THE REGIONAL COUNCIL

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

Financial Report for the nine months ended 31 March 2002

1. Purpose

To receive the March 2002 Financial Statements (forwarded under separate cover) and to inform the committee of the updated forecast year-end position.

2. Comment

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus ahead of budget by $3.3 million and capital expenditure below budget by $2.0 million.

As Councillors are aware the General Manager and the 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 2002 in respect of both operating surplus and capital expenditure is explained in section 4 of this report.

3. Financial Performance for the nine months to 31 March 2002

3.1 Operating Surplus

The year to date operating result after nine months reflects an operating surplus ahead of budget by $3.3 million. Detailed variances from budget are shown in the following table:

OPERATING SURPLUS (DEFICIT)	2001/02 YTD Actual $000s	2001/02 YTD Budget $000s	Actual vs Budget Variance $000s	2001/02 Year Forecast $000s	2001/02 Year Budget $000s	Forecast vs Budget Variance $000s
Water Group	2,170	1,194	976 F	2,736	1,537	1,199 F
Plantation Forestry	(541)	(408)	133 U	(673)	(546)	127 U
Utility Services	**1,629**	**786**	**843 F**	**2,063**	**991**	**1,072 F**
Transport	340	(324)	664 F	(23)	(270)	247 F
Landcare	1,463	1,054	409 F	1,375	1,343	32 F
Environment	520	(87)	607 F	(137)	(282)	145 F
Wairarapa	272	169	103 F	57	485	428 U
Corporate Advisory Services	61	(5)	66 F	(50)	(7)	43 U
Finance & Admin	68	(318)	386 F	(296)	(518)	222 F
General Manager	109	19	90 F	100	26	74 F
Investment in Democracy	(40)	(157)	117 F	(31)	(136)	105 F
Rates Collection	73	0	73 F	91	0	91 F
Net Divisional Surplus (Deficit)	**4,495**	**1,137**	**3,358 F**	**3,149**	**1,632**	**1,517 F**
Investment Management	5,178	5,145	33 F	8,050	7,979	71 F
Business Unit Rates Contribution	(4,399)	(4,337)	62 U	(5,907)	(5,782)	125 U
Total Operating Surplus (Deficit)	**5,274**	**1,945**	**3,329 F**	**5,292**	**3,829**	**1,463 F**

Significant components of the $3.3 million favourable year to date operating variance are as follows:

(1) ***Water Group $0.98 million favourable variance, due to:***

- An unfavourable external revenue variance of $981,000 as a result of cessation of the WSA with WCC is offset by direct cost savings of $1,584,000 and financial cost savings of $260,000.

(2) ***Plantation Forestry $0.13 million unfavourable variance, due to:***

- Primarily higher roading maintenance costs in preparation for the Puketiro harvest commencing, plus an increase in harvest contract costs commensurate with the higher revenue returns being achieved.

(3) ***Transport $0.66 million favourable variance, due to:***

- A $343,000 favourable variance as a result of Transfund's payment for WRC's claim for expenditure over the 2000/01 Regional Programme. This claim was included as a contingent asset as it was not sufficiently certain to accrue in the 2000/01 accounts.

- A $241,000 favourable variance with kickstart services having commenced later than planned, as a result of delays in the Transfund approval process.

- A $260,000 favourable variance as a result of patronage revenue being above budget with increases in passenger numbers on public transport services.

- A $219,000 unfavourable variance as a result of the unbudgeted joint venture consultancy costs for the year to date.

(4) ***Landcare $0.41 million favourable variance, due to:***

- Savings in personnel costs of $128,000 as a result of staff vacancies.

- A change in the strategy for developing both Parks and Forests Management Plans has meant a reshuffle in priorities and resources, resulting in an underspend to date of $68,000.

- Savings in financial costs of $34,000 as a result of the postponement of projects, all of which have been reported to the Landcare Committee i.e. Findlay Street Re-alignment, Bearing Head Bridge Replacement, Otaihanga Road Raising and Melling Bridge.

- Bad weather during summer has resulted in an underspend on operational projects during the period of $180,000. This is expected to be a timing variance as maintenance works on stopbank edges, buildings, roads and tracks will re-commence when weather conditions improve.

(5) ***Environment $0.61 million favourable variance, due to:***

- Increased revenue from some large notified resource consent applications. These were the Otaki Pipeline Project - $67,000, the upgrade of SH58 and SH2/58 - $90,000, Exide's air discharge for their lead battery recycling business - $16,000 and the Western Wastewater Treatment Plant overflows - $14,000.

