



Report 07.501
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Committee Policy, Finance and Strategy
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Preliminary Annual Report for the year ended 30 June 2007

1. Purpose

- To inform the Committee of the Council's unaudited financial performance for the year ended 30 June 2007 and to provide an explanation of major variances by division.
- To summarise achievements for the year ended 30 June 2007.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2006/07 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 year end reviews between the Chief Executive, Chief Financial Officer and the Divisions have been completed. These reviews have been separately made available to Councillors.

4. Achievements for the year ended 30 June 2007

In addition to the normal day to day activities of the Council there have been a number of notable achievements, some of which have been noted below. Comprehensive information is provided in the year end reviews.

4.1 Water supply and plantation forests

- All water we supplied complied fully with the NZ Drinking Water Standards, although we have yet to receive formal confirmation from the Hutt Valley District Health Board.
- Te Marua Water Treatment Plant received an A1 grading, the highest grade possible.

- Completed investigations of options for a new water source.
- Improvements made to the control and monitoring systems resulted in significantly less chemicals being used for water treatment.
- Installed a new emergency connection to Upper Hutt City's reticulation system.
- Successfully harvested 66,463 tonnes for plantation forest.

4.2 Parks and Forests

- Regional Outdoors summer programme completed – with 49 events attracting 10,800 people.
- 51% of regional population visited at least one regional park with a 90% satisfaction rate.
- Historic barn restored and new toilet block completed at Queen Elizabeth Park, Orange Hut rebuilt in the Akatarawa Forest and 7 kms of fencing replaced in our parks.
- Monitoring showed increase in the health of the ecosystems on Council land.
- Governance structure for Whitireia Park and Wairarapa Wetlands progressed.
- Reviews of our park management plans continued.

4.3 Environment Management

- Reviewed our Resource Management Charging Policy.
- Stormwater Plan of Action completed and awaiting formal sign-off.
- Processed more than 600 consents – 98% within statutory timeframes.
- Expanded *Take Charge*, our business education and enforcement programme – a 19% reduction in reported pollution incidents.
- Progressed the review of the Regional Policy Statement – the key resource management document for the region –in consultation with a wide range of stakeholders.
- Worked with 26 schools and over 2,800 students through *Take Action*, our schools environment education programme.
- Worked with 31 community groups on environment restoration projects across the region, through *Take Care*, our community environment education programme.
- Completed the annual report cards showing the state of our region's resources.

- Undertook the first study in 20 years of sediment quality in Wellington Harbour.
- Completed a draft *Wellington Harbour Safety Management System*, together with CentrePort Ltd, and in accordance with the NZ Port and Harbour Marine Safety Code.

4.4 Public Transport

- Signed a 10-year rail operating contract and a 5+5 year trolley bus contract.
- Procurement of the new EMUs progressed.
- New carriages on the Wairarapa line launched and operating.
- Introduced new Metlink fare zone boundaries and fares.
- Total passenger boardings of 34.1 million achieved.
- Reached agreement with Land Transport NZ over funding from the Wellington Transport Package.
- Obtained extension to free loan from the Crown for rail rolling stock.

4.5 Transport Policy and Strategy

- Regional Land Transport Strategy approved.
- Completed the road pricing study.
- Developed and implemented the Travel Plan programme, assisting schools and workplaces to develop travel plans.

4.6 Catchment Management

- Constructed \$3.8 million of new flood defences and completed \$4.4 million of flood protection maintenance work.
- Carried out possum and ferret vector control operations on 230,250 hectares.
- Completed feral animal surveys on 170,800 hectares.
- Bioworks completed possum control on 176,400 hectares, including 65,000 hectares carried over from 2005/06.
- Undertook pest control in 78 key native ecosystem sites.
- Planted 355 hectares of erosion prone land using sustainable land management practices.
- Completed riparian planting and fencing programmes along 3.7 kilometres of stream banks.

4.7 Wellington Regional Strategy

- The Wellington Regional Strategy was confirmed, including a governance model.
- Greater Wellington became the “keeper” of the Wellington Regional Strategy and a Wellington Regional Strategy standing committee was established.
- A Regional Economic Development Agency was established with an interim board tasked with establishing the new entity, the Regional EDA Ltd.

4.8 Corporate and Strategy

- Developed *Making Greater Wellington Greater* – future organisational direction of Greater Wellington.
- Completed 2007/08 annual plan.
- Reviewed the 2006-16 LTCCP.
- Completed Milestone One of the Communities for Climate Protection- NZ Programme.
- Completed the representation review.
- Reviewed the distribution of Order Papers and Councillors’ Information Bulletin with considerable savings.
- Prepared a draft sensitive expenditure policy.
- Developed a community engagement strategy.
- Rolled out a biodiversity campaign for *Be the Difference*, the Council’s social marketing programme.
- Completed four issues of Elements for delivery to all households in the region.
- Developed a human resources strategy.
- Commenced a whole of organisation job evaluation process as part of the remuneration review.
- Negotiated a new Collective Employment Agreement.
- Introduced new holiday entitlements, health and safety initiatives and KiwiSaver into the organisation.
- Entered into new contracts with the region’s iwi for input into resource consents and other matters.

