Rebudget – IT Capex Programme	\$112,000
(ay)	Expense Rebudget – Belmont Woolshed	\$55,000
(az)	Expense Rebudget – Iwi Administration	\$105,000
(ba)	Expense Carry Forward – Wai Planning Vehicle	\$18,000
(bb)	Expense Carry Forward – Comms Branding	\$134,000

- (3) *Agree that the adequacy of the annual contribution to the Council's contingency reserves will be considered as part of the 2002/03 Annual Plan.*
- (4) *Agree that the requirement for the forestry business units to pay a dividend be waived for the 2000/01 year.*
- (5) *Agree that in line with Council policy, the remaining surplus after reserve transfers and working capital requirements be applied to debt reduction.*
- (6) *Adopt the Financial Statements and accompanying notes for the year ended 30 June 2001, subject to receipt of the Audit Report, and agree that any minor adjustments requested by Audit New Zealand be considered by officers and, if necessary, amended, pursuant to resolution (7) below.*
- (7) *Agree that the 2001 Annual Report be published subject to any minor editorial amendments approved by the Chief Financial Officer, in conjunction with the Chairman.*

Report prepared by:

Approved by:

PAUL LAPLANCHE
Finance Manager

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Department Reserve Analysis

2001 Draft Annual Report is enclosed as a separate attachment to this report