- Staff movements amounted to a reduced personnel spend of $62,000.

- The reduced materials spend of $34,000 arises from the changed licensing arrangements for the Geographical Information Systems and deferment of some of the Care group expenditure. These have been offset, in part, by Commissioners' costs from the Otaki Pipeline and the upgrade of SH58 and SH2/58 hearings.

- External Contractors and Consultants were $279,000 under budget for the period.

The variance is mainly due to slight delays in the following projects:

(a) The unwanted Agricultural chemical collection.
(b) Remedial work at some of our contaminated sites.
(c) The stormwater investigation work.

Although these projects were late starting, work is well advanced and expenditure is anticipated to catch–up with our budget by 30 June 2002.

In addition, the spend on Iwi projects trails by some $129,000 behind our expected expenditure level.

(6) ***Wairarapa $0.1 million favourable variance, due to:***

- River Management was $369,000 favourable due to the timing of river scheme maintenance and additional shingle royalty income. Net logging revenue for Reserve Forests was $266,000 below budget as a result of poor quality trees and wet ground conditions. Net expenditure for Soil Conservation and Akura was $94,000 above budget as a result of revenue being below expectations.
- Planning & Resources was $67,000 favourable due to savings in personnel, materials and contract expenditure.

(7) ***Finance & Administration $0.39 million favourable variance, due to:***

- Reduced depreciation on the new records management system of $105,000 (budget assumes full year of depreciation) and personnel savings of $80,000 as a result of staff vacancies. In addition, there was increased internal revenue of $110,000 as a result of increased service requests from operational areas of the Council.

(8) ***Investment in Democracy $0.12 million favourable variance, due to:***

- Reduced expenditure on councillor fees, travel, legal consultants, and election costs compared with budget.

3.2 Net Capital Expenditure

Year-to-date net capital expenditure for the nine months to 31 March 2002 is $2.0 million below budget.

NET CAPITAL EXPENDITURE	2001/02 YTD Actual $000s	2001/02 YTD Budget $000s	Actual vs Budget Variance $000s	2001/02 Year Forecast $000s	2001/02 Year Budget $000s	Forecast vs Budget Variance $000s
Utility Services	1,486	2,818	1,332 F	3,749	4,644	895 F
Landcare	1,145	1,380	235 F	1,903	1,695	208 U
Environment	132	217	85 F	256	323	67 F
Transport	0	35	35 F	10	35	25 F
Wairarapa	194	225	31 F	225	225	-
General Manager	19	34	15 F	19	34	15 F
Finance & Admin	732	888	156 F	800	1,046	246 F
Investment in Democracy	0	87	87 F	15	117	102 F
Total Net Capital Expenditure	**3,708**	**5,684**	**1,976 F**	**6,977**	**8,119**	**1,142 F**

Significant components of the $2.0 million favourable year to date net capital expenditure are as follows:

(1) ***Utility Services $1.3 million favourable variance, due to:***

- A $742,000 favourable capital expenditure variance has been generated across the division's capital works programme, the majority of which is expected to be permanent savings.

- A $590,000 favourable variance in minor asset acquisitions expenditure is due to a combination of savings generated by purchasing significantly fewer minor assets and the final outcome from the Operations Network asset disposal programme.

(2) ***Landcare $0.24 million favourable variance, due to:***

- The postponement of projects, all of which have been reported to the Landcare Committee i.e. Findlay Street Re-alignment, Bearing Head Bridge Replacement, Otaihanga Road Raising and Melling Bridge.

(3) ***Finance & Administration $0.16 million favourable variance, due to:***

- The deferral of part of the Records Management System, $113,000 and Information Technology capital expenditure, $46,000 until 2002/03.

4. Year End Outlook Position

4.1 Revised year end Operating Surplus

The projected year end operating surplus has been revised as part the March quarterly management reviews. The projected year end operating surplus is now $5.3 million, an increase of $0.9 million over the December forecast of $4.4 million.