- Installed new communications and information management systems in the Wellington Region Civil Defence Emergency Management (CDEM) Group's emergency operations centre.
- Participated in seven major exercises, two of which were all of nation exercises.
- Completed the CDEM Group Welfare Plan and the CDEM Group Public Information Management and Media Management Plan.

4.9 Finance, IT and Administration

- Completed the 2006 annual report, obtaining a clean audit.
- Established a new rate for the Regional EDA Ltd.
- Restated the 2005 and 2006 financial statements in accordance with the International Financial Reporting Standards.
- Installed standby generator in the Regional Council Centre to enable business to continue in the event of an emergency.
- Refinanced the Stadium loan, resulting in a potentially lower cost to ratepayers.
- Established a video conferencing facility between the Wellington and Masterton offices to save staff travel time.
- Established a separate server and PC network for the CDEM Group's Emergency Management Operations Centre.
- Let contract for refurbishment of the Regional Council Centre.
- Commenced the Commercial Paper programme with a first issue of \$30 million.
- Set the rates for the 2007/08 annual plan.
- Involved in the selection of the supplier for the new EMUs.
- Set up the new company for regional economic development (part of the Wellington Regional Strategy) - Regional EDA Ltd.

5. International Financial Reporting Standards (IFRS)

The Council and its subsidiaries will be reporting its financial results for the 2006/07 financial year under the new reporting standards. There will be some significant changes to the way we report the financial results as compared with previous years.

The main changes are as follows:

- Gains or losses on the valuation of our Forests will be shown as a gain or loss in the Income Statement. Under the previous accounting

standards these gains or losses were disclosed by way of a note in the financial statements. The impact for 2006/07 is a gain of \$0.5 million.

- Long term loans or deposits must be valued at fair (market) value, any gain or loss will be accounted through the Income Statement. Previously, these items were accounted for at cost or book value. The loans affected are:
 - The advance to the Stadium which was written down to \$3.9 million in the restated 2005/06 financial statements. The write down in value is due to no interest charged on the advance and repayments of the advance will not commence until 2024. However, there will be a small increase in value in 2006/07 as the repayment of the advance is a year closer.
 - The interest free loan from the Crown to purchase the Wairarapa carriages. The loan is written down by \$2.0 million from the original principal amount of \$4.0 million. The \$2.0 million will be shown as a gain in our financial statements.
- The Council's interest rate hedges must be valued at fair value and any gain or loss accounted for in the Income Statement. Under the previous accounting standards these gains or losses were disclosed in the notes to the financial statements. The impact on 2006/07 is a gain of \$1.5 million.

To ensure comparability between the years 2006/07 and 2005/06, the financial statements for 2005/06 have been restated and audited under the new accounting standards.

For the purpose of this report, the matters stated above are separated from the operational revenue and expenditure.

6. Financial performance

6.1 Results for the year ended 30 June 2007

Council achieved an operating surplus for the year of \$1,160,000 compared with a budgeted surplus of \$378,000.

The items below have been separated out to allow a better review of the operating results of the Council.

6.2 Forestry valuation, favourable variance of \$0.5million

The value of our forestry assets as at 30 June 2007 has increased by \$0.5 million due to a small rise in the market price.

6.3 Regional Council Centre valuation, favourable variance \$2.2 million

Each year Pringle House Limited is obliged to carry out a valuation of the Regional Council Centre. This year the increase in valuation was \$3.3 million less deferred tax of \$1.1 million, giving a net increase of \$2.2 million. The value for the building as at 30 June 2007 is now \$15.3 million.

6.4 Interest rate hedges, favourable variance of \$1.5 million

Under the new accounting standards our interest rate hedges must be accounted for using market value. The value of these hedges as at 30 June 2007 was a gain of \$1.5 million, reflecting the current high market interest rates compared with the lower interest rates of the Council's hedges.

6.5 Stadium advance, favourable variance of \$0.2 million

The Stadium advance of \$25 million was written down to a value of \$3.9 million in the restated 2005/06 financial statements. This decrease was due to two factors:

- No interest is charged on the advance.
- Based on our latest forecasts it is unlikely the stadium will commence repaying the loan until 2024.

However, as the repayment of the loan is one year closer, the value has increased slightly by \$0.2 million.

6.6 Other loans

The interest free loan from the Crown has been valued at \$2.0 million as at 30 June 2007 compared with the original cost of \$4.0 million. This unrealised gain is due to the fact that the loan has ten years to maturity at a zero interest rate.

The Stadium loan was repaid on 29 June 2007 at a break cost or premium of \$419,000. This amount has been included in external finance costs. However, the loan was valued as at 30 June 2006 as part of the restatement of the financial statements under IFRS. The value of the loan at that time was \$0.8 million above the cost or book value of the loan.

Therefore, there is a gain in 2006/07 of \$0.4 million.

7. Financial Summary

The following table shows the year to date variance by division.

As requested by Council the split between Eastern and Western Flood Protection is shown, these amounts are included under Catchment Management.

Operating Revenue

| Total Operating Revenue \$(000)'s | | | | |
|--|----------------|----------------|----------------|-----------------|
| | Last Year | Actual | Budget | Variance |
| Water Group | 27,121 | 27,396 | 27,245 | 151 |
| Forestry | 5,348 | 6,007 | 6,310 | (303) |
| Regional Parks | 6,503 | 6,550 | 6,307 | 243 |
| Water Supply, Parks & Forests | 38,972 | 39,953 | 39,862 | 91 |
| Transport Policy and Strategy | 2,741 | 3,364 | 4,494 | (1,130) |
| Public Transport | 64,124 | 65,521 | 65,699 | (178) |
| Total Transport | 66,865 | 68,885 | 70,193 | (1,308) |
| Environment | 12,620 | 11,904 | 11,719 | 185 |
| Catchment Management | 27,896 | 28,212 | 27,673 | 539 |
| Corporate | 1,900 | 2,126 | 2,005 | 121 |
| WRS | 840 | 588 | - | 588 |
| Finance, IT & Support Services | 6,543 | 7,368 | 6,503 | 865 |
| Investment in Democracy | 4,340 | 4,489 | 4,489 | - |
| Divisional Operating Revenue | 159,976 | 163,525 | 162,444 | 1,081 |
| Investment Management | 7,058 | 6,197 | 6,838 | (641) |
| Business Unit Rates Contribution | (7,758) | (7,698) | (7,698) | - |
| Council Operating Revenue | 159,276 | 162,024 | 161,584 | 440 |
| Revaluation RCC | - | - | - | - |
| Revaluation of Debt and Stadium Advance | - | 4,255 | 722 | 3,533 |
| Revaluation Forestry | - | 529 | 3,683 | (3,154) |
| Parks - Grant for Waitangirua Purchase | 2,800 | - | - | - |
| Public Transport - Capex / Investment | 376 | 15,722 | 66,442 | (50,720) |
| Total Council Revenue | 162,452 | 182,530 | 232,431 | (49,901) |

Operating Expenditure

| Total Operating Expenditure \$(000)'s | | | | |
|--|----------------|----------------|----------------|----------------|
| | Last Year | Actual | Budget | Variance |
| Water Group | 27,180 | 27,767 | 29,264 | (1,497) |
| Forestry | 5,922 | 6,589 | 7,091 | (502) |
| Regional Parks | 6,398 | 6,363 | 6,590 | (227) |
| Water Supply, Parks & Forests | 39,500 | 40,719 | 42,945 | (2,226) |
| Transport Policy and Strategy | 2,710 | 3,082 | 4,722 | (1,640) |
| Public Transport | 66,237 | 66,953 | 66,305 | 648 |
| Total Transport | 68,947 | 70,035 | 71,027 | (992) |
| Environment | 12,383 | 12,412 | 11,991 | 421 |
| Catchment Management | 25,440 | 26,626 | 24,524 | 2,102 |
| Corporate | 1,625 | 2,031 | 1,892 | 139 |
| WRS | 840 | 809 | 100 | 709 |
| Finance, IT & Support Services | 5,758 | 5,800 | 6,325 | (525) |
| Investment in Democracy | 4,287 | 4,405 | 4,372 | 33 |
| Divisional Operating Expenditure | 158,780 | 162,837 | 163,176 | (339) |
| Investment Management | (1,775) | (1,973) | (1,970) | (3) |
| Business Unit Rates Contribution | - | - | - | - |
| Council Operating Expenditure | 157,005 | 160,864 | 161,206 | (342) |
| Revaluation RCC | (2,276) | (2,200) | - | (2,200) |
| Revaluation of Debt and Stadium Advance | - | - | - | - |
| Forestry Cost of Goods Sold | 1,745 | 1,118 | 2,195 | (1,077) |
| Parks - Grant for Waitangirua Purchase | - | - | - | - |
| Public Transport - Capex / Investment | 95 | 25,209 | 6,753 | 18,456 |
| Total Council Expenditure | 156,569 | 184,991 | 170,154 | 14,837 |

Operating Surplus / (Deficit)

| OPERATING SURPLUS / (DEFICIT) \$(000)'s | | | | |
|---|----------------|----------------|----------------|-----------------|
| | Last Year | Actual | Budget | Variance |
| Water Group | (59) | (371) | (2,019) | 1,648 |
| Forestry | (574) | (582) | (781) | 199 |
| Regional Parks | 105 | 187 | (283) | 470 |
| Water Supply, Parks & Forests | (528) | (766) | (3,083) | 2,317 |
| Transport Policy and Strategy | 31 | 282 | (228) | 510 |
| Public Transport | (2,113) | (1,432) | (606) | (826) |
| Total Transport | (2,082) | (1,150) | (834) | (316) |
| Environment | 237 | (508) | (272) | (236) |
| Catchment Management | 2,456 | 1,586 | 3,149 | (1,563) |
| Corporate | 275 | 95 | 113 | (18) |
| WRS | - | (221) | (100) | (121) |
| Finance, IT & Support Services | 785 | 1,568 | 178 | 1,390 |
| Investment in Democracy | 53 | 84 | 117 | (33) |
| Divisional Operating Surplus / (Deficit) | 1,196 | 688 | (732) | 1,420 |
| Investment Management | 8,833 | 8,170 | 8,808 | (638) |
| Business Unit Rates Contribution | (7,758) | (7,698) | (7,698) | - |
| Council Operating Surplus / (Deficit) | 2,271 | 1,160 | 378 | 782 |
| Revaluation RCC | 2,276 | 2,200 | - | 2,200 |
| Revaluation of Debt and Stadium Advance | - | 4,255 | 722 | 3,533 |
| Revaluation Forestry - Revaluation | - | 529 | 3,683 | (3,154) |
| Forestry Cost of Goods Sold | (1,745) | (1,118) | (2,195) | 1,077 |
| Parks - Grant for Waitangirua Purchase | 2,800 | - | - | - |
| Public Transport - Capex / Investment | 281 | (9,487) | 59,689 | (69,176) |
| Total Council Surplus / (Deficit) | 5,883 | (2,461) | 62,277 | (64,738) |
| Flood Protection | | | | |
| Eastern | 608 | (200) | 649 | (849) |
| Western | 1,990 | 2,647 | 2,205 | 442 |
| Total Flood Protection | 2,598 | 2,447 | 2,854 | (407) |