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

OPERATING SURPLUS (DEFICIT)	2001/02 Year March Outlook $000s	2001/02 Year December Forecast $000s	Variance $000s
Water Group	2,736	2,578	158 F
Plantation Forestry	(673)	(897)	224 F
Utility Services	**2,063**	**1,681**	**382 F**
Transport	(23)	(46)	23 F
Landcare	1,375	1,336	39 F
Environment	(137)	(272)	135 F
Wairarapa	57	69	12 U
Corporate Advisory Services	(50)	18	68 U
Finance & Admin	(296)	(528)	232 F
General Manager	100	26	74 F
Investment in Democracy	(31)	(173)	142 F
Rates Collection	91	40	51 F
Net Divisional Surplus (Deficit)	**3,149**	**2,151**	**998 F**
Investment Management	8,050	8,051	1 U
Business Unit Rates Contribution	(5,907)	(5,782)	125 U
Total Operating Surplus (Deficit)	**5,292**	**4,420**	**872 F**

Significant components of the increase in projected operating surplus are:

(1) ***Water Group increase in forecast surplus of $0.16 million, due to:***

- Further anticipated direct and financial cost savings, offset by a proposed $225,000 infrastructure asset write off.

(2) ***Plantation Forestry decrease in forecast deficit of $0.22 million, due to:***

- Significant improvement in operating conditions, with market demand for wood strengthening, combined with good harvesting volumes and higher product prices.

(3) ***Environment decrease in forecast deficit of $0.14 million, due to:***

- Staff movements are expected to contribute an additional saving of $60,000.

- While the Care group budget (material/project supplies) is committed some expenditure has been delayed and is not planned until next year.

- Because the Front Lead Light painting project did not take place it is proposed to carry out the work next financial year (02/03). The project covers the application of a protective coating system on the structure above and below the water line at a cost of $45,000.

- The Radio equipment used by the Emergency Management Department has been maintained with attendant costs less than those budgeted. A further saving of $15,000 is anticipated.

(4) ***Finance and Administration decrease in forecast deficit of $0.23 million, due to:***

- A reduction in estimated personnel costs and a further reduction in depreciation on the records management system.

(5) ***Investment in Democracy decrease in forecast deficit of $0.14m, due to:***

- Reduced expenditure on strategic communications initiatives expenditure, travel and transport costs and reduced election expenses as a result of improved information.

4.2 **Analysis of Operating Surplus - Areas of Benefit**

It is important that Water Supply and Transport surpluses\(deficits) are identified separately from other regional responsibilities given the different communities of benefit and funding issues involved. The table below analyses the overall operating surplus into these areas:

	2001/02 Year End Outlook ($000)	**2001/02 Year End Budget ($000)**	**Outlook Vs Budget Variance ($000)**
Water supply	2,736	1,537	1,199F
Transport	(23)	(270)	247F
Other Regional responsibilities	2,579	2,562	17F
Total Council Position	**5,292**	**3,829**	**1,463**

As can be seen from the above table the main variances from budget relate to water supply. On a net basis there is little expected surplus in other Regional responsibilities over and above what was budgeted.

4.3 Revised Year End Capital Expenditure

Overall capital expenditure is now projected to be $7.0 million at year end compared to the December forecast of $6.7 million.

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

CAPITAL EXPENDITURE	2001/02 Year March Outlook $000s	2001/02 Year December Forecast $000s	Variance $000s
Utility Services	3,749	3,136	613 U
Landcare	1,903	1,835	68 U
Environment	256	304	48 F
Transport	10	10	-
Wairarapa	225	225	-
General Manager	19	34	15 F
Finance & Admin	800	1,046	246 F
Investment in Democracy	15	117	102 F
Total Capital Expenditure	**6,977**	**6,707**	**270 U**

Significant components of the increase in forecast capital expenditure are:

(1) ***Utility Services increase in forecast capital expenditure of $0.6 million, due to:***

- The recent acquisition and refurbishment of 44 Oxford Terrace, Waterloo, primarily. This building purchase did not form part of the December forecast position.

(2) ***Finance and administration decrease in forecast capital expenditure of $0.25 million, due to:***

- A deferral of part of both the records management system and IT operations capital expenditure to the 2002/03 financial year.

(3) ***Investment in democracy decrease in forecast capital expenditure of $0.1 million, due to:***

- The re-budgeting of a motor vehicle purchase and the reduction in anticipated expenditure on plant and equipment.

5. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the nine months to 31 March 2002.

6. Communications

It is expected that Council's favourable financial results will be fully reported at the conclusion of the financial year.

7. 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 2002 (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:
PAUL LAPLANCHE Finance Manager	GREG SCHOLLUM Chief Financial Officer

Attachment 1: **Treasury Management Policy Compliance Report**

Attachment 2: **Joint Venture Consultancy Costs to 31 March 2002**