7.1 Water - favourable variance of \$1,648,000 due primarily to:

- Savings in chemicals of \$551,000 due to the higher exchange rate and lower usage.
- Power costs below budget by of \$169,000, also due to lower usage.
- Decreased depreciation of \$656,000 due to the timing of capital projects. This is reflected in the lower capital expenditure noted under Section 12.
- Finance costs were \$133,000 below budget due to the lower capital expenditure.

7.2 Forestry - favourable variance of \$199,000 due primarily to:

- Lower than budgeted harvest costs due to actual volumes being 7,000 tonnes below budget.

7.3 Regional Parks - favourable variance of \$470,000 due primarily to:

- Delay in taking over management of Whitiorea Park, savings of \$230,000.

- Unbudgeted revenue from the lease of the Waitangirua Farm and income from the wind energy project, \$187,000.
- Lower personnel costs, \$121,000 due to delays in appointing staff.

7.4 Transport Policy - favourable variance of \$510,000 due primarily to:

- Lower expenditure on the Regional Land Transport Strategy due to deferment of the Petone transport study and greater use of in house resources, \$345,000.

7.5 Public Transport - unfavourable operating variance of \$826,000 due primarily to :

| Operating Revenue | \$000's |
|---------------------------|--------------|
| Variances | |
| Grants and subsidies | 421 |
| Internal revenue | (759) |
| Other | 160 |
| Revenue | (178) |
| Operating expenses | |
| Bus contracts | (2,853) |
| Rail contract | (2,184) |
| Service improvements | 1,639 |
| Trolley bus contract | 862 |
| Bus stop development | 288 |
| Other projects | 2,896 |
| Expenditure | 648 |
| Total Variance | (826) |

- Increased cost of bus contracts, \$2,853,000, due to the rise in the diesel price above the budget impacting on the Land Transport (LTNZ) index. The rise in the index has been driven by the rise in the oil price although the effect of this has been limited to some extent by the strong New Zealand dollar. An additional \$1,426,000 has been received from LTNZ by way of grants in respect to this additional expenditure.
- Higher subsidy payments on the rail contract of \$2,184,000 due to lower passenger revenue, higher fuel costs and higher labour costs. LTNZ has funded 60% of this increase.
- The hold up in signing the trolley bus contract delayed some maintenance on the trolley overhead wires by \$862,000.
- Bus stop projects are running behind schedule, \$288,000 favourable variance.
- The Wairarapa carriages are funded 60% by way of an interest free loan from the Crown, 40% by way of grant from LTNZ and will be owned by Greater Wellington Rail Ltd (GWRL). GWRL will be funded by way of a grant from GWRC, the amount of this grant in 2006/07 is \$19,652,000. This amount is accounted for as an expense in GWRC while GWRL will

receive the grant and have an asset (the Wairarapa carriages). However, in the budget, GWRL was going to be funded by either debt or share capital. Due to this change there is an unfavourable variance in the financial statements of GWRC of \$19,652,000. This accounts for the negative funding for capital expenditure of \$9,487,000. This unfavourable variance will be eliminated when the two entities are consolidated.

- Lower costs in respect of heavy maintenance of \$3,652,000.
- Delays in a number of projects, in particular:
 - park and ride, \$173,000
 - integrated ticketing, \$502,000
 - Western Corridor projects, \$587,000
 - Service improvements, \$698,000.

7.6 Environment - unfavourable variance of \$236,000 due primarily to:

- Costs of \$245,000 accrued for the disposal of seven shipping hulks, which was not budgeted for in 2006/07.
- Personnel costs were under budget by \$91,000 due to the timing of staff replacements.
- Higher consultant costs of \$146,000 as a result of pursuing prosecutions in respect of pollution incidents.
- Higher Commissioner fees from processing notified consents in respect of Hilton Hotel and Wellington Marine Education Centre, \$119,000.
- Revenue was higher than budget by \$185,000 due to a number of large consents being processed.

7.7 Catchment Management - unfavourable variance of \$1,563,000 due primarily to:

- Revenue was \$833,000 ahead of budget due to increased vector control work, expenditure was up by a similar amount.
- Repairs for the flood damage from the July floods were \$650,000.
- Investigation work on the Lower Valley scheme review, \$103,000.
- Depreciation over budget by \$189,000.
- Bioworks made a loss of \$658,000, this unit has now been restructured and a detailed review of its operations undertaken. The operating loss has been reduced to a funding deficit of \$296,000 by using previously accumulated reserves.
- Operating expenditure of \$563,000 in respect of flood damage repairs has been capitalised to flood protection assets, reducing operating expenditure by the same amount.

7.8 Wellington Regional Strategy - unfavourable variance of \$121,000 due primarily to:

- Costs of the finalising the Strategy and initial consultation. Funding for this has been met by the Territorial Authorities, Trade and Enterprise and GWRC. The unfavourable variance is due to the costs of consultation for the Strategy not being in the original budget. This position has been forecast for some time.

7.9 Finance, IT and Support (including rates) - favourable variance of \$1,390,000

- Lower personnel costs, \$79,000 due to delays in appointing staff.
- Contractors and consultants down by \$245,000 due to delays in implementing the consents system.
- Rates income was \$1,059,000 ahead of budget due to rate penalties and new rating units not budgeted for.

8. Finance costs

Finance costs for the year were \$4,743,000 compared with the budget of \$5,674,000. The favourable variance has arisen from lower capital expenditure. In addition, \$11 million of deposits was used to repay debt. Together, these two factors resulted in a lower year end debt of \$58 million compared with the budget of \$93 million. Higher interest rates than budgeted have partly offset this favourable variance. The break costs of \$419,000 for the Stadium loan have been included in the finance costs for the year. The gain from GWRCs hedging costs of \$1.5 million have been excluded from the figures noted above.

9. Investment management

Investment management incorporates GWRC's commercial investments (excluding forestry). Its activities include:

- Liquid financial deposits of \$33 million (reduced from \$44 million at the start of the year).
- Dividends and subvention payments from WRC Holdings Group.
- Treasury operations, which includes undertaking the role of internal bank for the divisions.

Investment management income reduces the Council's requirement from rates by the amount of their budgeted surplus. Rates for 2006/07 were reduced by \$8.8 million representing the budgeted surplus from this area.

Investment management achieved a surplus of \$8.2 million compared with the budget of \$8.8 million. This result excludes and unrealised gains from hedges and revaluation of loans. These are accounted for separately.

The lower debt requirements of the divisions, due to lower capital expenditure has, reduced the income received by Treasury. The impact of lower borrowings

and higher external interest rates have also reduced Treasury's surplus. For example, the budget internal interest rate charged to the divisions was 7.25%. The 90 day bank bill rate by year end was over 8.0%.

In addition the break costs for the Stadium loan of \$419,000 have also impacted on the result.

The liquid financial deposits were reduced from \$44 million to \$33 million during the year with the \$11 million being used to repay debt.

10. Debt

Debt at year end was \$58.4 million compared with the budget of \$93.4 million. Last year debt was \$59.9 million at year end, a reduction of \$1.5 million. However, the Council utilised \$11 million of its deposits to repay debt during the year. Therefore after including this adjustment, debt increased by \$9.5 million. This increase in debt was used to fund capital expenditure of \$10.4 million.

| | \$ million |
|---------------------------|-------------------|
| Debt previous year | 59.9 |
| Debt repayment | (11.0) |
| Capital expenditure | 10.4 |
| Other | (0.9) |
| Debt at year end | 58.4 |

At year end the Council has total deposits of \$46 million and debt of \$44 million in WRC Holdings Ltd. Therefore total debt in the Council and its subsidiaries (excluding CentrePort) is \$56.4 million.

| | \$ million |
|------------------|-------------------|
| Council Debt | 58.4 |
| WRC Holdings Ltd | 44.0 |
| Deposits | (46.0) |
| Net Debt | 56.4 |

11. Actual versus forecast

The actual operating surplus of \$1.2 million compares with previous forecast reported to Council of \$0.78 million. The major changes are:

- Accrual for disposal of the seven shipping hulks, \$245,000.
- Lower operating costs in Water, particularly power usage, chemicals and contractors and consultants, \$401,000.
- Increased rates and penalties, \$500,000.
- A number of accounting changes in Public Transport reflecting a change from capital to operating expenditure for stations.
- Break costs of \$419,000 to restructure the Stadium loan.

12. Capital Expenditure for the year ended 30 June 2007

| Capital Expenditure and Investments \$(000)'s | Last Year | Actual | Budget | Variance |
|--|---------------|---------------|----------------|-----------------|
| | Water Group | 6,664 | 4,162 | 6,624 |
| Forestry | 179 | 328 | 286 | 42 |
| Regional Parks | 5,920 | 514 | 720 | (206) |
| Water Supply, Parks & Forests | 12,763 | 5,004 | 7,630 | (2,626) |
| Transport Policy and Strategy | 37 | - | - | - |
| Public Transport | 505 | (31) | 2,603 | (2,634) |
| Public Transport Investment Additions | - | - | 80,292 | (80,292) |
| Total Transport | 542 | (31) | 82,895 | (82,926) |
| Environment | 349 | 443 | 891 | (448) |
| Catchment Management | 6,411 | 4,226 | 6,555 | (2,329) |
| Corporate | 61 | 209 | 49 | 160 |
| WRS | - | - | - | - |
| Finance, IT & Support Services | 507 | 531 | 975 | (444) |
| Investment in Democracy | 13 | 5 | 45 | (40) |
| Divisional Capital and Investment expenditure | 20,646 | 10,387 | 99,040 | (88,653) |
| Parks - Waitangirua Purchase | - | - | - | - |
| Investment Management | 4 | 38 | 1,100 | (1,062) |
| Business Unit Rates Contribution | - | - | - | - |
| Council Capital and Investment expenditure | 20,650 | 10,425 | 100,140 | (89,715) |
| Flood Protection | | | | |
| Eastern | 690 | 713 | 885 | (172) |
| Western | 5,480 | 3,257 | 5,405 | (2,148) |
| Total Flood Protection | 6,170 | 3,970 | 6,290 | (2,320) |

The major variances are as follows:

12.1 Water - favourable variance of \$2,462,000 primarily due to:

- Treatment Plant projects are below budget by \$595,000. The budget used a replacement cost based on 2% of the asset value. However, the need to replace equipment has been less than anticipated.
- The pipeline on the Silverstream Bridge from Kaitoke to Karori has been deferred, saving \$719,000.

- Delay in a number of smaller projects which have been rebudgeted to 2007/08, \$425,000.
- Savings in a variety of projects, in particular:
 - Improved design and lower tender costs on the Wainuiomata dam, \$184,000.
 - Strengthening of lake towers at Stuart Macaskill Lakes not required, \$129,000.
 - Savings on the project to replace the Te Marua control system, \$189,000.
 - Saving on the investigation re the CBD reservoir, \$100,000.

12.2 Parks & Forests - favourable variance of \$206,000 primarily due to:

- The Orange Hut replacement cost \$34,000 less than budgeted due to volunteer assistance.
- East Harbour office and work on Whitireia Park have been deferred, \$50,000.
- Delay in taking over Whitireia Park has saved capital expenditure of \$200,000.
- The Red Barn at Queen Elizabeth Park cost \$80,000 which was not budgeted. Approval for this was given at the half year review.

12.3 Catchment Management - favourable variance of \$2,329,000 primarily due to:

- Chrystalls extended stopbank reduced by \$921,000 due to a delay in obtaining access to land. This has been rebudgeted to 2007/08.
- The South Waitohu project, \$265,000 due to hold up in gaining land for construction. This has been rebudgeted to 2007/08.
- Whirinaki Crescent stopbank expenditure reduced by \$448,000 due to delays in getting access to the land.
- Ava rail bridge improvements below budget by \$404,000, however, this is a phasing issue as the project is on budget to be completed in 2008.
- The Alicetown stopbank project resulted in a favourable variance of \$155,000 due to recoveries from Hutt City.
- Boulcott feasibility study delayed as more information was requested, \$92,000.
- The Jim Cooke project in Waikanae was completed, \$168,000 below budget.
- Waikanae land purchase delayed, \$136,000.

- Lower Wairarapa Valley Development scheme capital expenditure of \$585,000 will be deferred until 2007/08 due to flood damage work taking precedence.
- Offsetting the above is \$563,000 of operational expenditure on flood damage repairs now capitalised.

12.4 Public Transport – favourable variance of \$82,926,000

- The Johnsonville Mall development (park and ride) has been delayed as negotiations between the developers and GWRC continue, \$1.0 million.
- The South Wairarapa cars have started to come into service. A shortage of bogies in New Zealand has delayed the arrival of the last cars. However, the carriages will be owned by GWRL and not Public Transport as originally budgeted. This results in an unfavourable variance in Public Transport of \$26.4 million.
- Public Transport enhancements have been delayed, \$1.0 million.
- The negotiations between GWRC, LTNZ and Toll on the procurement process for the new EMUs took longer than planned. While the date for the introduction of the new EMUs into service is unchanged the final contract will not be signed until August 2007. In addition, payments for the EMUs will be made later than originally planned. The unfavourable variance is \$44.2 million.
- Rail depot equipment and station upgrades will now be funded as operating expenditure, not capital expenditure. The reduction in capital expenditure results in an unfavourable variance of \$8.5 million.

| Public Transport Capital Expenditure | Year to Date | | |
|---|--------------------|--------------------|----------------------|
| | Actual \$ 000's | Budget \$ 000's | Variance \$ 000's |
| SW Wairarapa Cars | - | 26,420 | (26,420) |
| Ganz Mavag Refurbishment | - | 200 | (200) |
| New EMU's | - | 44,172 | (44,172) |
| Western Corridor Rail Projects | - | 200 | (200) |
| Rail Depot Equipment | - | 5,250 | (5,250) |
| Rail Station Upgrades & Maintenance | - | 3,500 | (3,500) |
| Rail Security | - | 550 | (550) |
| J'ville Mall | - | 1,000 | (1,000) |
| PT Enhancements | - | 1,000 | (1,000) |
| Concessionary Cards | - | 360 | (360) |
| Other Assets | (31) | 243 | (274) |
| Total Capital Expenditure | (31) | 82,895 | (82,926) |

12.5 Investment Management - favourable variance of \$1,062,000 primarily due to:

- Delays in progressing the Masterton building redevelopment. It is expected that a proposal will come to Council in December.

13. Annual Plan Performance Targets

Divisional Managers have reported that all significant annual performance plan targets were achieved. The performance measures will be audited and included in the annual report. Details of the targets are included in the divisional yearly reviews that have been distributed to Councillors.

14. Compliance with Treasury Management Policy

As at 30 June 2007, the majority of Treasury Management Policy limits have been complied with apart from the internal borrowing limit for Forestry and Parks. The Forestry breach is a result of the low timber prices affecting log returns and the forestry valuation. The Parks breach is a result of the purchase of additional land in Belmont Regional Park last year, refer **Attachment 4**.

15. Communications

No communications are necessary at this time.

16. Recommendations

That the Committee recommends that Council:

1. **Receive** the report.
2. **Note** the content of the report.

Report prepared by:

Report approved by:

Barry Turfrey
Chief Financial Officer

David Benham
Chief Executive

Attachment 1: Income Statement

Attachment 2: Funding Statement

Attachment 3: Balance Sheet

Attachment 4: Compliance with Treasury Management Policy

Attachment 1: Council Income Statement

| Wellington Regional Council Income Statement For the Year Ending - 30 June 2007 | | | |
|---|-----------|---------|---------|
| Income Statement \$(000)'s | | | |
| | Last Year | Actual | Budget |
| Targeted Rates | 36,286 | 40,060 | 40,060 |
| General Rate | 21,621 | 22,525 | 21,890 |
| Remission of Regional Rates | (1) | - | - |
| Rates Penalties | 405 | 460 | - |
| Remission of Rates Penalties | (29) | (32) | - |
| Regional Rates | 58,282 | 63,013 | 61,950 |
| Regional Water Supply Levies | 22,776 | 22,776 | 22,776 |
| Grants and Subsidies Revenue | 37,321 | 51,090 | 102,778 |
| Reserve Investment Revenue | - | - | - |
| Other Investment Revenue | 5,270 | 4,620 | 5,290 |
| Unrealised Revaluation Gains | - | 4,784 | 4,405 |
| Other External Revenue | 15,590 | 17,671 | 16,401 |
| Total External Revenue | 139,239 | 163,954 | 213,600 |
| Internal Revenue | 23,213 | 18,576 | 18,831 |
| Total Operating Revenue | 162,452 | 182,530 | 232,431 |
| Personnel Costs | 26,808 | 28,809 | 29,037 |
| Materials,Supplies & Services | 18,580 | 19,578 | 21,617 |
| Travel & Transport Costs | 1,199 | 1,359 | 1,081 |
| Contractor & Consultants | 20,383 | 25,451 | 29,448 |
| Grants and Subsidies Expenditure | 53,320 | 79,486 | 55,461 |
| Internal Charges | 22,581 | 18,140 | 18,267 |
| Total Direct Expenditure | 142,871 | 172,823 | 154,911 |
| Other Financial Costs | 4,574 | 4,743 | 5,674 |
| Bad Debts and Provision for Bad Debts | 31 | (40) | - |
| Depreciation | 9,321 | 9,476 | 9,830 |
| Loss(Gain) on Assets | 303 | 189 | (261) |
| Loss(Gain) Investments | (531) | (2,200) | - |
| Total Indirect Expenditure | 13,698 | 12,168 | 15,243 |
| Total Operating Expenditure | 156,569 | 184,991 | 170,154 |
| Operating Surplus(Deficit) | 5,883 | (2,461) | 62,277 |

Attachment 2: Council Funding Statement

| Wellington Regional Council | | | |
|---|-----------|----------|----------|
| Funding Statement | | | |
| For the Year Ending - 30 June 2007 | | | |
| Funding Statement | | | |
| \$(000)'s | | | |
| | Last Year | Actual | Budget |
| Operating Surplus(Deficit) | 5,883 | (2,461) | 62,277 |
| Depreciation | (9,321) | (9,476) | (9,830) |
| Loss(Gain) on Assets (Mabey Rd 05) | (303) | (189) | 261 |
| Forestry - Cost of Goods Sold | - | (1,118) | (2,195) |
| Loss(Gain) Investments | 531 | 4,803 | - |
| Add Back Non Cash Items | (9,092) | (3,638) | (7,359) |
| Cash Operating Surplus(Deficit) | 14,976 | 1,177 | 69,636 |
| Reserve Investments Movements | - | - | - |
| Funding Surplus (Deficit) from Operations | 14,976 | 1,177 | 69,636 |
| Total Asset Acquisitions | (7,216) | (1,828) | (1,927) |
| Capital Project Expenditure | (13,702) | (8,879) | (18,310) |
| Asset Disposal Cash Proceeds | 268 | 282 | 390 |
| Net Capital Expenditure | (20,650) | (10,425) | (19,847) |
| Sinking Fund Investments Movements | 380 | - | - |
| Other Investments Movements | (1,881) | 9,152 | (82,099) |
| External Debt Movements | 1,942 | (1,524) | 32,309 |
| Working Capital Movements | 5,235 | 1,620 | 1 |
| Reserve Movements | (141) | - | - |
| Net Funding Surplus(Deficit) | (139) | - | - |

Attachment 3: Council Balance Sheet

| Wellington Regional Council | | | |
|---------------------------------------|----------------|----------------|----------------|
| Balance Sheet | | | |
| For the Year Ending - 30 June 2007 | | | |
| Balance Sheet | | | |
| \$(000)'s | Last Year | Actual | Budget |
| Total Retained Earnings | 241,503 | 342,238 | 430,338 |
| Asset Revaluation Reserves | 310,103 | 179,841 | 172,298 |
| Departmental Reserves | 7,045 | 7,793 | 7,516 |
| Movement in Equity | 0 | (8,067) | 0 |
| Total Ratepayer Funds | 558,651 | 521,805 | 610,151 |
| Bank Accounts and Call Deposits | 158 | 8,739 | 2,705 |
| Receivables | 8,069 | 881 | 10,294 |
| Accrued Revenue and Prepayments | 4,108 | 20,333 | 4,785 |
| Stocks | 1,945 | 2,143 | 1,800 |
| Total Current Assets | 14,281 | 12,856 | 19,584 |
| Total Investments | 106,533 | 77,090 | 175,567 |
| Net Fixed Assets | 499,504 | 503,007 | 526,620 |
| Capital Works In Progress | 17,436 | 14,693 | 1,052 |
| Total Non Current Assets | 623,473 | 594,790 | 703,239 |
| Total Assets | 637,754 | 607,646 | 722,823 |
| Payables and Accrued Expenses | 13,395 | 21,709 | 17,422 |
| Employee Provisions and Accruals | 3,961 | 4,298 | 0 |
| Subsidiaries Current Accounts | 1,808 | 1,419 | 1,808 |
| Inter Divisional Current Liabilities. | 0 | 0 | 0 |
| Current Liabilities | 19,164 | 27,426 | 19,230 |
| External Debt | 59,939 | 58,415 | 93,441 |
| Internal Debt | 0 | 0 | 0 |
| Non Current Liabilities | 59,939 | 58,415 | 93,441 |
| Total Liabilities | 79,103 | 85,841 | 112,672 |
| Net Assets | 558,651 | 521,805 | 610,151 |

COMPLIANCE WITH TREASURY MANAGEMENT POLICY

Treasury Management Compliance

As at 30 June 2007

| Total Council Limit Compliance Analysis | | | | Notes | Yes | No |
|--|--------------|---------|----|--------------------------------|-----|----|
| Risk management activities are related to underlying cash flows | | | | | ✓ | |
| A mixture of undrawn committed lines and liquid investments of no less than \$15 million are available for normal operations | | | | | ✓ | |
| A mixture of undrawn committed lines and liquid financial investments available for self-insured infrastructural assets and contingency reserves | | | | | ✓ | |
| Hedging of interest rate risk on debt and use of derivatives within allowable parameters | | | | | ✓ | |
| Hedging of interest rate risk on investments within allowable parameters | | | | | ✓ | |
| | | | | <u>S&P's credit rating</u> | | |
| Counterparty exposures: (on balance sheet) | ANZ National | ≤ \$50m | AA | | ✓ | |
| | BNZ | ≤ \$15m | AA | | ✓ | |
| | Westpac | ≤ \$15m | AA | | ✓ | |
| | ASB / CBA | ≤ \$15m | AA | | ✓ | |
| Counterparty credit limits within allowable parameters (> A credit rating for banks) | | | | | ✓ | |
| Consolidated group external borrowing limits compliance | | | | | ✓ | |
| Core Council external borrowing limits compliance | | | | | ✓ | |
| Internal borrowing limits compliance | | | | | | ✓ |

Due to the revaluation of Greater Wellington's forests at 30 June 2005, June 2006 & 30 June 2007, the Forestry activity has breached its internal debt limit.

| Consolidated Group External Borrowing Limits | | | | Notes | Actual | TMP Limits |
|---|--|--|--|-------|--------|------------|
| Net interest expense to total operating revenue | | | | | 3% | ≤ 12% |
| Net external debt to total operating revenue | | | | | 61% | ≤ 120% |
| Note: Group net external debt is total external debt less financial investments | | | | | | |

| Core Council External Borrowing Limits | | | | Notes | Actual | TMP Limits |
|---|--|--|--|-------|--------|------------|
| Ratio | | | | | | |
| Interest expense on net external debt to rates and levies | | | | | 0.4% | 25% |
| Net external debt to rates and levies | | | | | 26.1% | 210% |
| Net external debt per capita | | | | | \$49 | \$400 |

| Internal Borrowing Limits | | | | Notes | Actual | TMP Limits |
|---------------------------|--------------------------------------|--|--|-------|--------|------------|
| Activity | Ratio | | | | | |
| Regional Water | Debt to water supply levy | | | 196% | 300% | |
| | Financial costs to water supply levy | | | 14% | 40% | |
| Flood Protection | Debt to rates | | | 254% | 400% | |
| | Financial costs to rates | | | 18% | 50% | |
| Parks | Debt to rates | | | 59% | 50% | |
| | Financial costs to rates | | | 4% | 10% | |
| Transport | Debt to rates | | | 26% | 250% | |
| | Financial costs to rates | | | 1% | 25% | |
| Forestry | Debt to forestry market value | | | 84.7% | 70% | |

| Further Management Information | | | |
|--------------------------------|-------------------------------|--|------|
| Plantation Forestry | Debt to forestry market value | | 71% |
| Reserve Forestry | Debt to forestry market value | | 113% |